

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 20-F

- (Mark One)
- Registration statement pursuant to Section 12(b) or 12(g) of the Securities Exchange Act of 1934
- or
- Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2004
- or
- Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period _____ to _____

Commission file number 1-10119

**PCCW Limited
電訊盈科有限公司**

(Exact Name of Registrant as Specified in its Charter)

PCCW Limited
(Translation of Registrant's Name Into English)

Hong Kong
(Jurisdiction of Incorporation or Organization)

**39th Floor, PCCW Tower
TaiKoo Place
979 King's Road
Quarry Bay, Hong Kong**
(Address of Principal Executive Offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

| Title Of Each Class | Name Of Each Exchange On Which Registered |
|---|--|
| American Depositary Shares, each representing ten Ordinary Shares, nominal value HK\$0.25 | New York Stock Exchange, Inc. |
| Ordinary Shares, nominal value HK\$0.25 per share* | New York Stock Exchange, Inc. |

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as at the close of the period covered by the annual report:

6,718,128,159 Ordinary Shares, nominal value HK\$0.25 per share

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark which financial statement item the registrant has elected to follow. Item 17 Item 18

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS.)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to distribution of Securities under a plan confirmed by a court. Yes No

* Not for trading, but only in connection with the registration of the American Depositary Shares.

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PRESENTATION OF FINANCIAL AND OTHER INFORMATION

In this annual report, references to “PCCW”, “we”, “us”, “our” and similar terms refer to PCCW Limited and, unless the context otherwise requires, to its subsidiaries and associated companies. References to “HKT” refer to PCCW-HKT Limited, an indirect wholly owned subsidiary of PCCW and, unless the context otherwise requires, to its subsidiaries and associated companies. References to “HKTC” refer to PCCW-HKT Telephone Limited and, unless the context otherwise requires, to its subsidiaries and associated companies. HKTC is an indirect wholly owned subsidiary of PCCW.

Our consolidated financial statements included in this annual report are prepared in accordance with generally accepted accounting principles in Hong Kong, or HK GAAP, which is our primary reporting framework. HK GAAP differs in certain material respects from generally accepted accounting principles in the United States, or US GAAP. See “Item 5. Operating and Financial Review and Prospects” below and note 43 to our consolidated financial statements.

We publish our consolidated financial statements in Hong Kong dollars. In this annual report, unless otherwise specified or the context otherwise requires, references to “HK\$” are to Hong Kong dollars, the lawful currency of the Hong Kong Special Administrative Region of the People’s Republic of China, or Hong Kong, and references to “US dollars” and “US\$” are to the lawful currency of the United States of America, or U.S. This annual report contains translations of certain Hong Kong dollar amounts into US dollars at specified rates solely for the convenience of the reader. This does not mean that the currency conversions have been or could be converted at those rates. Unless otherwise indicated, the translation of Hong Kong dollars into US dollars has been made at the rate of HK\$7.80 to US\$1.00. References to “RMB” are to Renminbi, the lawful currency of the People’s Republic of China, or the PRC.

FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements. These forward-looking statements are not historical facts. Rather, the forward-looking statements are based on the current beliefs, assumptions, expectations, estimates and projections of the Directors and management of PCCW about the business and the industry and markets in which we operate. These forward-looking statements include, without limitation, statements relating to revenues and earnings. The words “believe”, “intend”, “expect”, “anticipate”, “project”, “estimate”, “predict” and similar expressions are also intended to identify forward-looking statements.

These statements are not guarantees of future performance and are subject to risks, uncertainties and other factors, some of which are beyond our control and are difficult to predict. Consequently, actual results could differ materially from those expressed or forecast in the forward-looking statements. Factors that could cause actual results to differ materially from those reflected in the forward-looking statements include:

- increased competition in the Hong Kong telecommunications markets and the continuing negative effects from the regulatory constraints that apply to us;
- the effects of the regulatory decisions relating to broadband access services;
- our ability to secure or successfully implement new business opportunities or anticipated projects with China Network Communications Group Corporation, or CNC;
- the risks related to loss of business with competitors of CNC;
- the risks associated with Pacific Century Premium Developments Limited, or PCPD, our property development subsidiary, including the development of the Cyberport project and future property development plans;
- our ability to implement our business plan as a consequence of our substantial debt;
- our exposure to interest rate risk;
- our ability to continue to pay dividends in the future;
- our ability to execute our business strategy, including our ability to enter into business combinations, strategic investments and acquisitions;
- the risks associated with the expansion of our operations outside Hong Kong;
- the risks associated with Reach Ltd., or Reach, our primary international connectivity services provider; and
- the other risk factors set out in the “Risk Factors” section of this annual report.

Reliance should not be placed on these forward-looking statements, which reflect the views of our Directors and management as at the date of this report only. We undertake no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after publication.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. Selected Financial Data

The selected financial data set forth below at the dates and for the years indicated is derived from our audited consolidated financial statements. Our audited consolidated financial statements as at December 31, 2004 and 2003 and for each of the years in the three-year period ended December 31, 2004 are included elsewhere in this annual report. Our audited consolidated results include the results of HKT since August 17, 2000. The selected financial data set forth below is qualified in its entirety by reference to, and should be read in conjunction with, our consolidated financial statements and the notes thereto included elsewhere in this report and "Item 5. Operating and Financial Review and Prospects."

Income Statement Data in accordance with HK GAAP

| | Year ended December 31, | | | | |
|---|---|-----------------|-----------------|-------------|------------------|
| | 2004 | 2003 | 2002 | 2001 | 2000 |
| | (HK\$ million except per share and per ADS amounts) | | | | |
| Turnover | 22,895 | 22,550 | 20,112 | 21,959 | 7,291 |
| Operating profit before net gains/(losses) on investments, provisions for impairment losses and restructuring costs | 4,066 | 4,339 | 5,212 | 4,774 | 520 |
| Gains/(Losses) on investments, net | 461 | 407 | 13 | 767 | (4,887) |
| Provisions for impairment losses | (40) | (2,452) | (534) | (91) | (122,702) |
| Restructuring costs | (51) | (38) | (311) | – | – |
| Profit/(Loss) from operations | 4,436 | 2,256 | 4,380 | 5,450 | (127,069) |
| Finance costs, net | (1,929) | (2,117) | (1,997) | (3,056) | (2,356) |
| Share of results of jointly controlled companies | (4) | (891) | 550 | 523 | (100) |
| Share of results of associates | 152 | 65 | 281 | 158 | (63) |
| Share of results of unconsolidated subsidiaries | – | – | – | 152 | 790 |
| Impairment losses on interests in jointly controlled companies and associates | (16) | (4,464) | (8,263) | – | – |
| Losses on disposal of interests in Joint Venture (Bermuda) No.2 Limited and MobileOne Ltd, ("MobileOne") net | – | – | (1,433) | – | – |
| Profit/(Loss) before taxation | 2,639 | (5,151) | (6,482) | 3,227 | (128,798) |
| Taxation | (981) | (1,165) | (1,406) | (1,982) | (554) |
| Profit/(Loss) after taxation | 1,658 | (6,316) | (7,888) | 1,245 | (129,352) |
| Minority interests | (20) | 216 | 126 | 98 | 23 |
| Profit/(Loss) for the year attributable to shareholders | 1,638 | (6,100) | (7,762) | 1,343 | (129,329) |
| Earnings/(Loss) per share: | | | | | |
| –basic | 30.50 cents | (122.81) cents | (168.53) cents | 30.01 cents | (4,450.97) cents |
| –diluted | 30.26 cents | (122.81) cents | (168.53) cents | 29.11 cents | (4,450.97) cents |
| Earnings/(Loss) per American Depositary Share ("ADS"): | | | | | |
| –basic | 305.0 cents | (1,228.1) cents | (1,685.3) cents | 300.1 cents | (44,509.7) cents |
| –diluted | 302.6 cents | (1,228.1) cents | (1,685.3) cents | 291.1 cents | (44,509.7) cents |

Year ended December 31,

| | 2004 | 2003 | 2002 | 2001 | 2000 |
|---|--|---------------|---------------|---------------|---------------|
| | (HK\$ million except per share and per ADS amounts) | | | | |
| Dividend declared per share: | | | | | |
| –interim | 5.5 cents | – | – | – | – |
| Weighted average number of outstanding shares ¹ | 5,370 million | 4,967 million | 4,606 million | 4,475 million | 2,906 million |
| Weighted average number of outstanding shares on a fully diluted basis ¹ | 5,489 million | 4,967 million | 4,606 million | 4,613 million | 2,906 million |

Note:

- Shares issued and fully paid have been retrospectively adjusted for all periods in connection with a 1-for-5 share consolidation during 2003.

Income Statement Data in accordance with US GAAP

| | Year ended December 31, | | |
|---|--|------------------|-------------------|
| | 2004 | 2003 | 2002 |
| | (HK\$ million except per share and per ADS amounts) | | |
| Loss for the year before cumulative effect of a change in accounting principle | (15,667) | (7,559) | (8,468) |
| Cumulative effect of a change in accounting principle, net of tax | – | – | (43,589) |
| Net loss | (15,667) | (7,559) | (52,057) |
| Loss per share: | | | |
| –basic: | | | |
| Loss for the year before cumulative effect of a change in accounting principle | (291.75) cents | (152.18) cents | (182.22) cents |
| Cumulative effect of a change in accounting principle, net of tax | – | – | (937.97) cents |
| Net loss | (291.75) cents | (152.18) cents | (1,120.19) cents |
| –diluted: | | | |
| Loss for the year before cumulative effect of a change in accounting principle | (291.75) cents | (152.18) cents | (182.22) cents |
| Cumulative effect of a change in accounting principle, net of tax | – | – | (937.97) cents |
| Net loss | (291.75) cents | (152.18) cents | (1,120.19) cents |
| Loss per ADS: | | | |
| –basic: | | | |
| Loss for the year before cumulative effect of a change in accounting principle | (2,917.51) cents | (1,521.79) cents | (1,822.19) cents |
| Cumulative effect of a change in accounting principle, net of tax | – | – | (9,379.73) cents |
| Net loss | (2,917.51) cents | (1,521.79) cents | (11,201.92) cents |
| –diluted: | | | |
| Loss for the year before cumulative effect of a change in accounting principle | (2,917.51) cents | (1,521.79) cents | (1,822.19) cents |
| Cumulative effect of a change in accounting principle, net of tax | – | – | (9,379.73) cents |
| Net loss | (2,917.51) cents | (1,521.79) cents | (11,201.92) cents |
| Weighted average number of outstanding shares ¹ | 5,370 million | 4,967 million | 4,647 million |
| Weighted average number of outstanding shares on a fully diluted basis ¹ | 5,370 million | 4,967 million | 4,647 million |

Note:

- Shares issued and fully paid have been retrospectively adjusted for all periods in connection with a 1-for-5 share consolidation during 2003.

Balance Sheet Data in accordance with HK GAAP

| | As at December 31, | | | | |
|---|-------------------------------------|---------------|---------------|---------------|---------------|
| | 2004 | 2003 | 2002 | 2001 | 2000 |
| | (HK\$ million except share amounts) | | | | |
| Total assets | 44,968 | 44,647 | 49,763 | 51,841 | 68,302 |
| Net liabilities | (4,900) | (7,536) | (5,508) | (10,497) | (17,349) |
| Share capital | 1,344 | 1,343 | 1,164 | 1,135 | 1,094 |
| Deficit | (8,060) | (9,182) | (7,080) | (12,176) | (19,166) |
| Minority interests | 1,816 | 303 | 408 | 544 | 723 |
| Shares issued and fully paid ¹ | 5,374 million | 5,369 million | 4,654 million | 4,539 million | 4,376 million |

Note:

- Shares issued and fully paid have been retrospectively adjusted for all periods in connection with a 1-for-5 share consolidation during 2003.

Balance Sheet Data in accordance with US GAAP

| | As at December 31, | |
|---|-------------------------------------|---------------|
| | 2004 | 2003 |
| | (HK\$ million except share amounts) | |
| Shareholders' equity | 55,979 | 71,696 |
| Shares issued and fully paid ¹ | 5,374 million | 5,369 million |

Note:

- Shares issued and fully paid have been retrospectively adjusted for all periods in connection with a 1-for-5 share consolidation during 2003.

Exchange Rate Information

The Basic Law of Hong Kong provides that no foreign exchange control policies will be applied in Hong Kong and that the Hong Kong dollar will be freely convertible. During the Asian regional economic crisis in 1998, however, the Hong Kong Government intervened on several occasions in the foreign exchange market by purchasing Hong Kong dollars and selling US dollars to support the value of the Hong Kong dollar.

Since October 17, 1983, the Hong Kong dollar has been linked to the US dollar at the rate of HK\$7.80 to US\$1.00. The central element in the arrangements that give effect to this link is an agreement between the Hong Kong Government and the three Hong Kong banks that are authorized to issue Hong Kong currency in the form of banknotes. The market exchange rate of the Hong Kong dollar against the US dollar continues to be determined by the forces of supply and demand in the foreign exchange market. However, as a result of the fixed rate that applies to the issue of Hong Kong currency in the form of banknotes, the market exchange rate has not deviated significantly from the level of HK\$7.80 to US\$1.00. The exchange rates set forth below between the Hong Kong dollar and the US dollar (in HK\$ per US\$) are based on the noon buying rate in New York City for cable transfers in Hong Kong dollars as certified for customs purposes by the Federal Reserve Bank of New York. On April 29, 2005, the exchange rate was HK\$7.7946 per US\$1.00.

The following table sets out the high and low exchange rates in effect for each of the months indicated:

| | Exchange Rates | |
|---------------|---------------------|--------|
| | High | Low |
| | (HK\$ per US\$1.00) | |
| November 2004 | 7.7815 | 7.7718 |
| December 2004 | 7.7821 | 7.7698 |
| January 2005 | 7.7994 | 7.7775 |
| February 2005 | 7.7999 | 7.7984 |
| March 2005 | 7.7998 | 7.7987 |
| April 2005 | 7.7995 | 7.7946 |

The following table sets forth the average exchange rates calculated by using the average of the exchange rates on the last day of each month for each of the years indicated:

| Year ended December 31, | Average Exchange Rate |
|--------------------------------|------------------------------|
| | (HK\$ per US\$1.00) |
| 2000 | 7.7686 |
| 2001 | 7.7996 |
| 2002 | 7.7996 |
| 2003 | 7.7864 |
| 2004 | 7.7899 |

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Any potential investor should carefully consider the following risk factors, together with all of the other information contained in this annual report, before making an investment decision. These risk factors could cause our future results to differ materially from those expressed or implied in any forward-looking statements. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently consider immaterial may also harm our business. The trading price of our ordinary shares could decline due to any, some or all of these risks or other factors, and investors may lose all or part of their investment.

Increased competition has adversely affected our business and we remain subject to negative effects from regulatory constraints

The Hong Kong Government's policies relating to the liberalization of the telecommunications industry in Hong Kong have resulted in increasing competition for us in the markets for local and international telecommunications services.

In 1995, HKTC's monopoly on fixed-line telecommunications services expired, paving the way for granting new fixed telecommunications network services, or FTNS, licenses to us and three other fixed-line local carriers: Hutchison Global Communications Limited, New World Telecommunications Limited and Wharf T&T Limited. The FTNS licenses are valid until 2010 and renewable for an additional period of up to 15 years at the discretion of the Telecommunications Authority, or TA. The Hong Kong Government also granted additional licenses in 2000 for the operation of FTNS over hybrid coaxial networks or local fixed networks based on wireless technologies. Six cellular companies, four of which hold 3G licenses, also operate in the market.

On January 1, 2003, full liberalization of the local and external FTNS markets took effect following a statement on the issue by the TA on January 11, 2002. See "Item 4.B. Business Overview—Regulation." The introduction of full liberalization, alternative service providers and alternative technologies (e.g., Voice over Internet Protocol, or VoIP) for the provision of fixed-line services has increased and will continue to increase competition for us. With full liberalization, the grant of new licenses does not explicitly require capacity or infrastructure investment. However, no new FTNS licenses will be granted to those applicants who primarily rely on interconnection with and access to the infrastructure of other FTNS licensees to roll out their network or provision of their services. Since full

market liberalization in January 2003, in addition to the four local FTNS licenses granted in 1995 and the FTNS licenses granted in 2000, several new local wireline-based FTNS licenses have been granted. Consequently, our results of operations, cash flows and financial position could be adversely affected.

Competition in the market for international direct dial, or IDD, services was initiated in 1999 as a result of the Hong Kong Government's issuance of external telecommunications services, or ETS, licenses to numerous providers. An ETS license gives the licensee the right to lease international private circuits from licensed international facility-based carriers at market rates for the operation of international call services. Further competition with respect to the provision of international services from facilities-based carriers was initiated in 2000 as a result of the Hong Kong Government's granting of additional external fixed telecommunications network services, or EFTNS, licenses. Our market position in the retail market for IDD and other international services has also been affected by the presence of other service providers whose operations may be augmented through strategic alliances with global and/or foreign strategic partners and mobile telecommunications service providers and the use of VoIP technology. These developments may make the international retail market even more competitive in the future.

Increased competition has resulted and may continue to result in price reductions, reduced gross margins, loss of market share, under-utilization of resources and additional promotional, marketing and customer acquisition expenses. These factors have adversely affected, and may continue to adversely affect, our results of operations, cash flows and financial position.

In addition, we may continue to restructure our telephony operations to reflect changes from a highly regulated environment to a highly competitive one. We could suffer material adverse effects on our results of operations, cash flows and financial position, if we are unable to restructure our operations as required, or in time, to face these competitive challenges. We have previously taken substantial write-offs in light of competitive pressures and rapid advancements in technology and we can give no assurance that similar write-offs will not be required in the future.

On January 14, 2005 we exchanged our FTNS license for a new Fixed Carrier, or FC, license. The primary change is our move from an "ex ante" tariff regime (where TA prior approval of all of our tariff revisions was required) to an "ex post" tariff regime (where we give the TA notice one day before we effectuate a tariff revision such as a discount, promotion or bundle). The FC license does not contain any language that suggests we are dominant in any market. These changes were the result of our applications to be declared non-dominant and our litigation strategy and will assist our ability to compete on a more level-playing field with other entrants. Nevertheless, our new license does not grant us non-dominance status. There is also a mandated local loop unbundling (i.e., Type II interconnection) requirement for narrowband (e.g., voice telephony) and broadband (e.g., internet access). Although it will be phased out by mid-2008, this has facilitated market share acquisition by the other entrants. Continued pricing pressure from our competitors and our new found ability to price competitively may lead to further price declines and more severe competition in the fixed line market. If we are not able to compete effectively within the constraints of our new FC license or if the TA's interpretation of the scope of constraints of the FC license is more stringent than our interpretation, our results of operations, market position and financial condition may be adversely affected.

As a further step to monitor and regulate the telecommunications market, the Hong Kong Government enacted the Telecommunications (Amendment) Ordinance 2003, or the 2003 Ordinance, in July 2003, which deals specifically with merger and acquisition activities by carrier licensees in Hong Kong's telecommunications sector. The 2003 Ordinance gives the TA the power to review mergers and acquisitions concerning carrier licensees and to take appropriate actions when it determines that the transaction would substantially lessen market competition without any outweighing public benefits. The TA also has the right to impose additional conditions on the carrier licensee including unwinding the merger or acquisition. A de novo appeal to the Telecommunications (Competition Provisions) Appeal Board, or Competition Board, of the TA's decision is also part of the 2003 Ordinance. The 2003 Ordinance may have an adverse effect on our ability to grow our carrier and fixed line business through mergers and acquisitions.

More generally, the Hong Kong telecommunications industry operates under licenses granted by the Office of the Telecommunications Authority in Hong Kong (together with the TA, "OFTA"). Our operations could be adversely affected if any of our existing licenses are amended, not renewed or revoked. The industry will be more

competitive if new licenses are granted by OFTA to other service providers. The effect of any future regulatory changes on the viability or competitiveness of our business cannot be accurately predicted.

Regulatory decisions relating to broadband access services could adversely affect us

In November 2000, the TA issued a statement on the regulatory framework for broadband interconnection, including the principles underlying the determination of broadband unbundled local loop arrangements and interconnection charges. Following the approval of OFTA, on October 19, 2001, we published a new wholesale tariff which sets out the terms and conditions upon which other FTNS operators in Hong Kong can interconnect with our copper local loops on an unbundled basis to provide broadband services. At the end of 2001, further to the request of two other operators, OFTA initiated two determination proceedings to determine the terms, conditions and rates for broadband Type II unbundling. Until mid-2008 when compulsory local loop unbundling will be withdrawn, these determination proceedings may mandate pricing and terms and conditions which, if less favorable to us than those provided in the published tariff, may adversely affect our business, financial condition or results of operations. See “Item 4.B. Business Overview–Regulation.”

On May 15, 2002, the TA issued a direction under section 36B of the Telecommunications Ordinance to Wharf T&T Limited and us directing us to promptly implement broadband Type II unbundling upon receipt of a request from Wharf T&T Limited. Pursuant to a request for judicial review, the TA’s direction was found by the High Court on June 30, 2004 to be unlawful. We continue to offer broadband unbundled loops in accordance with our wholesale tariff, as amended, but not in accordance with the TA’s decision. See “Item 4.B. Business Overview–Regulation.”

The Type II interconnection review was a public consultation initiated by the Secretary for Commerce, Industry and Technology of the Hong Kong Government on May 23, 2003 to review the policy of compulsory unbundling of local loops due to the changing market landscape, the advent of new or improved technologies and the fact that seven years have passed since narrowband unbundling was implemented. On July 6, 2004, the Executive Council released its decision to ultimately phase-out both narrowband and broadband compulsory unbundled local loop by June 30, 2008. The Hong Kong Government’s decision on the policy review, the end of the agreed interim stay and a possible resumption of the two broadband determination proceedings may adversely affect our business, financial condition or results of operations.

In the Interconnection and Related Competition Issues Statement No. 7 (Second Revision) published on March 18, 2002, OFTA completed a review of its interconnection charging principles initially established in 1995. In Statement No. 7, OFTA reconfirmed that in future determinations for Type II interconnection and Type I interconnection (i.e., interconnection between network gateways) it would continue to use a long run average incremental cost, or LRAIC, approach and apply a current cost standard subject to the use of historical cost on certain items (land, building, copper infrastructure pre-1995) to the costing of network assets. On June 18, 2002, OFTA indicated it could further revise Statement No. 7 to make it applicable to both broadband and narrowband interconnections. On November 12, 2004, OFTA announced that it would review the charging methodology for mobile and value added service interconnection to our FTNS network. See “Item 4.B. Business Overview – Regulation.” These reviews may result in interconnection charge levels less than those currently in existence and may adversely affect our business, results of operations or financial condition.

We may not be able to secure or successfully implement new business opportunities or anticipated projects with CNC

On January 19, 2005, we, CNC and China Netcom Group Corporation (BVI) Limited, or CNC (BVI), a wholly owned subsidiary of CNC, entered into a subscription agreement (which was amended by a supplemental agreement dated February 7, 2005 between the same parties and a deed of assignment dated March 14, 2005 between the same parties and China Netcom Corporation (BVI) Limited, or China Netcom (BVI), a wholly owned subsidiary of CNC (BVI)), or CNC Subscription Agreement, whereby China Netcom (BVI) agreed to subscribe for 1,343,571,766 new ordinary shares to be issued by us. The new ordinary shares represented 20% of our enlarged issued share capital. On April 1, 2005, CNC through China Netcom (BVI) completed this subscription and became our second largest shareholder.

Pursuant to the CNC Subscription Agreement, we have set up a PRC Business Development Committee to

advise on possible opportunities for expanding our operations in the PRC, and monitor the use of funds allocated and approved by the Board or relevant committee for such opportunities. Subject to our capital investment procedures and the identification of appropriate investment opportunities, we presently intend to seek to invest up to HK\$5,000 million to expand our operations in the PRC. CNC has the right to nominate two out of four members of this committee.

In addition, we and CNC entered into a memorandum on February 24, 2005 setting out the parties' intention to establish special working teams to explore cooperation opportunities in areas including, *inter alia*, broadband media, mobile communications, property development and directory business. However, we might not be able to secure or successfully implement the new business opportunities or anticipated projects with CNC due to business, economic, regulatory or other constraints and this could have a material adverse effect on our business, financial position and results of operations.

Risks related to loss of business with competitors of CNC

Pursuant to the CNC Subscription Agreement, we agreed in certain circumstances to discuss with CNC opportunities available to us with any entity licensed to provide fixed-line telecommunications services in the PRC relating to (1) the establishment of new joint ventures in the PRC in relation to (a) certain basic fixed-line telecommunications services which are considered of a strategic nature to us or involve a significant investment by us or (b) non-regulated services which involve a significant investment by us or (2) the disposal of a strategic business in the PRC. We are not bound to enter into any agreement with CNC or any member of the CNC group, or the CNC Group, as a preferred partner, and are not precluded from discussing or negotiating with any competitors of the CNC Group, or entering into any agreement or arrangement with them provided that we first notify CNC of the opportunity and enter into good faith discussions with CNC if CNC expresses an interest in being our partner in the proposed business development opportunity or disposal.

As CNC is our second largest shareholder and, in view of the above arrangements, our existing business relationship with competitors of CNC, such as China Telecommunications Corporation, might be adversely affected and our ability to develop new business relationships with competitors of CNC may be significantly impaired. As such, this could make us dependent on CNC for new business opportunities in the PRC. If we are unable for any reason to develop new business opportunities in the PRC, maintain existing business relationships in the PRC with competitors of CNC or if we and CNC fail to develop new business opportunities in the PRC, our existing businesses could be significantly disrupted and our expansion plans could be inhibited.

As a result, the above factors could have a material adverse effect on our business, financial position and results of operation.

Risks associated with PCPD, including the development of the Cyberport project and future property development plans

In May 2000, we entered into an agreement with the Hong Kong Government under which we were granted the exclusive right and obligation to design, develop, construct and market the Cyberport project. See "Item 4.B. Business Overview—Infrastructure—Cyberport" for a more detailed discussion of this project.

We have agreed to design, develop and construct the Cyberport project for a maximum fixed cost of approximately HK\$15.8 billion, subject to certain adjustments, in accordance with an agreed timetable. The maximum fixed cost was based on a cost assessment conducted by professional quantity surveyors. We are obligated to fund the entire cost of the Cyberport project, as well as other project expenses, to the extent that these costs and expenses are not funded by the sale or pre-sale proceeds from residential units or other specified project income. We are also obligated to fund certain other expenses and any cost overruns, which include any costs above the maximum fixed cost. Cost overruns and these other expenses must be funded from our own resources and cannot be funded by pre-sale or sale proceeds from residential units or other project income.

We have also agreed to indemnify the Hong Kong Government against certain losses, claims and expenses, and other items, including, for example, any losses caused by or arising as a result of our negligence or a breach by us of our obligations under the project agreement. This indemnity remains in effect following the transfer of our interest in Cyber-Port Limited, or the Cyberport Developer, to PCPD. The agreement may be terminated by the Hong Kong Government under certain circumstances, including upon our default on the agreement.

As at December 31, 2004, we had invested approximately HK\$4,428 million in the Cyberport project. In August 2004, the first portion of the surplus proceeds was allocated between the Hong Kong Government and us. We received approximately HK\$920 million in proportion to our contribution to the project. Pre-sales of residential units in the first two phases commenced in early 2003 and, despite difficult market conditions in Hong Kong, all 1,204 residential units were sold. Together with the phases launched in 2004, more than 1,760 residential units had been sold by December 2004. The cash flow generated from pre-sales of residential units are used to substantially cover existing and future development costs of the Cyberport project. We may have to provide additional funding if such proceeds are not sufficient. The amount of additional funding required may be significant and will depend on a variety of factors including, for example, the timing of pre-sales and sales of the residential units, the demand for and pricing of these residential units and overall costs of, and expenditures relating to, the Cyberport project.

No assurance can be given as to:

- when pre-sales and sales of the residential units of future phases will begin, the pricing of these residential units or whether such sales and pre-sales will be successful as these will be affected by the then prevailing property market conditions and risks specific to the property market (including the property policy of the Hong Kong Government as modified and revised from time to time and the changes in interest rates applicable to the mortgage of properties);
- the overall cost of, or amount we will have to fund with respect to, the Cyberport project and other obligations under the project agreement; or
- the amount of surplus proceeds, if any, which may ultimately be distributed to us from the Cyberport project.

As a result, the above factors may have significant implications for our projections of internal cash flow for the Cyberport project. Were the amount of surplus proceeds from the project to fall below our expectations, or be received by us later than forecast, we may be required to provide significant additional direct funding to the project. As a result, our financial position and cash flows may be materially and adversely affected and our ability to expand our other businesses may be restricted.

We own certain investment properties for investment potential and the investment properties are stated in our balance sheet at their open market value. Changes in the value of investment properties are dealt with as movements in the property revaluation reserve. If the total of this reserve is insufficient to cover a reduction in the open market value on a portfolio basis, the excess is charged to the income statement. The value of our investment properties may change in line with the prevailing market conditions in the countries where the properties are located. The carrying values of investment properties and property revaluation reserve at December 31, 2004 were approximately HK\$5,184 million and HK\$25 million, respectively. As a result of a new Hong Kong accounting standard relating to investment property that came into effect on January 1, 2005, if we choose to use the fair value model, any changes in fair value of the investment properties will be directly reported in the income statement. Accordingly, any reduction in the fair value of the investment properties would adversely affect our financial results.

Currently, we use the stage of completion method in recognizing the revenue for the pre-sales of residential units. As a result of a new interpretation of a Hong Kong accounting standard relating to revenue recognition that came into effect on January 1, 2005, revenue arising from the pre-completion contracts for the sale of development properties entered into on or after January 1, 2005 should be recognized upon the completion of the development properties. This may result in a deferral of revenue recognition from the pre-sales of residential units in future years and may adversely affect our financial results.

On February 7, 2005, PCCW Tower was sold by Partner Link Investments Limited, or Partner Link, a wholly owned subsidiary of PCPD, for cash consideration of HK\$2,808 million. Pursuant to a deed of rental guarantee, Partner Link guaranteed a net rental of HK\$13,338,000 per month to the purchaser for five years commencing on the closing date of the sale. The purchaser appointed Pacific Century Paramount Real Estate Limited, or Pacific Century Paramount, another wholly owned subsidiary of PCPD, as the leasing agent and estate manager of PCCW Tower during the term of the deed of rental guarantee. The deed of rental guarantee can be terminated in limited circumstances, including if the appointment of Pacific Century Paramount as the leasing agent and estate manager is terminated by the purchaser. A payment to the purchaser under the rental guarantee arrangement could materially and adversely affect our prospects and financial position.

Recently, there has been some public discussion in Hong Kong regarding the manner in which we were granted the right to participate in the Cyberport project. This could have an adverse effect on the expansion of our future property development plans such as the redevelopment of telephone exchange sites currently held under long-term leases which require approval from the Hong Kong Government, or on the negotiations with the Hong Kong Government for payment of land premium.

Our substantial debt could impair our ability to implement our business plan

We have incurred significant indebtedness. In addition, we may incur indebtedness in the future, subject to limitations imposed by our lenders. At December 31, 2004, we had approximately HK\$29,694 million in short-term borrowings and long-term liabilities.

As long as we have a substantial amount of debt, the consequences of this debt to our business among other things could be to:

- limit our ability to take advantage of significant new business opportunities;
- make it more difficult for us to satisfy our payment obligations if market or operational conditions deteriorate;
- increase our vulnerability to general adverse economic and industry conditions;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- require us to dedicate a substantial portion of our cash flow from operations to payment of our existing debt, reducing the availability of our cash flow to fund working capital, capital expenditures, acquisitions, research, development and other general corporate requirements; and
- place us at a competitive disadvantage compared to our competitors that have less debt.

We are exposed to interest rate risk

A significant portion of our outstanding debt and guarantee obligations bear interest at a floating rate. As a result, any significant increase in interest rates would increase our payment obligations and could adversely affect our financial condition and results of operations.

We may be unable to continue to pay dividends in the future

On April 22, 2004, we announced our intention to effect a capital reduction by eliminating the entire sum standing to the credit of the share premium account of PCCW Limited. The proposal was approved by shareholders at our extraordinary general meeting held on May 19, 2004 and confirmed by the High Court of Hong Kong on August 3, 2004. For further information, see "Item 4. Information On Our Company – History and Development."

We declared and paid an interim dividend in an amount of HK\$0.055 per share to our shareholders in November 2004, and our Board of Directors have recommended, subject to the approval of our shareholders at the forthcoming annual general meeting, the payment of a final dividend of HK\$0.096 per share for the year ended December 31, 2004. However, there can be no assurance that dividends will be declared or paid in the future. We may be unable to, or our Board of Directors may decide not to, pay dividends on our ordinary shares. The declaration or payment of dividends will depend on various factors, including:

- attaining positive retained earnings;
- the amount of any asset impairment;
- our future operations, capital requirements and surplus;
- general economic, political and financial conditions;
- contractual restrictions;
- investment and acquisition policy; and
- other factors our Board of Directors may deem relevant.

We have, and may incur in the future, indebtedness that may prohibit or effectively restrict the payment of dividends.

Our business strategy involves potential business combinations, strategic investments and acquisitions

As part of our business strategy, we intend to enter into new business combinations, strategic investments and acquisitions. However, we might not be able to enter into new business combinations, strategic investments and acquisitions due to regulatory or other constraints and this could have a material adverse effect on our results of operations. In addition, acquisitions typically involve a number of risks, including:

- the difficulty of integrating the operations and personnel of the acquired companies;
- the potential disruption to our ongoing business and the distraction of our management;
- the difficulty of incorporating acquired technology and rights into our products and services;
- unanticipated expenses related to acquired technologies and their integration into existing technologies;
- the difficulty of maintaining uniform standards, controls, procedures and policies;
- 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;
- higher than planned funding requirements to preserve and grow the value of acquired companies or, if we are unable to obtain access to such funds, possible loss of value of the acquired companies; and
- adverse effects on our reported operating results due to the amortization of and potential impairment provision for goodwill associated with acquisitions and losses sustained by acquired companies after the date of acquisitions.

We will be susceptible to risks associated with expanding our operations outside Hong Kong, which could harm our operating results

We plan to offer the network, operations and management experience and expertise that we have acquired in Hong Kong to clients and business partners in markets outside of Hong Kong, particularly in the PRC and the United Kingdom, or the U.K. We expect to commit substantial time and development resources to customizing and developing our products and services for markets outside of Hong Kong, such as the PRC, and to developing relevant sales and support channels. Our ability to expand into these markets may be constrained by the pace of deregulation in individual markets, including the timing of 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, particularly in the PRC;
- 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, particularly in the PRC;
- insufficient protection of intellectual property rights, particularly in the PRC;
- changes in political and economic conditions; and
- potentially adverse tax consequences.

Any of these factors could have a material and adverse effect on our business, results of operations and financial condition.

We will be susceptible to risks associated with Reach, our primary international connectivity services provider

Reach was formed in February 2001 as a 50:50 venture between Telstra Corporation Limited of Australia, or Telstra, and us and merged the respective international infrastructure assets of both shareholders. Reach provides wholesale voice, data and Internet connectivity services in the Asia-Pacific region. We have historically been a substantial acquirer of cross-border connectivity services supplied by Reach, and we acquired a significant amount of such capacity from Reach in April 2005. See “Item 4. Information on our Company—B. Business Overview—Telstra Alliance—Reach” and “Item 5. Operating and Financial Review and Prospects—Overview—Development of Reach.”

Reach is operating in extremely difficult and volatile trading conditions. It faces significant competition from local, regional and global operators in markets in which it operates, or intends to operate, in Asia. Reach’s competitors are currently competing with Reach to operate fiber optic and satellite networks across the Pacific Ocean and accessing a number of Asian countries, including Hong Kong and Australia, which are two of the key Asian telecommunications markets in which Reach operates. This competition has led to an oversupply of international bandwidth capacity on many routes resulting in a steep fall in prices on these routes.

It is anticipated that prices for Reach’s international network products and services and international transmission capacity, in general, will continue to decline over the next several years due to the following:

- the overall relationship between bandwidth supply and demand;
- further price competition as various network providers continue to utilize the abundant capacity available to them; and
- continued technological advances that result in further increases in the transmission capacity of existing fiber optic telecommunications networks.

In addition, in January 2003, OFTA implemented the full liberalization of the local and external fixed telecommunications network services market. The possible increase in local competition in Hong Kong as a result of such liberalization may cause us to lose market share and therefore reduce the volume of traffic Reach carries from us. There is also a risk that Reach may not receive increased traffic volume from our competitors.

If Reach is unable to operate efficiently or compete effectively against its competitors or if market conditions and pricing continue to be adverse or deteriorate, this could lead to lower turnover, under-utilization of Reach’s network, reduced operating margins and loss of market share. Additionally, Reach may be unable to obtain adequate funding or to fund expenditures which it may require (including capital expenditures, marketing, research and development and other operating expenditure) out of its own revenue, in which event we may have to provide

additional funding in the form of equity or debt or both to Reach because we rely on Reach to a large degree to provide us with cross-border connectivity services. The amount of additional funding required may be significant. Further, under current circumstances, it would be unlikely that there would be any cash flow in the form of dividends or other distributions to us.

An impairment loss of HK\$8,263 million was recognized for the goodwill attributable to our investment in Reach and this amount was included in our consolidated loss attributable to our shareholders for the year ended December 31, 2002. In 2003, we performed a further impairment assessment of our interests in Reach and made a full provision for impairment of our entire interest in Reach as at December 31, 2003 to reflect Reach's then-current negative net assets financial position as at December 31, 2003 and a loss of HK\$4,159 million was recognized in 2003. Accordingly, our total interest in Reach, including the amounts paid by us under a capacity prepayment agreement, or the Capacity Prepayment Agreement, has been written down to zero as at December 31, 2003.

Reach's unaudited consolidated financial statements as of and for the year ended December 31, 2004 are included elsewhere in this annual report. As a result of its negative working capital at December 31, 2004 and various other factors, there was substantial doubt about Reach's ability to continue as a going concern.

On June 17, 2004, we and Telstra agreed to purchase the entire outstanding portion of US\$1,200 million of the debt under Reach's amended US\$1,500 million syndicated term loan facility, or Reach Term Facility, for approximately US\$311 million (approximately HK\$2,425 million). We purchased 50% of this debt for approximately US\$155.45 million (approximately HK\$1,213 million) on June 18, 2004. Also, on June 17, 2004, we and Telstra agreed to provide Reach with a US\$50 million (approximately HK\$390 million) revolving working capital loan facility, or the Reach Working Capital Facility, with each of us contributing up to US\$25 million (approximately HK\$195 million) to this facility. While the consideration paid by us for the purchase of the Reach Term Facility was approximately US\$155.45 million, Reach's indebtedness to us with respect to that debt, or PCCW Shareholder Loan, remained at approximately US\$600 million, which with interest outstanding, amounted to US\$608 million as at March 18, 2005. An additional amount of US\$143 million plus interest outstanding of US\$12 million was due by Reach and its subsidiaries, or the Reach Group, to us, as at March 31, 2005 under the Capacity Prepayment Agreement. See "Item 5. Operating and Financial Review and Prospects–Overview–Development of Reach."

On April 16, 2005, we agreed with Telstra and Reach on a new operating model under which Reach would operate as an outsourcer of telecommunications network services for our group and Telstra and its subsidiaries, or the Telstra Group. As a result of the implementation of this new operating model, Reach's aggregate indebtedness to us was reduced to US\$155 million. Due to Reach's current financial condition, we may not receive interest on Reach's remaining indebtedness of US\$155 million to us, we may not be able to recover a portion or all of such indebtedness and the US\$25 million that we may be required to contribute under the Reach Working Capital Facility, and we may need to restructure Reach's remaining indebtedness of US\$155 million to us and the Reach Working Capital Facility. Any of the foregoing could adversely affect our financial condition and results of operations. For further details on the new operating model for Reach, see "Item 5. Operating and Financial Review and Prospects–Overview–Development of Reach."

Our long-term contractual commitments to Reach could affect us in a number of ways, including by:

- committing us to fund Reach's capital expenditure, which we expect over the 17-year period from March 2005 to 2022 to be approximately US\$106 million;
- committing us to pay for services from Reach in respect of the indefeasible rights to use the international undersea capacity acquired in April 2005 until the expiry of such rights irrespective of our actual use of such services;
- limiting our flexibility and ability to acquire connectivity services from other service providers at potentially lower costs or on better terms than those supplied by Reach, given our contractual commitment to pay Reach for such services;

- committing us to ensure that Reach continues to operate in the long term as a provider of services to us and Telstra, which may result in further requirements to fund Reach either in the form of debt or equity; and
- requiring us to continue to work with Telstra on a joint venture basis and to continue to address any funding issues for the joint venture should they arise, failing which we could lose our ability to use the indefeasible rights to use the international undersea capacity acquired in April 2005.

In particular, if Reach were unable for any reason to provide us with the services described above, this could significantly disrupt our business.

As a result of the above factors, our relationship with Reach could have a material adverse effect on our business, results of operations and financial conditions.

We may be assessed taxes from previous years as a result of a dispute with the Inland Revenue Department

HKTC has been in dispute with Hong Kong's Inland Revenue Department, or the IRD, regarding the deductibility of certain interest payments totaling HK\$1,708 million in the current year's and previous year's tax computations. Subsequent to the balance sheet date, HKTC received additional assessments totaling HK\$240 million as a result of a disallowance by the IRD of the interest payments in dispute. We believe HKTC's grounds for claiming the deduction are reasonable and will lodge a formal objection to the IRD against the additional assessments and accordingly no provision for taxation has been made in our financial statements. However, payments to the IRD as a result of its assessments could adversely affect our results of operations.

Any asset impairment could adversely affect our financial results

We own fixed assets, investments in associates and jointly controlled companies, intangible assets and goodwill and are required to review these assets for impairment at the end of each financial year with reference to their recoverable amounts. The recoverable amount of an asset is the greater of its net selling price and its value-in-use. If the carrying value of an asset is higher than its recoverable amount, asset impairment will be charged to the income statement. The recoverable amount is dependent on the prevailing market conditions, nature of the asset, its resale value, its estimated future cash flows and the discount rate that reflects current market assessment of the time value of money, our ability to deliver business plans and the risks specific to the asset. The carrying value (net of any impairment previously recognized) of fixed assets (excluding investment properties which are subject to changes in open market values which is discussed in "—Risks associated with PCPD, including the development of the Cyberport project and future property development plans" above), interests in associates and jointly controlled companies, intangible assets and goodwill at December 31, 2004 were HK\$15,062 million, HK\$1,874 million, HK\$1,266 million and HK\$38,330 million, respectively. As such, any reduction in the recoverable amount of an asset below its carrying value could be charged to the income statement and could adversely affect our financial results.

Our ability to pursue our strategy with respect to some investments in which we share control or do not have a controlling interest may be limited

We have formed ventures with business partners in which we share control or do not have a controlling interest. Our current and future venture interests may involve special risks, including, among others, the possibility that:

- a venture partner may at any time have economic or business interests or goals that are inconsistent with ours;
- a venture partner or the venture may take actions contrary to our instructions or requests or contrary to our policies or objectives with respect to our businesses;
- a venture partner may be unable or unwilling to fulfill its obligations under the venture agreements;
- a venture partner may experience financial difficulties; and

- we may not be in a position to control the venture's future growth strategy or operations or its distribution of available cash flows to the same extent it would if it were a subsidiary.

Any disputes which may arise over venture obligations or otherwise could have an adverse effect on the business, financial condition or results of operations of these ventures.

In addition, our current debt burden may restrict our ability to provide further funding to these businesses if the need arises. As a result, there may be a dilution of our interests in such businesses and in our ability to influence their development.

Currently contemplated regulatory initiatives relating to VoIP service could adversely affect us

On October 4, 2004, OFTA initiated a consultation on how VoIP services should be regulated. The consultation paper raised issues concerning the licensing of VoIP services and the manner in which such services could be provided. It also dealt with the allocation of telephone numbers and number portability rights, the need to provide any-to-any connectivity, network interconnection and Calling Line Identification, the payment of interconnection charges, and a range of consumer welfare issues. The outcome of the consultation is expected to be announced by OFTA in 2005. Depending on how OFTA decides to regulate VoIP services, such services could pose a serious competitive threat to our fixed line and IDD business, resulting in reduced revenues and margins.

Our business activities in the broadband multimedia and integrated solutions services markets may not be successful

We offer broadband multimedia and integrated solutions services in Hong Kong and overseas markets. We face many competitors in this area which involves the delivery of content and services, including services such as wireless broadband Internet access, pay television, consulting, systems development, systems integration, data hosting, web applications and design, outsourcing and managed services and applications service provision. A number of our competitors have greater resources and better international brand identity than we do. Many of our competitors have potential advantages over us in the provision of integrated solutions services, including:

- longer operating histories;
- greater financial, technical, marketing and other resources;
- greater name recognition; and
- larger customer bases.

We expect to commit substantial time and resources to customizing and developing our products and services and to developing relevant sales and support channels. These efforts may not be successful and we may not be able to compete effectively in these areas.

Our ability to introduce new technologies, to successfully respond to technological developments and to adapt existing technologies may be limited

Our operations depend on the successful deployment of continuously evolving technologies, particularly in view of our expansion plans in the broadband market, and responding to technological and industry developments.

We 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 our expectations or the failure of technology to achieve commercial acceptance could mean that we have to make additional unexpected capital expenditures. In addition, we may not be able to adapt our services to changing market conditions or establish and maintain effective distribution channels for our services. Competitors may adapt more successfully to changing market conditions, establish more effective distribution channels or introduce technologies that make our products and services less competitive.

We may not be able to implement anticipated projects if we cannot obtain additional capital

We expect to make substantial investments to develop our various businesses, maintain and upgrade our local fixed-line network and market our new and existing services. Accordingly, our operating and capital expenditures in future years may be as high as, or higher than, expenditures in the past.

We may find it difficult to generate sufficient internal funds to finance the full extent of these businesses' financial requirements. If our operating cash flow does not grow as expected, it is likely that we will need to raise additional financing. Moreover, we may need to raise additional funds through private or public equity or debt financings to fully implement our intended investment plans within our proposed time frame and to fund operating losses in some of our business lines.

Given the level of debt which we have committed through bond issues, term loans and working capital facilities, we cannot guarantee that we will be able to obtain financing on favorable terms or at all for our future expected capital commitments and expenditures. If we cannot raise sufficient additional funds on commercially acceptable terms, we may need to delay or abandon some of our development and expansion plans or otherwise forego market opportunities.

We may not be able to realize an adequate return on some of our investments

We have invested in early-stage companies in highly volatile industries, with limited operating histories and limited or no revenues. The value of our investments in these businesses may change due to the fluctuating and possible further diminution in value of these holdings. For example, in the year ended December 31, 2004, we took a provision of HK\$187 million for a decline in the value of certain investments. In addition, we will not be able to control or influence the management of the businesses in which we hold minority interests. We may need to invest additional capital in certain of these businesses to permit these businesses to implement their strategies. These businesses ultimately may not be successful. As a result, we may suffer losses because of such investments.

Loss of key management and other qualified personnel could weaken our business

A small group of key executive officers manages our group and the loss of services of one or more of these key individuals could affect our ability to make successful strategic decisions. Members of our senior management, including our Executive Directors, have entered into service contracts with us. The contracts with our key executive officers are terminable with notice periods ranging from three to twelve months. We cannot guarantee that these contracts will allow us to retain key employees. Additionally, we do not presently maintain any key person insurance.

Our management believes that our growth and success will depend in large part on our 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 our prospects and financial position.

If we fail to maintain an effective system of internal controls, we may not be able to accurately report our financial results or prevent fraud

The United States Securities and Exchange Commission, or the SEC, as required by Section 404 of the Sarbanes-Oxley Act of 2002, adopted rules requiring every public company to include a management report on such company's internal controls over financial reporting in its annual report, which contains management's assessment of the effectiveness of the company's internal controls over financial reporting. In addition, an independent registered public accounting firm must attest to and report on management's assessment of the effectiveness of the company's internal controls over financial reporting. These requirements will first apply to our annual report on Form 20-F for the fiscal year ending December 31, 2006. Our management may conclude that our internal controls over our financial reporting are not effective. Moreover, even if our management concludes that our internal controls over financial reporting are effective, our independent registered public accounting firm may still decline to attest to our management's assessment or may issue a report that is qualified if it is not satisfied with our controls or the level at which our controls are documented, designed, operated or reviewed, or if it interprets the relevant requirements differently from us. Furthermore, during the course of the evaluation, documentation and attestation, we may identify deficiencies that we may not be able to remedy in time to meet the deadline imposed by the Sarbanes-Oxley

Act for compliance with the requirements of Section 404. If we fail to achieve and maintain the adequacy of our internal controls, we may not be able to conclude that we have effective internal controls, on an ongoing basis, over financial reporting in accordance with the Sarbanes-Oxley Act. Moreover, effective internal controls, particularly those related to revenue recognition, are necessary for us to produce reliable financial reports and are important to help prevent fraud. As a result, our failure to achieve and maintain effective internal controls over financial reporting could result in the loss of investor confidence in the reliability of our financial statements, which in turn could harm our business and negatively impact the trading price of our American Depositary Shares, or ADSs. Furthermore, we anticipate that we will incur considerable costs and use significant management time and other resources in an effort to comply with Section 404 and other requirements of the Sarbanes-Oxley Act.

A recurrence of severe acute respiratory syndrome, or SARS, or other similar outbreaks in the PRC, Hong Kong or certain other Asian countries, may adversely affect our business, results of operations and financial condition

In the first half of 2003, the PRC, Hong Kong, Taiwan, Singapore and certain other Asian countries encountered an outbreak of SARS, a highly contagious form of atypical pneumonia. In April 2004, there were several confirmed cases of SARS in Beijing. The recurrence of the SARS outbreak, or other similar outbreaks, in the PRC, Hong Kong or certain other Asian countries may adversely affect our ability to conduct business development, in particular, in the PRC and Taiwan. The economic impact of the SARS outbreak may have an adverse effect on our customers and the demand for our products and services due to a general slowdown of the economy and their prolonged effects may have a material adverse impact on our business, results of operations and financial condition.

Hong Kong's relationship with the rest of the PRC is unpredictable and could disrupt our business

Hong Kong is a special administrative region of the PRC with its own government. Hong Kong enjoys a high degree of autonomy from the PRC under the principle of "one country, two systems." However, there can be no assurance that our financial condition and results of operations will not be adversely affected as a consequence of the exercise of the Chinese sovereignty over Hong Kong.

Almost all of our operating assets are located in Hong Kong and a majority of our turnover is derived from operations conducted in Hong Kong. As a result, our financial condition and results of operations may be influenced by the political situation in Hong Kong and by the general state of the Hong Kong economy and the economies of the surrounding region, particularly the PRC.

An economic downturn could adversely affect our results of operations

From mid-1997 to 2004, many countries in Asia experienced significant economic downturns and related financial difficulties. The decline in the value of most Asian currencies has led to many Asian companies experiencing difficulties servicing foreign currency-denominated debt and thereby defaulting on their debt payments. The economic crisis adversely affected domestic growth rates across the Asia-Pacific region. While economic conditions in many of these countries have improved, our business, results of operations and financial condition could be materially and adversely affected if there are economic downturns in these Asian or other countries in future.

Currency fluctuations could adversely affect our results of operations

Although a major part of our outstanding debt and guarantee obligations are denominated in currencies other than Hong Kong dollars, we have entered into a series of hedging transactions to swap these liabilities back into the Hong Kong dollar or US dollar. The Hong Kong dollar has been pegged to the US dollar since 1983. However, there is no assurance that such a peg will be maintained in the future. Therefore our results of operations and ability to discharge our obligations could be adversely affected by the discontinuation or revaluation of the peg between the Hong Kong dollar and US dollar.

Risks relating to complicated transactions and contractual arrangements

We have entered into a number of complicated transactions and contractual arrangements. These include, among other things, financing and other contracts and instruments, joint ventures, investments, acquisitions and

sales agreements and other contractual arrangements. These transactions and contractual arrangements could give rise to differences in interpretation, disputes, claims or other developments which could have a material adverse effect on our business, financial condition or results of operations.

Shareholders' interests may be diluted in the future

Our Board of Directors may determine to raise additional financing by offering our ordinary shares or other equity-linked securities to third parties or to our existing shareholders on a non-pro rata basis. Ordinary shares may also be offered as consideration for the acquisition of assets. In addition, we may issue securities that have rights, preferences or privileges that rank senior to our ordinary shares. As a result, shareholders' interest in us may be diluted and/or become less advantageous as compared to the rights of other security holders.

Exercise of influence over us by our Chairman or CNC may conflict with the interests of other holders of our shares and ADSs

Li Tzar Kai, Richard is our Chairman and is also chairman and chief executive of the Pacific Century Group and chairman of Pacific Century Regional Developments Limited, or PCRD. As at April 30, 2005, Li Tzar Kai, Richard was deemed to be interested in approximately 26.33% of our issued share capital under the Hong Kong Securities and Futures Ordinance, or the HKSF. See "Item 6.E. "Share Ownership." As a result, Li Tzar Kai, Richard may be considered to have significant influence over us.

In addition, as at April 30, 2005, CNC held, through China Netcom (BVI), approximately 20% of our issued share capital. See "Item 7.A. Major Shareholders." Additionally, as at April 30, 2005, CNC held more than 70% of China Netcom Group Corporation (Hong Kong) Limited, or CNC HK, a Hong Kong-listed subsidiary of CNC, which also engages in telecommunications activities in the PRC and Asia-Pacific. As such, CNC might face a potential conflict of interest if there are new business opportunities which are suitable to CNC HK and us.

Major business decisions, such as our expansion and investment decisions and changes to our legal and capital structure, require the approval of our Board of Directors. Li Tzar Kai, Richard and/or CNC may be considered to be able to influence these decisions and other matters relating to us. The interests of Li Tzar Kai, Richard or CNC may conflict with the interests of other holders of our shares and ADSs.

Further, any such influence of Li Tzar Kai, Richard or CNC, if exercised, may:

- delay or prevent a change in control of PCCW;
- impede a merger, consolidation, takeover or other business combination involving PCCW; or
- discourage a potential acquirer from making an offer or otherwise attempting to obtain control of PCCW.

Although we believe that our relationships with Li Tzar Kai, Richard, the Pacific Century Group and CNC provide us with significant business advantages, these relationships result in various related party, or "connected" transactions. See "Item 7. Major Shareholders and Related Party Transactions" for more details.

Further, the interests of Li Tzar Kai, Richard may conflict with the interests of CNC as a majority shareholder of CNC HK which may inhibit our operations and delay the process in implementing or developing new business opportunities and this could have an adverse effect on our business, financial condition and results of operation.

A shareholder may only bring a derivative action against us in certain circumstances allowed under Hong Kong law

We are a limited company organized under the laws of Hong Kong. The rights of holders of our ordinary shares (including ordinary shares underlying our ADSs) are governed by Hong Kong law and by our Memorandum and Articles of Association. These rights may differ from and, in certain circumstances, be more limited than, the rights of shareholders in corporations incorporated in other countries.

You may not be able to participate in rights offerings and may experience dilution of your holdings

We may, from time to time, distribute rights to our shareholders, including rights to acquire securities. Under the deposit agreement, the depository will not distribute rights to holders of ADSs unless the distribution and sale of rights and the securities underlying these rights are either exempt from registration under the Securities Act of 1933, or Securities Act, with respect to all holders of ADSs, or are registered under the provisions of the Securities Act. We can give no assurance that we can establish an exemption from registration under the Securities Act and we are under no obligation to file a registration statement with respect to these rights or underlying securities or to endeavor to have a registration statement declared effective. Accordingly, holders of ADSs may be unable to participate in our rights offerings and may experience dilution of their holdings as a result.

If the depository is unable to sell rights that are not exercised or not distributed or if the sale is not lawful or reasonably practicable, it will allow the rights to lapse, in which case you will receive no value for these rights.

ITEM 4. INFORMATION ON OUR COMPANY

A. History and Development

In April 1979, we were incorporated as a Hong Kong company with limited liability under the name Ring Holdings Limited and subsequently changed our name to Tricom Holdings Limited. Our ordinary shares were first listed on The Stock Exchange of Hong Kong Limited, or SEHK in 1994. Our registered office is located at 39th Floor, PCCW Tower, TaiKoo Place, 979 King's Road, Quarry Bay, Hong Kong. Our telephone number is (852) 2888 2888.

Until mid-1999, we were primarily engaged in the marketing, sale and provision of technical support for telecommunications and data communications products. In August 1999, pursuant to a group restructuring, the Pacific Century Group acquired a substantial interest in us. At the time of the acquisition, the Pacific Century Group was a group of companies controlled by Li Tzar Kai, Richard or companies over which Li Tzar Kai, Richard had a significant influence. In connection with the restructuring, we transferred all of our then current businesses, other than our customer premises equipment, or CPE, business, to our former principal shareholder. We changed our name to Pacific Century CyberWorks Limited and acquired a 60% equity interest in Pacific Convergence Corporation, Ltd., or PCCL, from the Pacific Century Group. PCCL and its subsidiaries conduct certain of our business-to-consumer businesses. We also acquired PCCW Properties Limited, a holding company that develops and invests in commercial and residential real estate projects in Hong Kong and the PRC.

In August 2000, we acquired HKT, previously known as Hong Kong Telecommunications Limited and subsequently known as Cable & Wireless HKT Limited, Hong Kong's leading provider of telecommunications services. At the time of HKT's acquisition, HKT's communications-based businesses consisted of local and international voice and data communications services, mobile services and Internet and e-commerce services. HKT's ordinary shares were listed on SEHK and in the form of ADSs on the New York Stock Exchange, Inc., or the NYSE. HKT is now an indirect wholly owned subsidiary of PCCW. PCCW's major operating subsidiary is HKTC, which was acquired as part of the acquisition of HKT. On August 9, 2002, we changed our name from Pacific Century CyberWorks Limited to PCCW Limited in order to align the legal name of PCCW with its logo and brand. Our Chinese name remains unchanged.

HKTC was incorporated as a private limited company in Hong Kong in 1925 to acquire part of the business of China and Japan Telephone and Electric Company Limited, which had operated Hong Kong's first public telephone services since 1882. In the same year, HKTC was awarded the sole right to provide Hong Kong's local telephone services for 50 years. This right was subsequently extended to 1995. Following the expiration of HKTC's monopoly on fixed-line telephone services in Hong Kong in 1995, OFTA issued a non-exclusive FTNS license to HKTC and three other companies to provide fixed telecommunications network services on a competitive basis. See "Item 4.B. Business Overview-Regulation."

In February 2001, we formed a strategic alliance with Telstra, which provided for, among other things, the formation of Reach and the purchase by Telstra of a 60% interest in Joint Venture (Bermuda) No.2 Limited (Regional Wireless Company, or RWC). Reach is a 50:50 joint venture between Telstra and us and is a leading wholesale provider of voice, data and Internet connectivity services in the Asia-Pacific region. RWC owns the Hong Kong wireless communications business contributed by us. After Telstra's purchase, we owned the remaining 40%

of RWC until we sold it to Telstra on June 28, 2002. On April 16, 2005, we agreed with Telstra and Reach on a new operating model under which Reach would operate as an outsourcer of telecommunications network services for our group and the Telstra Group. See “Item 4.B. Business Overview–Alliances–Telstra Alliance.”

On April 22, 2004, we announced our intention to effect a capital reduction by eliminating the entire sum standing to the credit of the share premium account of PCCW Limited. The proposal was approved by shareholders at our extraordinary general meeting held on May 19, 2004 and confirmed by the High Court of Hong Kong on August 3, 2004. The capital reduction gave rise to a credit of approximately HK\$173,465 million, based on the share premium account of PCCW Limited on an unconsolidated basis as at June 30, 2004. Such credit was applied in writing off the accumulated losses of PCCW Limited of approximately HK\$152,932 million, and the remaining balance of approximately HK\$20,532 million was transferred to a special capital reserve created by us, the application of which is subject to the conditions imposed by the High Court. The capital reduction represented the completion of a necessary technical formality in order to permit the payment of dividends, as and when our Board of Directors considers it appropriate. We declared and paid an interim dividend in an amount of HK\$0.055 per share to our shareholders in November 2004, and our Board of Directors have recommended, subject to the approval of our shareholders at the forthcoming annual general meeting, the payment of a final dividend of HK\$0.096 per share for the year ended December 31, 2004. However, there can be no assurance that dividends will be declared or paid in the future. We may be unable to, or our Board of Directors may decide not to, pay dividends on our ordinary shares in the future.

In May 2004, we sold to Dong Fang Gas Holdings Limited, or DFG, a company listed on the SEHK, the property assets and related businesses of our Infrastructure division, comprising Pacific Century Place Beijing, PCCW Tower, Paramount Building and the development rights in Cyberport. The consideration of HK\$6,557 million was satisfied by the issue to us of HK\$2,967 million in shares of DFG (representing approximately 93.42% of the increased share capital of DFG following such share issue) and HK\$3,590 million in notes convertible into DFG shares. After the sale, DFG was renamed Pacific Century Premium Developments Limited, or PCPD. As at April 30, 2005, we held 61.66% of the issued share capital of PCPD as a result of share disposals in April, October and November 2004 and the conversion in March 2005 of a HK\$1,170 million convertible note into shares of PCPD, being one of two convertible notes received in the sale to DFG. On February 7, 2005, Partner Link, a wholly owned subsidiary of PCPD, sold PCCW Tower for HK\$2,808 million. See “Item 4.B. Business Overview–Infrastructure.”

On January 13, 2005, the TA released the decision on moving HKTC to an ex post regime which would be implemented by issuing to HKTC a new FC license. The FC license would eliminate the prior approval requirement for tariff revisions, remove language relating to dominance, and remove language redundant with the Telecommunications Ordinance. Tariff notifications would be filed one day before the revisions became effective and would replace the previous prior approval process. Notifications cover discounts, bundles, promotions, and other tariff changes. On January 14, 2005, HKTC exchanged its FTNS license for the new FC license.

On April 1, 2005, China Netcom (BVI) subscribed for 1,343,571,766 new ordinary shares in us at a price of HK\$5.90 per share, representing approximately 20% of our enlarged issued share capital. The proceeds of the subscription were approximately HK\$7,927 million (before deduction of expenses). Subject to our capital investment procedures and the identification of appropriate investment opportunities, we intend to invest up to HK\$5,000 million of these proceeds in telecommunications opportunities in the PRC. The remainder will be used for reducing our debt and general corporate purposes. Under the terms of the CNC Subscription Agreement, CNC has been granted certain rights, including the right to nominate three Directors and anti-dilution rights.

B. Business Overview

We are the largest telecommunications service provider in Hong Kong and one of Asia’s leading integrated communications companies, with turnover for the year ended December 31, 2004 of HK\$22,895 million.

Our business comprises the following principal segments:

- *Telecommunications Services, or TSS*—We are Hong Kong’s leading provider of fixed-line telecommunications services, which include local telephony, IDD, Internet access, pay television and multimedia content.
- *Business eSolutions*—We offer systems integration, applications development, network integration and application-management services, information technology, or IT, solutions, business broadband Internet access, directories businesses, hosting and facilities management services and Internet data centers within Hong Kong and the PRC.
- *Infrastructure* covers our property portfolio in Hong Kong, such as the Cyberport development, and in the PRC, which is principally held by PCPD. We had a 61.66% interest in PCPD as at April 30, 2005.
- *Others* includes our overseas and other investments.

In addition, through a strategic alliance with Telstra, we own a 50% interest in Reach, which provides wholesale international communications infrastructure services primarily within the Asia-Pacific region. We sold our remaining 40% equity interest in RWC to Telstra on June 28, 2002. See “Item 4.B. Business Overview—Alliances—Telstra Alliance.”

The table below sets forth our turnover by business segment for the years ended December 31, 2002, 2003 and 2004.

| | Year ended December 31, | | |
|---------------------|-------------------------|---------|---------|
| | 2004 | 2003 | 2002 |
| | (HK\$ million) | | |
| TSS | 15,227 | 16,572 | 18,007 |
| Business eSolutions | 2,701 | 2,326 | 2,234 |
| Infrastructure | 5,863 | 4,600 | 685 |
| Others | 372 | 426 | 793 |
| Less: | | | |
| Eliminations | (1,268) | (1,374) | (1,607) |
| | 22,895 | 22,550 | 20,112 |

The table below sets forth our turnover by geographic area for the years ended December 31, 2002, 2003 and 2004.

| | Year ended December 31, | | |
|--|-------------------------|--------|--------|
| | 2004 | 2003 | 2002 |
| | (HK\$ million) | | |
| Hong Kong | 21,105 | 21,172 | 19,063 |
| The PRC (excluding Hong Kong) and Taiwan | 1,468 | 948 | 701 |
| Others | 322 | 430 | 348 |
| | 22,895 | 22,550 | 20,112 |

Telecommunications services (TSS)

TSS is the leading provider of fixed-line telecommunications services in Hong Kong. Utilizing optic fiber, HKTC has the most extensive digital network in Hong Kong and broadband coverage passing more than 95% of Hong Kong homes and accessing all major business areas in Hong Kong.

TSS is focused on growth through investments in data transmission services, broadband access lines services and value-added services. The unit has also implemented efficiency improvements and improved marketing efforts to reduce costs and enhance customer service, which we consider a key feature that sets TSS apart from its competitors. TSS provides a wide range of services, including:

- *Local Telephony Services*—TSS is the leading provider of fixed-line services in Hong Kong, with the most extensive digital network in Hong Kong and a broadband capability that covers almost all Hong Kong's residential and commercial buildings.
- *Local Data Services*—Within Hong Kong, TSS provides a backbone for corporate data networks and provides high speed data services to other service operators, offering broadband-based Internet Protocol-Virtual Private Network, or IP-VPN, frame relay and Asynchronous Transfer Mode, or ATM, services that allow high volume transmissions of integrated data, voice and video traffic for corporate networks.
- *International Telecommunications Services*—TSS provides outgoing IDD, termination of incoming international calls, retail international private leased circuits, or IPLCs, and international data services.
- *Other Services*—Consists primarily of sales of network equipment, CPE and connectivity products, technical and maintenance subcontracting services and our contact centers unit.

Local Network Infrastructure

Hong Kong has one of the most sophisticated and competitive telecommunications markets in the world in terms of overall scope, service penetration and customer choice. Because of the city's high population density and compactness, Hong Kong effectively utilizes almost all major types of technology in the development of its telecommunications networks, including point-to-point microwave, fiber-optics, multi-point distribution systems and traditional radio frequency distribution techniques. HKTC has been at the heart of this development with the deployment of its territory-wide broadband backbone and ancillary networks capable of delivering high quality voice and data services.

HKTC completed the digitalization of its network in 1993. Currently, all of the network transmission links for exchange junctions are digital and all exchange equipment incorporates digital technology. As a result, HKTC's network is capable of supporting a wide range of circuit and packet switched data services. These services enable a single line to be used for simultaneous voice and data communication and facilitate the provision of various customer services such as voice, data, video services, Integrated Services Digital Network, or ISDN, services and enhanced customer-calling features.

In early 1997, HKTC and its affiliates initiated their offering of ATM services in Hong Kong. ATM can manage the transmission of diverse kinds of traffic simultaneously within a network, including voice, data and video signals. In mid-1998, HKTC launched residential broadband access services and its broadband network coverage currently passes more than 95% of Hong Kong's homes and all major business areas in Hong Kong utilizing fiber-to-the-building and digital subscriber line, or DSL, technology.

As at December 31, 2004, HKTC's core telecommunications network includes:

- 2.57 million exchange lines and approximately 796,000 broadband access lines;
- an extensive optical fiber network covering most of Hong Kong, consisting of 725,000 core kilometers of fiber;
- 236 advanced fiber telecommunications buildings, with high-bandwidth and resilient fiber optic cabling;
- 212 telephone switches; and
- transmission plant and exchange equipment, such as computer hardware and back-up power supplies.

HKTC is focused on providing a high level of service quality for its voice, data and broadband services, benchmarking its performance against the leading global operators. This is reflected in its 99.999% network availability during the year ended December 31, 2004, based on HKTC's internal quality assurance reports.

HKTC currently plans to develop a multi-service IP platform by 2005. This platform is aimed at facilitating the delivery of next-generation services that integrate voice, data, Internet, metro IP services and other high-bandwidth applications while providing significant cost advantages and scale efficiencies in service provision.

Products and Services

Local Telephony Services

Local telephony services accounted for approximately 35% of TSS's turnover for the year ended December 31, 2004 and consisted of retail public-switched fixed-line local telecommunications services, value-added services and wholesale interconnection services provided to other telecommunications carriers and service providers.

According to OFTA, as of January 2005, the telephone density in Hong Kong was 54.7 lines per 100 people, or 54.7%, which was among the highest in the world. OFTA reported that there were approximately 3.8 million exchange lines in Hong Kong in December 2004 representing a decline of approximately 1.1% from the prior year. The decline in the number of direct exchange lines in service we operated during the year was due to a combination of factors including competition from other fixed-line operators and users substituting exchange lines with broadband access lines and wireless telecommunication services.

Exchange Line Services. TSS provides retail public-switched fixed-line local telecommunications services to residential and business customers, for which it charges its retail customers a fixed monthly exchange line rental fee. Since January 2001, the tariffs for residential exchange lines and business exchange lines have been HK\$110.00 and HK\$128.80, respectively. These basic exchange line tariffs have remained at the same levels, although we also offer various service packages incorporating value-added features at differing rates. In addition to charging a basic tariff, HKTC also charges customers for the installation and relocation of exchange lines.

As at December 31, 2004, based on our estimates and OFTA's statistics, TSS's market share of exchange lines in service in Hong Kong was approximately 68%, representing approximately 67% of residential exchange lines and approximately 69% of business exchange lines. As at December 31, 2003, we had approximately 73% total market share, 73% of residential exchange lines and 73% of business exchange lines.

TSS's business exchange lines fall within two separate categories, business direct exchange lines and Integrated Digital Access, or IDA, lines. Business direct exchange lines are traditional exchange lines provided for business use. IDA lines employ digital technology to provide multi-channel voice and voice band telecommunications between customers' equipment and the public switched telephone network. IDA lines are primarily employed by businesses to connect their private automated branch exchanges, or PABXs, to HKTC's network, as well as by other telecommunications operators for interconnection purposes.

The following table indicates the number of exchange lines leased by TSS as at December 31, 2002, 2003 and 2004:

| | As at December 31, | | |
|-------------------------------------|--------------------|-------|-------|
| | 2004 | 2003 | 2002 |
| | (in thousands) | | |
| Lines in Service: | | | |
| Business lines, including IDA lines | 1,144 | 1,236 | 1,336 |
| Residential exchange lines | 1,423 | 1,543 | 1,802 |
| Total | 2,567 | 2,779 | 3,138 |

Value-added Services. TSS offers a number of value-added services to its business and residential customers in return for a monthly per-line fee, or as part of a package subscription. Such services include:

- *Caller Display*, which shows the caller's telephone number on the screen of the telephone;
- *Call Forwarding Services*, which enable routing of calls to any other local fixed or mobile telephone number; and
- *PhoneMail*, which provides a mailbox service when the telephone line is busy or unattended.

In July 2003, TSS launched *New Generation Fixed-Line Services*, or NGFLS, for business and residential customers, to help retain and win back customers and improve our churn rate. NGFLS utilize a standard direct exchange line to provide access to a range of network-based applications. These services include:

- *Short Messaging Service, or SMS*—This enables the sending and receiving of text messages in either the English or Chinese language between fixed to fixed and mobile telephones. This NGFLS requires a SMS-capable telephone set.
- *Personal Assistant*—This service comprises a voice-activated phonebook, voicemail retriever that enables access to fixed and mobile telephone voicemail systems, reminder function and information retrieval.
- *Auto Receptionist*—This NGFLS, targeted at small and medium sized businesses, utilizes an Interactive Voice Response System, or IVRS, to provide call routing and enquiry response services.

Approximately 746,000 residential exchange lines and 223,000 business exchange lines had signed up to NGFLS as at December 31, 2004. The average monthly net line loss has been significantly decreased since the new services were launched.

Wholesale Interconnection Services. TSS receives interconnection payments from other service providers and local carriers for calls utilizing its network. Interconnection fees include fees for the delivery of traffic, as determined by OFTA, and fees for the physical interconnection of facilities and network sharing, as determined by commercial agreements between us and other local carriers. Currently, the primary sources of TSS's interconnection turnover are:

- the per call/minute fees payable by other local carriers for the origination or termination of voice or dial up Internet traffic on TSS's network;
- the origination, termination and transit of mobile voice traffic; and
- the termination of dial-up Internet traffic to Internet Service Providers, or ISPs.

Most of the retail public switched fixed-line telephone network traffic in Hong Kong is carried on HKTC's network by virtue of its extensive network coverage, significant ownership of "last mile" access and large customer base.

Local Data Services

Local data services accounted for approximately 29% of TSS's turnover for the year ended December 31, 2004 and consisted of local leased circuits, data services and the provision of broadband access lines utilizing HKTC's fiber optic and digital subscriber line network.

Local Leased Circuits. TSS supplies local private leased telecommunications circuits to other service providers, allowing point-to-point connection for voice and data traffic between two or more separate points. A large number of local circuits are leased by the other fixed-line and mobile carriers to connect their network facilities, as well as by ISPs that need to connect to local and international Internet exchanges. The balance of the leased circuits is provided to corporate customers such as banks which require private network telecommunications facilities. TSS also provides the local connections for its own and other carriers' international private telecommunications circuits. Lease rates for local telecommunications services are determined by levels of bandwidth, customization, service availability and customer support, as well as volume pricing discounts.

Data Services. TSS provides customers with managed end-to-end data transmission facilities, including point-to-point, point-to-multipoint, or polling, and broadcast services within Hong Kong. HKTC's network also supports frame relay, ATM and IP-VPN data services that allow high volume transmissions of integrated data, voice and video traffic for corporate networks. In addition, HKTC offers a dedicated network for connecting multiple sites for data, Internet and intranet applications and provides managed router services to facilitate wide area network management services. Customers incur monthly charges for use of these services based on levels of bandwidth, customization, service availability and customer support, as well as volume pricing discounts.

In November 2003, TSS launched its IP-VPN-based *Convergence* service. This utilizes a personal computer-based application that integrates with email clients to allow customers to manage the routing of incoming fixed or mobile telephone calls and to access their voicemails and fax messages from one interface. A further enhancement was made in 2004 that expanded the call and message management capacity from individual-based communication to group-based communication.

Datapak Circuit Switched Service. Datapak Circuit Switched Service is an ISDN service providing high bandwidth with the flexibility of both voice and data dial-up communication, enabling users to select various destinations for voice, data and video images. Applications include:

- *Video-conferencing.* The service cuts traveling time and expenses, while maintaining face-to-face contact by video. ISDN is an effective medium for international video-conferencing networks.
- *Dedicated Line Backup.* Where computer backup is required to a local or overseas host, ISDN provides high bandwidth on request, without the overhead of a permanent circuit. It also enables users to back up leased lines to ensure secure, high-speed communications.
- *High-speed computer links.* ISDN is appropriate for intermittent transmission of high-volume data. It is particularly suited to connection of geographically separated local-area networks.
- *Multimedia Communication.* Several applications offer transmission of data, text, voice and images.

Broadband Internet Access. We are one of Asia's leading broadband providers. Hong Kong had an estimated 1,484,486 registered broadband Internet-access customers from households and offices at December 31, 2004, based on statistics from OFTA. As at December 31, 2004, our retail and wholesale broadband customers were approximately 796,000. Broadband access lines are leased to other service providers, which package local-access lines with content services for their own customers. Usage-based, flat-rate and level-of-service broadband packages are tariffed and provided on a non-discriminatory basis.

The following table shows the total numbers of TSS's broadband access lines in service as at December 31, 2002, 2003 and 2004.

| | As at December 31, | | |
|-------------------------------------|--------------------|------|------|
| | 2004 | 2003 | 2002 |
| | (in thousands) | | |
| Total Broadband Access Lines Leased | 796 | 703 | 559 |

NETVIGATOR. Our Internet services in Hong Kong are offered through our "NETVIGATOR" brand, which had a consumer broadband customer base of 660,000 at December 31, 2004, representing an increase of 28% from 517,000 as at December 31, 2003.

In September 2003, we launched *now Broadband TV*, a pay-television service delivered over our broadband network to our broadband customers. The service offers more than 60 channels of English- and Chinese-language television programming covering news, entertainment, lifestyle, children and sports categories and music channels. Customers can choose to subscribe to any or a combination of channels, with no basic monthly fee. We extended our pay-TV service into the commercial arena in 2004, including over 10,000 Hong Kong hotel rooms and screens in a number of other hospitality outlets, such as restaurants. As at December 31, 2004, approximately 361,000 *now* Broadband TV services were installed.

We also provide broadband Internet access at over 350 wireless hotspot locations in Hong Kong, such as cafes, restaurants, shopping malls, stations along the MTR Corporation's Airport Express route and throughout public areas at Hong Kong International Airport. In September 2003, we launched NETVIGATOR *Inflight* service, offering customers access to email on their personal computers while on board Cathay Pacific flights. As at December 31, 2004, over 60 aircraft had been equipped to provide NETVIGATOR Inflight services. NETVIGATOR also offers various value-added services such as Parental Control, which filters undesirable Internet material and provides internet access time-control for parents; NETSee, enabling video Internet communications and home-monitoring features; Mailguard, to block unwanted e-mails; and NetAlbum, which stores digital images and videos.

now.com.hk. This is a broadband entertainment internet portal launched in September 2001, which is available to NETVIGATOR users. It offers streamed multimedia services, such as television and radio programs, at speeds of up to 800Kbps. It also offers games, a “virtual clubhouse” and an “avatar” feature that enables users to build an online image from a choice of hairstyles and clothes. The number of *now.com.hk* customers totaled approximately 198,000 as at December 31, 2004, representing a 16% increase from 170,000 as at December 31, 2003.

International Telecommunications Services

International telecommunications services accounted for approximately 16% of TSS’s turnover for 2004. These services consisted primarily of retail international services provided by TSS.

IDD Services. TSS provides IDD calling services, operator assisted overseas calls and calling card services to both business and residential customers in Hong Kong. TSS currently offers a choice of IDD calling services targeting different customer segments: its “001” premium service and its “0060” service. IDD services are charged on a per 6-second basis depending on the location called.

Competition in the IDD services market has increased significantly since the introduction of services- and facilities-based competition in Hong Kong in 1999 and 2000, respectively. This has resulted in significant declines in prices and in HKTC’s market share. There are now a large number of service providers holding non-exclusive licenses to provide international voice, fax, data and value-added network services, as well as international calling-cards and virtual private network services. In addition, licensed carriers can install their own facilities and service providers can purchase international transmission capacity, wholesale switched minutes and leased-circuit capacity from international carriers other than Hong Kong Telecom International Limited, or HKTI, (now known as Reach Networks Hong Kong Limited, or Reach Networks).

International Private Leased Circuits. TSS supplies IPLC services to retail customers, allowing point-to-point connection for voice and data traffic between two or more points. TSS leases the international capacity for its retail IPLCs from other providers, primarily Reach, which it then separately packages with its own local capacity to create a fully integrated international leased circuit. Customers incur monthly charges for use of these services based on levels of bandwidth, customization, service availability and customer support, as well as volume pricing discounts. See “–Regulation.”

As a result of the introduction of the international facilities-based competition from January 2000, retail IPLC prices fell substantially. TSS aims to increase its market penetration of end-to-end retail IPLC services. For example, TSS intends to provide IP-based private network services and to continue to upgrade its customer care program to improve customer service and satisfaction.

TSS provided international managed bandwidth services and IPLC services to more than 150 destinations at December 31, 2004. In June 2003, we announced an agreement with China Telecommunications Corporation enabling us to offer customers a one-stop-shop for handling their data communications requirements between Hong Kong and any destination in the PRC. This covers ordering, billing and fault-reporting for services including IPLCs, ATM, frame relay and IP-VPN. Previously, customers had to make their own, separate arrangements with their telecommunications providers in Hong Kong and the PRC for such services.

In April 2002, TSS worked with Beijing Communications Corporation to provide a 100% service-availability commitment to our customers for international leased lines, as well as ATM and frame relay services between Hong Kong and Beijing. In August 2003, we announced a 100% service availability commitment with China Telecom Group Guangdong Corporation in relation to services between Hong Kong and Guangzhou, Dongguan and Shenzhen.

IP-VPN and Managed Firewall Services. In March 2002, TSS launched its IP-VPN service in the PRC and throughout the Asia-Pacific region. Since then, the service coverage has been extended to 32 countries worldwide. Supporting multiple services, with speeds of 64Kbps to 1Gbps, this provides customers with a private IP network.

TSS's IP-VPN and secure managed firewall offerings utilize a high-capacity and resilient global IP backbone, mostly supplied by Reach. TSS's IP-VPN is designed to enable rapid and efficient use of applications including mission-critical enterprise resource planning, customer relationship management, high-quality video-conferencing, voice-over-IP, e-mail, intranet and Web-based applications.

International Frame Relay. Our international frame relay, or IFR, is an integrated data solution that increases the efficiency of a communications network. It is effective in transporting 'bursty' data traffic between multiple locations in a Local Area Network/Wide Area Network, or LAN/WAN, environment.

IFR is provided by our global end-to-end network platform deployed in a number of countries and service coverage is extended to more countries through bilateral agreements or partnerships with foreign service providers. At present, IFR directly connects Hong Kong to major cities in the Asia-Pacific region, the United States, Europe and the PRC, including Beijing, Guangzhou, Shanghai, Shenzhen and Xiamen.

International Asynchronous Transfer Mode Services. This technology supports multimedia services, providing a single, high-speed, broadband digital platform that integrates various types of traffic. Customers using ATM services can reconfigure their bandwidth demands according to traffic patterns. ATM network is best used to provide regional network backbones, video broadcasting network or bandwidth on demand applications.

As a packaged solution, our managed data services can monitor our customers' networks and alert them if problems arise between their networks and our managed circuits.

Other Services

Other services accounted for approximately 20% of TSS's turnover for the year ended December 31, 2004. It consists primarily of turnover from the sale of network equipment, CPE and connectivity products and services, fees for technical and maintenance subcontracting services and income from our contact centers business.

Local Equipment Sale and Rental. We have been involved in the CPE business since 1979, having retained this business after the disposal of various elements of Tricom Holdings Limited's other businesses during our restructuring in 1999. Our CPE business includes the sale, marketing and servicing of a range of business telephone systems, peripherals and office-automation products, such as voice messaging and call-accounting systems, burglar alarms and closed-circuit television and facsimile machines.

TSS also supplies a range of PABX equipment, personal computers, data communication equipment, home-use cordless telephones, mobile telephones, digital cameras and LCD TVs. It leases certain products to customers, such as basic telephone sets and business exchange equipment. In addition, it designs and provides individualized telecommunications systems that integrate voice and data-switching equipment from various suppliers and supplies and installs local and wide area data network equipment. It does not manufacture telecommunications equipment.

Contact Centers. We believe that our contact centers are one of Asia's largest and most advanced 24-hour contact management businesses. We have contact centers in Hong Kong, Guangzhou and Taipei and related facilities and technology management operations in Beijing and Shanghai. Our contact centers handle approximately 10 million calls each month and this business is comprised of Customer Front Office, which serve our own fixed-line and Internet customers, and Teleservices, which handles design, build and maintenance of contact centers as well as providing outsourcing services for external customers.

Using advanced software applications, our contact centers offer customer relationship management, or CRM, solutions, call management, computer telephony integration and best-in-class self-service options such as interactive voice response, short messaging, Internet mail and fax-on-demand.

Through our contact centers, we believe we are a leading provider of customer contact management and CRM services and solutions in Asia, employing more than 3,000 agents conversant in 15 languages. Our key customers include leading banks, insurance and technology companies.

BtNAccess. Beyond The Network Limited, or BtN, our indirect wholly owned subsidiary, offered IP-based end-to-end communications solutions to enterprise customers over its own global IP Multi Protocol Label Switching (or

MPLS) -enabled network. We acquired a satellite-based network communication solutions provider, Telecommunications Technology Investments Limited, or TTIL (now known as BtN Access Limited), which we called Corporate Access, in March 2001 for approximately HK\$803 million. In April 2003, BtN was amalgamated with our Corporate Access business unit to form BtNAccess.

BtNAccess, a bandwidth reseller and telecommunications and IP solution integrator, offers a suite of products, including Internet access, VoIP, MPLS virtual circuit connectivity (VPN), Hosted PBX Service, managed routers and content delivery network solutions through its branded "BtN Multi-Service IP Port." BtNAccess's network extends to 40 points of presence in North America, Europe, the Middle East, Africa and Asia, and it has offices in the USA, Europe and Hong Kong. This is a result of organic growth as well as through its acquisition of certain assets of Ardent Communications Inc. in June 2002. The customers of BtNAccess include emerging carriers, ISPs, Internet content providers and application-service providers as well as small and medium size enterprises in the USA and Europe.

Cascade. Cascade Limited, or Cascade, our indirect wholly owned subsidiary, is a technical services company which was created in 2002 from within our network and services business division. Launched on January 1, 2003, Cascade provides our network operations with support and maintenance services.

Other Cascade services include network infrastructure design, build-out and maintenance, consulting solutions, customer installation and maintenance services, project and network management, billing and operating systems development and maintenance and technical support. As part of our TSS segment, Cascade designs, builds and maintains ATM and other networks for banks, as well as operating systems for share trading, airports, IT companies and major transport and infrastructure corporations. In 2004, Cascade was awarded two new TL9000 certificates together with Best Practice Award from Hong Kong's Best Practice Management Group and Q-Mark Certification from the Federation of Hong Kong Industries.

Business eSolutions

Business eSolutions provides end-to-end solutions from systems integration, application development, network integration, outsourcing and application management services, data center operations and enterprise applications to support enterprise customer requirements across Asia. The IT business in Hong Kong and the PRC has been consolidated and branded as "UniHub" to provide our pool of IT professionals a clear focus and to raise customers' recognition. UniHub also includes Internet data centers and Unihub China Information Technology Company Limited, or UCITC.

UniHub targets four key business sectors: public, finance, communications and enterprise. Employing an experienced team of information technology professionals, its service scope includes systems integration, IT operation and platform outsourcing, logistics and fulfillment services and information security solutions. To support its focus on expanding into the PRC, UniHub has established a software development center in Guangzhou in the PRC to provide enterprise solutions to customers across the PRC and Taiwan.

Some of our completed and ongoing systems contracts include:

- the development of a credit card back office processing platform for Bank of China in the PRC;
- the development of an integrated call center and related support services using the latest information technology and CRM solutions for the Hong Kong Government's Efficiency Unit;
- the development of a flight information display system for the Xiamen Airport;
- a traffic management control system for the Shanghai seaport;
- the development of a nationwide enterprise resource planning information system for China Mobile Communications Corporation for improved resource sharing and enhanced monitoring;
- the provision of a range of technical infrastructure related IT solutions and operational support for Hong Kong Government's Social Welfare Department;

- the provision of document imaging and hosting services for GE Money to enhance operation efficiency of its business process in Hong Kong;
- the development of major IT systems for the new Sands Macau casino;
- the development of retail management system and provision of IT and T support for an international retail chain which consists of 13 outlets in the PRC and Hong Kong;
- the implementation of core banking solution for a Hong Kong bank in the PRC;
- the design, development and construction of an award winning data center for a major telecommunications operator in the PRC; and
- the design and building of a full-scale call center for one of the largest non-state owned banks in Shanghai.

UniHub's innovation behind the Hong Kong Government's Smart Identity Card System won an award for Breakthrough Implementation at the Card Technology & Security Technology Annual Exhibition in Washington DC in April 2004. In addition, the system also won a Gold Award in the 6th IT Excellence Awards organized by the Hong Kong Computer Society and the e-Government & Services category of the Asia Pacific Information and Communications Technology Awards in August and December 2004, respectively.

In June 2003, we formed UCITC as a subsidiary co-owned with China Telecommunications Corporation, or China Telecom, to provide IT solutions to large organizations in the PRC. Our subsidiary, in which we hold a 76.43% interest, owns a 50% interest of UCITC. During 2004, UCITC has concentrated its efforts in the telecommunications industry with China Telecommunications Corporation and its related companies as our major customers.

We have interests in a network of Internet data centers with facilities located in Hong Kong, Beijing and Shanghai. These data centers are focused on providing a secure and reliable environment in managed hosting services, security services, network and facilities management and monitoring.

We operate one of Hong Kong's largest data center facilities under Powerb@se, a premium-service brand, which had approximately 1,000 customers at December 31, 2004, including major corporate and public sector institutions requiring mission-critical solutions. Launched in 2000, Powerb@se operates from a purpose-built data center in Quarry Bay, Hong Kong. Powerb@se has earned a Sun Microsystems' SunTone(SM) Certification for service quality and in 2002, UniHub received a British Standards Institution Certificate on Information Security Management System (BS 7799-2). In December 2003, PCCW was named as the Gold Performer in Hosting and Data Center Services by Asia Computer Weekly.

Directories business

We also operate PCCW Directories Limited, or PCCW Directories, an indirect wholly owned telephone directory advertising business in Hong Kong and one of the market leaders in directory publications in Asia. PCCW Directories is the official publisher of the Hong Kong Yellow Pages, White Pages and Fax Directory. It also offers online services, including those operated at 'yp.com.hk'.

In November 2000, we acquired 37.65% of the issued share capital of ChinaBiG Limited, or ChinaBiG, which, through its 80% shareholding in Unicom Yellow Pages Information Co., Ltd., or UYP, operates one of the largest telecommunications online and paper directory advertising businesses in the PRC. Other substantial shareholders of ChinaBiG are China United Telecommunications Corp. (HK) Limited and R.H. Donnelley Inc. In April 2003, we increased our shareholding in ChinaBiG from 37.65% to 62.31% as a result of purchasing additional shares when all shareholders of ChinaBiG were offered an opportunity to subscribe for additional shares in ChinaBiG. Currently, we indirectly own 49.85% of UYP.

In October 2003, PCCW Directories launched three new trade and professional directories targeted at transportation and logistics businesses, industry manufacturers and buyers in the PRC and Hong Kong. A partnership with Yahoo! Hong Kong was formed in January 2004 to further strengthen the online business.

Infrastructure

This business area is principally engaged in the development and management of property and infrastructure projects and owns a property portfolio in Hong Kong and the PRC. It is focused on increasing financial returns from our property assets and also engages in developments such as the Cyberport project now underway in conjunction with the Hong Kong Government.

Infrastructure turnover is principally derived from property development projects and rentals from investment properties leased to third parties, including space leased at Pacific Century Place Beijing and PCCW Tower in Hong Kong. We acquired long-term lease rights in PCCW Tower, a premium office block in Hong Kong, as a result of the acquisition of HKT which was subsequently sold to an independent third party at a consideration of HK\$2,808 million on February 7, 2005.

Infrastructure also provides property management services to third parties and our other businesses, including corporate premises planning, occupancy cost management and project management assignments.

In May 2004, we sold to DFG, a company incorporated in Bermuda and whose shares are listed on SEHK, the property assets and related businesses of our Infrastructure division, comprising Pacific Century Place Beijing, PCCW Tower, Paramount Building and the development rights in Cyberport. The consideration of HK\$6,557 million was satisfied by the issue to us of HK\$2,967 million in shares of DFG, (representing approximately 93.42% of the increased share capital of DFG following such share issue) and HK\$3,590 million in notes convertible into DFG shares. After the sale, DFG was renamed Pacific Century Premium Developments Limited. As at April 30, 2005, we held 61.66% of the issued share capital of PCPD as a result of share disposals in April, October and November, 2004 and the conversion in March 2005 of a HK\$1,170 million convertible note into shares of PCPD, being one of two convertible notes received in the sale to DFG.

As a part of the transaction, we assigned to PCPD approximately HK\$3,529 million in shareholder loans owed to us by members of the Infrastructure division so that these loans are now owed to PCPD. However, the Cyberport Developer continued to owe us an unsecured, non-interest bearing and non-recourse loan of approximately HK\$3,907 million, or Cyberport Loan, as at December 31, 2004 which was used to finance part of the Cyberport project. The Cyberport Loan is repayable on demand. The Cyberport Loan is non-recourse in that PCPD has no obligation under this loan other than to require the Cyberport Developer to repay this in priority to all other debts of the Cyberport Developer. When the Cyberport Loan is repaid, the Cyberport Developer will also pay to us, out of its surplus funds, an amount equal to its audited accounting profit (accrued up to May 10, 2004) in respect of the Cyberport project.

In addition, we granted a right of first refusal to PCPD to jointly redevelop with us certain telephone exchange sites currently held by us under long-term leases if and when such redevelopment rights are obtained by us. Nearly all of the leases relating to such exchanges are special purpose leases granted by the Hong Kong Government which contain restrictions on use and on transfer. See "Item 4.D. Property, Plant and Equipment." We may in the future seek the Hong Kong Government's approval to redevelop certain of these telephone exchange sites for other uses. However, there is no assurance that any such redevelopment rights will be obtained by us and, if obtained, whether the terms of such redevelopment rights would be commercially acceptable to us.

Cyberport

In May 2000, we entered into an agreement with the Hong Kong Government under which we were granted the exclusive right and obligation to design, develop, construct and market the Cyberport, a project located on approximately 24 hectares at Telegraph Bay on Hong Kong Island. The Cyberport consists of specially designed commercial space dedicated to high-technology industries with related retail, residential and recreational facilities. This technology-themed project is being built to create a business environment with which Hong Kong can attract and retain promising information technology and related businesses. The Cyberport contains a wide range of IT facilities including a network operations center, a digital media center and central data exchanges, all connected by an internal private network.

Under the agreement, the Hong Kong Government provided the site, while we are responsible for the provision and procurement of funds to complete the project. We do not acquire or pay for the right to develop the Hong Kong Government's land and, accordingly, we do not have ownership of the site.

The Cyberport project consists of two "portions" each developed in several phases. The "Cyberport Portion" consists of office towers, a retail center, a hotel and ancillary facilities. This portion was turned over to the Hong Kong Government on completion in accordance with our agreement with them. We have no ownership right in the Cyberport Portion and will not receive rental or other income from it.

The first two phases of the Cyberport Portion, consisting of office and rental premises, were completed on schedule in 2002. The rest of the Cyberport Portion, comprising office space, the retail center and the Le Meridien Cyberport Hotel was completed in 2004. The Le Meridien Cyberport Hotel was officially opened on April 20, 2004.

"Bel-Air" is the other portion of the Cyberport project. It consists of approximately 2,800 residential units, and construction commenced in 2002. Phase one was completed in 2004 and the remaining phases are expected to be completed between 2005 and 2008. The development right entitles us to receive a percentage of the surplus proceeds from the sale of Bel-Air. These proceeds will be shared by the Hong Kong Government and us based on a ratio determined by our respective contributions to the Cyberport project as described below. The residential units may be pre-sold prior to their completion. Pre-sales of residential units in the first two phases commenced in early 2003, with all 1,204 residential units being sold. Together with the phases launched in 2004, more than 1,760 residential units had been sold by December 31, 2004.

We have agreed to design, develop and construct the Cyberport project for a maximum fixed cost of approximately HK\$15.8 billion, subject to certain adjustments, in accordance with an agreed timetable. The maximum fixed cost was based on a cost assessment conducted by professional quantity surveyors. We are obligated to fund the entire cost of the Cyberport project, as well as other project expenses, to the extent that these costs and expenses are not funded by the sale or pre-sale proceeds from Bel-Air or other specified project income. We are also obligated to fund certain other expenses and any cost overruns, which include any costs above the maximum fixed cost. Cost overruns and these other expenses must be funded from our own resources and cannot be funded by pre-sale or sale proceeds from Bel-Air or other project income.

We have also agreed to indemnify the Hong Kong Government against certain losses, claims and expenses, and other items, including, for example, any losses caused by or arising as a result of our negligence or a breach by us of our obligations under the project agreement. This indemnity remains in effect following the transfer of our interest in the Cyberport Developer to PCPD. The agreement may be terminated by the Hong Kong Government under certain circumstances, including upon our default on the agreement.

Under the agreement, proceeds from the sale of Bel-Air and other agreed project income will be used to pay (i) construction costs of the Cyberport Portion first, and then construction costs of Bel-Air and (ii) certain other agreed project expenses and other items, all in priorities specified in the agreement. After the payment of these items and setting aside agreed reserves, and after completion of the Cyberport Portion, any surplus proceeds will be shared between the Hong Kong Government and us in accordance with our respective contributions to the Cyberport project.

The Hong Kong Government's contribution is the value of the site for Bel-Air contributed by it as determined under the agreement (approximately HK\$7.9 billion). Our contribution is the aggregate amount of construction cost and other agreed project expenses funded by us out of our own resources. A number of items shall be excluded when calculating our contribution including, for example, (i) funding financed by the pledging of our development right, (ii) any cost overruns and certain other expenses and (iii) any amount funded from Bel-Air sale proceeds or other project income. The respective contribution ratios of PCPD and the Hong Kong Government are approximately 35.5% and 64.5%. Our total investment in the Cyberport project totaled approximately HK\$4,428 million as at December 31, 2004.

In August 2004, the first portion of the surplus proceeds totaling HK\$2,595 million was allocated between the Hong Kong Government and PCPD. PCPD received approximately HK\$920 million in surplus proceeds, which was used to partially repay the Cyberport Loan. We believe that the proceeds from the sale of residential units should be sufficient to fund the future construction costs and project expenses. However, we may have to provide additional funding if such proceeds are not sufficient. The amount of additional funding required may be significant and will depend on a variety of factors including, for example, the timing of pre-sales and sales of the residential units, the demand for and pricing of these residential units and overall costs of, and expenditures relating to, the Cyberport project.

Pacific Century Place, Beijing

We are the majority owner and developer of Pacific Century Place in Beijing, a business, retail and residential complex with a total gross floor area of 212,713 square-meters. It is held as an investment property and leased to third parties. Pacific Century Place Beijing is home to multinational commercial tenants and IBM and Nokia are the major tenants of the two office towers. The development also includes two apartment towers and an approximately 70,000 square-meter shopping arcade.

PCCW Tower

PCCW Tower was completed in 1994 and is part of an office and commercial complex in TaiKoo Place, Quarry Bay, Hong Kong. PCCW Tower includes a portion of the ground to the 3rd floors, the whole of the 4th to the 18th floors, the 20th to 42nd floors, as well as certain basement carparks and the apportioned common areas at PCCW Tower, totaling 620,147 square feet gross floor area. Key tenants include IBM and WPP Marketing.

On February 7, 2005, PCCW Tower was sold by Partner Link, a wholly owned subsidiary of PCPD, for cash consideration of HK\$2,808 million. Pursuant to a deed of rental guarantee, Partner Link guaranteed a net rental of HK\$13,338,000 per month to the purchaser for five years commencing on the closing date of the sale. The purchaser appointed Pacific Century Paramount, another wholly owned subsidiary of PCPD, as the leasing agent and estate manager of PCCW Tower during the term of the deed of rental guarantee. The deed of rental guarantee can be terminated in limited circumstances, for example, if the appointment of Pacific Century Paramount as the leasing agent and estate manager is terminated by the purchaser. Partner Link will receive the actual rents and license fees paid by the tenants and licensees at PCCW Tower, including any amounts above the guaranteed amount. Pursuant to the deed of rental guarantee, Pacific Century Paramount and/or Partner Link is/are responsible for all expenses in respect of PCCW Tower, except for any expenditure of a capital or non-recurring nature, any expenditure for works required by any government department or other competent authority, certain taxes levied on the guaranteed rental and any insurance premium for which the purchaser will remain responsible.

Alliances

We regularly evaluate the potential for ventures and alliances with leading companies that help us best serve our customers, while positioning ourselves for long-term growth in the changing telecommunications environment.

CNC Alliance

On January 19, 2005, we, CNC and CNC (BVI) entered into the CNC Subscription Agreement, whereby China Netcom (BVI) agreed to subscribe for 1,343,571,766 new ordinary shares to be issued by us. The new ordinary shares represented 20% of our enlarged issued share capital. On April 1, 2005, CNC through China Netcom (BVI) completed this subscription and became our second largest shareholder. The proceeds of the subscription were approximately HK\$7,927 million (before deduction of expenses). Subject to our capital investment procedures and the identification of appropriate investment opportunities, we intend to invest up to HK\$5,000 million of these proceeds in telecommunications opportunities in the PRC. The remainder will be used for reducing our debt and general corporate purposes.

Pursuant to the CNC Subscription Agreement, CNC will be entitled to subscribe for additional ordinary shares, securities convertible or exchangeable into ordinary shares and/or any warrants or other rights to subscribe for ordinary shares in order to maintain its percentage ownership in the event of any issuance of these securities by us. The prices and terms upon which CNC will be entitled to subscribe for such additional ordinary shares, warrants or other rights will be the same as third parties subscribers.

Under the terms of the CNC Subscription Agreement, we agreed to nominate Mr. Zhang Chunjiang, Dr. Tian Suning and Dr. Fan Xingcha to our Board of Directors, and they became Directors on April 1, 2005. In addition, Dr. Tian was named Deputy Chairman of the Board, and Mr. Zhang, Dr. Tian and Dr. Fan were named to certain Board committees.

Pursuant to the CNC Subscription Agreement, we have set up a PRC Business Development Committee to advise on possible opportunities for expanding our operations in the PRC and monitor the use of funds allocated and approved by the Board or relevant committee for such opportunities. Subject to our capital investment procedures and the identification of appropriate investment opportunities, we presently intend to seek to invest up to HK\$5,000 million to expand our operations in the PRC. CNC has the right to nominate two out of four members of this committee. We also agreed to establish an investment fund of up to US\$100 million, and to seek third party investors with a view to increasing the size of the fund to US\$300 million. The investment objectives of this fund will be value-added telecommunications services and operations in the PRC. We agreed that we would name a nominee of CNC as Co-Group Managing Director if our operations in the PRC ever constitute a substantial part of our group's operations.

In addition, we and CNC entered into a memorandum on February 24, 2005 setting out the parties' intention to establish special working teams to explore cooperation opportunities in areas including, *inter alia*, broadband media, mobile communications, property development and directory business.

Pursuant to the CNC Subscription Agreement, we are obligated to inform CNC if we intend to enter into certain businesses that would compete with CNC HK and discuss with CNC restructuring the business so that it would not compete with CNC or assist CNC in obtaining a waiver from its non-competition agreement with CNC HK. We also agreed in certain circumstances to discuss with CNC opportunities available to us with any entity licensed to provide fixed-line telecommunications services in the PRC relating to (1) the establishment of new joint ventures in the PRC in relation to (a) certain basic fixed-line telecommunications services which are considered of a strategic nature to us or involve a significant investment by us or (b) non-regulated services which involve a significant investment by us or (2) the disposal of a strategic business in the PRC. We are not bound to enter into any agreement with CNC or any member of the CNC Group as a preferred partner, and are not precluded from discussing or negotiating with any competitors of the CNC Group, or entering into any agreement or arrangement with them provided that we first notify CNC of the opportunity and enter into good faith discussions with CNC if CNC expresses an interest in being our partner in the proposed business development opportunity or disposal. We agreed we would not dispose of certain key assets without CNC's consent.

On January 19, 2005, we also entered into anti-dilution agreements with PCRDL, Pacific Century Diversified Limited, or PCD, and Pacific Century Group Holdings Limited, or PCGH, which granted them similar anti-dilution rights as those granted to CNC. Those anti-dilution agreements were terminated on February 7, 2005, and the CNC Subscription Agreement was amended to reflect the termination of those agreements.

Concurrent with the execution of the CNC Subscription Agreement, CNC also entered into shareholder agreements with each of PCRDL, PCD and PCGH in which each of them individually agreed to a lock-in period with respect to their ordinary shares until April 1, 2006 and to procure, to the extent they are able, to ensure that we comply with our obligations under the CNC Subscription Agreement to nominate persons designated by CNC for the Board and certain Board committees.

Telstra Alliance

In February 2001, we formed a strategic alliance with Telstra, which provided for, among others:

- the merger of our international infrastructure assets with those of Telstra, to create Reach, a 50:50 joint venture and leading wholesale provider of voice, data and Internet communications infrastructure services in the Asia-Pacific region, for which we received US\$1,125 million (approximately HK\$8,775 million) in cash from Reach;
- the purchase by Telstra of a 60% equity interest in RWC, a newly formed company that owns Hong Kong mobile operator Hong Kong CSL Limited contributed by us, for a cash consideration of US\$1,680 million (approximately HK\$13,100 million); and

- the issuance of a variable coupon subordinated convertible bond due 2007 in the principal amount of US\$750 million (approximately HK\$5,850 million) to Telstra.

On June 28, 2002, we entered into an agreement with Telstra relating to the following:

- our sale of our entire 40% equity interest in RWC to Telstra for a purchase price of US\$614 million (approximately HK\$4,792 million);
- our redemption of the outstanding principal amount of the US\$750 million (approximately HK\$5,850 million) convertible bonds due 2007 together with accrued interest of US\$54.38 million (approximately HK\$424 million); and
- our issuance of a US\$190 million (approximately HK\$1,482 million) 5% mandatory convertible note due 2005 to Telstra.

The proceeds from the sale of our interest in RWC and the issue of the convertible note due 2005 were set-off in full against the amount due to Telstra by us for the redemption of the convertible bonds due 2007 with interest accrued thereon. Accordingly, no net proceeds arose from the sale of our interest in RWC.

The convertible note due 2005 will mature on June 30, 2005 (subject to early repayment in certain circumstances) and will be mandatorily converted into our ordinary shares at a conversion price based on the volume weighted average price of our ordinary shares for the 20 dealing days prior to conversion. The convertible note due 2005 is secured by an equitable mortgage over our entire 50% equity interest in Reach.

The effect of the above transactions was to reduce our debt position. The sale of our interest in RWC also aligned with our intention of focusing on core fixed-line, data and Internet protocol services businesses as well as systems integration.

As part of the amendment to the terms of Reach's syndicated term loan facility in April 2003, we redeemed US\$143 million (approximately HK\$1,115 million) of the principal amount of the convertible note due 2005 and issued an amended note in the principal amount of approximately US\$54 million (approximately HK\$421 million) to Telstra. We financed the partial redemption by internal resources and the effect was to reduce our total debt by the same amount. The principal terms of the amended note are substantially the same as those of the convertible note due 2005.

Reach

We contributed the former international communications gateway and exchange and transmission facilities of the HKT group to Reach, in which we continue to hold a 50% interest and equal control with Telstra. Reach provides wholesale international communications infrastructure services, including telephone, data and video communications services, international private leased circuits, virtual private network services and satellite broadcast up-linking and down-linking services.

Reach's regional backbone has been installed within 14 countries and includes submarine cable landing stations in Australia, Hong Kong, Japan, Korea and Taiwan, with connectivity to the United States, Europe, the Middle East, Asia and the Pacific. Reach has interests in more than 40 submarine cable and satellite systems (including the largest satellite teleport in Asia) and landing rights in most major markets including North America, Japan, Singapore, Hong Kong, Australia and Europe.

We have historically been a substantial acquirer of cross-border connectivity services supplied by Reach, and we acquired a significant amount of such capacity from Reach in April 2005. See "Item 5. Operating and Financial Review and Prospects—Overview—Development of Reach."

We and Telstra have equal representation on the board of directors of Reach so long as each party is at least a 35% shareholder. The right to appoint the chairman and deputy chairman rotates every two years so long as each party is a 35% shareholder, with Telstra currently having the right to appoint the chairman. The chairman does not have a second, or deciding, vote. In addition, there are limitations on both Telstra and our abilities to dispose of our

interests in Reach. Until its expiry on February 7, 2004, an agreement between Telstra and us prohibited competition in international, cross-border connectivity infrastructure other than through Reach and also provided limitations to the investments that could be made by either party in related international connectivity infrastructure businesses.

Reach is currently operating under extremely difficult market conditions, largely brought about by slower-than-expected growth in the demand for cross-border connectivity services, intense competition and excess capacity.

On October 13, 2000, HKTC and Reach Networks entered into an international services agreement, or the International Services Agreement, for the provision of international connectivity services between Hong Kong and other countries. The amended terms of the International Services Agreement required HKTC to acquire 90% of our total annual purchases of “Committed Services” (defined as international public switched telephone network terminating access, international transmission capacity and Internet gateway access services) from Reach Networks at rates benchmarked at least annually to prevailing market prices until the repayment of the Reach Term Facility. On April 16, 2005, we agreed with Telstra and Reach on a new operating model under which Reach would operate as an outsourcer of telecommunications network services for our group and the Telstra Group. For further discussions on Reach, see “Item 3.D. Risk Factors—We will be susceptible to risks associated with Reach, our primary international connectivity services provider” and “Item 5. Operating and Financial Review and Prospects—Overview—Development of Reach.”

Petro-CyberWorks Information Technology Company Limited

In February 2002, we signed an agreement with China Petroleum & Chemical Corporation, or Sinopec, to form a business venture focused on providing information technology services in the PRC.

Named Petro-CyberWorks Information Technology Company Limited, or PCITC, the venture’s role is to fully support and facilitate the daily information technology operations of Sinopec. PCITC is expected to benefit from our expertise in systems design and development as well as Sinopec’s experience in project management and operation systems maintenance. At the same time, Sinopec can leverage our technical expertise to promote PCITC’s development.

Based in Beijing, PCITC is also expected to strengthen our presence in the PRC’s telecommunications market, as well as facilitate Sinopec’s strategy of driving its own competitiveness through the enhanced use of information technology.

PCITC also aims to expand into the process manufacturing sector to become a competitive information technology solutions provider and systems integrator in this area, both locally and abroad. PCITC generated turnover of approximately HK\$356 million for the year ended December 31, 2004.

In 2003, PCITC successfully obtained ISO 9001 quality standards certification for its operations. In 2004, PCITC obtained its “Class 2 Qualification for Computer Information System Integrator” from the Ministry of Information Industry in the PRC.

Other Investments

U.K.

We believe the U.K. broadband market has potential for growth, due to a relatively low level of households accessing the Internet via broadband compared to Hong Kong. Our indirect wholly owned subsidiary in the U.K., UK Broadband Limited, or UK Broadband, aims to provide reliable high-speed wireless broadband data and voice services, primarily to residential customers in major U.K. metropolitan areas who require high-speed data access either in a fixed or portable mode. The service offered is differentiated by being easier and quicker to install and competitively priced.

The service was launched in May 2004 and provides coverage in the Thames Valley region of South East England to about 150,000 households. The revenue of phase one from sales of wireless broadband services was approximately HK\$2 million in 2004 compared with nil in 2003. We intend to commence phase two in July 2005, which we estimate will extend the geographical footprint to West London.

Taiwan

We own a 56.56% equity interest in Taiwan Telecommunication Network Services Co., Ltd., or TTNS, a data network service provider holding Type-II Telecom Operator license issued by the Directorate General of Telecommunications, Republic of China. TTNS' products include high-speed packet data using ATM, information networks, IP-VPN and Internet access supported by an extensive fiber-optic network.

We believe TTNS is well positioned to provide mission-critical services to customers across financial, manufacturing and service industries. TTNS' major customers are key financial institutions and large-scale enterprises in Taiwan, including the Over-the-Counter Securities Exchange Center in Taiwan, the Taishin Bank and the Formosa Group. TTNS has also successfully increased its footprint in the consumer market by providing Broadband Internet access.

Japan

In November 2000, we acquired approximately 80% equity interest in JALECO LTD., or JALECO, a JASDAQ listed company (JASDAQ Code: 7954). JALECO focuses predominantly on the development and publishing of console and mobile games. As at April 30, 2005, our interest in JALECO was 79.8% .

During 2003 and 2004, JALECO successfully restructured its gaming business and exited certain legacy businesses.

India

Data Access (India) Limited, or Data Access, was incorporated in 1997 and is headquartered in New Delhi. Its principal business is the provision of international telecommunications services. In November 2003, we reduced our interest in Data Access from 73.99% to 35.4% . We have not been represented on its board of directors since April 2004. PCCL, our indirect wholly owned subsidiary, initiated a winding up petition before the Delhi High Court in relation to Data Access as a result of two unpaid loans owed by Data Access to PCCL. Proceedings are ongoing. See "Item 8A. Consolidated Statements and Other Financial Information—Legal Proceedings."

Sales and Marketing

Commercial Group

The Commercial Group provides integrated communications services to commercial enterprises and the public sector in Hong Kong, as well as to multinational corporations in Asia. Our goal is to enhance our customers' profitability by taking care of their communications needs so they can focus on their core businesses.

The Commercial Group utilizes the aforementioned Business eSolutions, Cascade and contact centers to offer information technology and telecommunications solutions to small to medium-sized enterprises and corporate and global clients. Other channels within the Commercial Group that deliver information technology and telecommunications services are as follows.

The commercial business channel provides total solution communications packages ranging from strategic planning to implementation and maintenance for customers in Hong Kong, including commercial enterprise customers and government departments. The commercial business channel is also responsible for providing wholesale services to telecommunications operators in Hong Kong.

The global and regional business channel serves our multinational corporation customers, including a number of Fortune 500 companies with operations in Asia.

The Commercial Group also provides sales services from offices in the United States (New York and San Francisco) and Europe (London). Its strong Asian presence is demonstrated by its offices in Hong Kong, Beijing, Guangzhou, Kuala Lumpur, Seoul, Shanghai, Singapore, Taipei and Tokyo.

Consumer Group

The Consumer Group is dedicated to understanding the needs and requirements of local consumers to provide innovative products and superior customer service. On an ongoing basis, consumers are sampled by various means, including interviews and surveys, to help us monitor brand health, assess telecommunications trends and new product developments as well as measuring overall customer satisfaction.

Our consumer-focused approach allows us to be responsive to market dynamics. The Consumer Group manages a professional sales team in the Hong Kong market through its retail shops, call centers, roadshows, online shops, catalogues and partnership sales to provide a truly integrated sales channel, offering a unique and convenient experience for our customers.

Retail Shops

Our shops are situated throughout Hong Kong, offering a full range of communications services together with advanced equipment ranging from top of the line computer hardware to fashionable mobile handsets and digital products. These shops have been upgraded with a concept designed to offer an enhanced shopping experience, combining modern decor with a systematic product and service display that encourages interactivity.

In addition to retail shops, PCCW Retail Shops also take our products and services directly to the consumers via various channels, including roadshows, door-to-door direct sales teams and sales booths located in shopping malls and residential areas.

PCCW Retail Shops won the 2004 Service and Courtesy Award from the Hong Kong Retail Management Association.

PCCW Sales Call Center

We operate the largest 24-hour sales call center in Hong Kong, enabling round-the-clock sales and service. Our consultative selling approach addresses customer needs, providing tailored solutions and user-friendly support. Our call center also plays an important role in customer retention, helping to build better relationships with our customers.

In 2004, we won a number of customer service competitions, including the Hotline Service Gold Award from the Hong Kong Association of Customer Service Excellence and the “Best-in-Class” award from the Asia Pacific Customer Service Consortium.

Partnership Sales

This sales team extends the consumer sales channel network to more than 1,000 business agents in Hong Kong. Through this channel, banks, department stores, convenience shops and computer agents offer PCCW phone cards, network services, computer hardware and accessories.

No. 1 Club

We further encourage customer loyalty through our No. 1 Club, a program to recognize and reward our valued individual customers, where eligible members earn No. 1 points based on their spending on our fixed-line, IDD, Internet products, *now* Broadband TV and services and purchases made at our retail outlets.

The Club offers discounts at our shops and special promotions from other merchants to approximately 1 million of our customers. Members can use a dedicated 24-hour hotline and receive notice about our new products and services.

Competition

The implementation of the Hong Kong Government's policy to liberalize the telecommunications industry has resulted in intense competition in the markets for local and international services. Competition from providers of fixed exchange 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. Also, mobile telecommunications prices have declined sufficiently so that customers are now more likely to substitute mobile telecommunications services for residential local exchange services. The market for IDD services originating in Hong Kong is expected to remain extremely competitive. The presence of numerous ETS licensees has provided customers with greater choice with respect to IDD service providers. This has affected our market position in the retail IDD services market. In recent months, there has also been a growth of VoIP services in the market. These services compete with the existing local fixed exchange line and IDD services.

HKTC was the exclusive provider of local fixed exchange line services and facilities in Hong Kong until June 30, 1995. Currently, local fixed exchange line services and facilities are provided by HKTC and by several other competing local wireline-based carriers: Hutchison Global Communications Limited, New World Telecommunications Limited, Wharf T&T Limited and Hong Kong Broadband Network Limited (which also provides wireless local fixed exchange line services).

On January 1, 2003, full liberalization of the local and external FTNS markets took effect following a statement on the issue by the TA on January 11, 2002. Since January 1, 2003, several new operators have been granted local wireline-based FTNS licenses. Under the full liberalization policy, there is no pre-set limit on the number of licenses to be issued and there is no time limit for license applications. However, the TA will not consider granting any fixed carrier licenses to those applicants who intend to primarily rely on interconnection and wholesale services of other operators' infrastructure to roll out their network or provision of their services.

HKTC is required in certain situations to provide telecommunications services to service providers that compete directly with its operations. These services include interconnection and unbundled local loops.

Regulation

Telecommunications Regulatory Framework

The Telecommunications Ordinance provides the legislative framework for the provision of telecommunications services and facilities in Hong Kong. The TA is the principal telecommunications regulator in Hong Kong and is responsible for administering the Telecommunications Ordinance. OFTA was established in 1993 under the Telecommunications Ordinance to assist the TA in administering and enforcing the provisions of the Telecommunications Ordinance.

It is unlawful to establish or maintain any means of telecommunications, or possess, use or deal with telecommunications apparatus in Hong Kong without a license. The TA has the authority to grant licenses for all means of telecommunications services and facilities in Hong Kong, including the provision of fixed wireline, public mobile telephone, Internet and satellite services. It is also responsible for allocating spectrum, regulating interconnectivity between the various networks in Hong Kong and determining the terms of supply of unbundled network elements between carriers. The TA also has the power to make rules relating to the provision of telecommunications network services by licensees and the terms, conditions and rates for interconnection services among operators. Furthermore, the TA has the authority to require a licensee to comply with the terms of its license and any applicable legislation, and to suspend or revoke licenses to enforce the Telecommunications Ordinance or other rules or regulations to protect the public interest.

The Telecommunications Ordinance was amended, effective June 16, 2000, to broaden the application of a number of provisions, which previously applied only to holders of FTNS licenses, to cover all licensed telecommunications operators. These provisions include:

- interconnection and facilities sharing obligations;
- accounting and reporting requirements;
- tariffing requirements;
- prohibitions on anti-competitive practices, including abuse of dominant position; and
- prohibitions on misleading or deceptive conduct.

The amended Telecommunications Ordinance also increases the maximum penalty for breaches of the conditions to the license, the Telecommunications Ordinance or a Direction of OFTA to HK\$1 million (for repeat offenses) and allows OFTA to refer cases to the courts, which will have the power to increase the penalty to the higher of HK\$10 million or 10% of turnover for the relevant telecommunications market during the period of the breach.

The TA is required under the Telecommunications Ordinance to give reasons for its opinions, decisions and determinations (including those relating to the competition provisions). The TA may also issue guidelines to provide practical guidance with respect to provisions of the Telecommunications Ordinance and must conduct public consultation before issuing guidelines. The Telecommunications Ordinance contains a right of appeal from a decision of the TA relating to the competition provisions to the Competition Board. In addition, the amendments provide a right of private action in the event of a breach of the Telecommunications Ordinance or a condition to a license. A judicial review may also be sought.

As a further step to monitor and regulate the telecommunications market, the Hong Kong Government enacted the 2003 Ordinance, in July 2003, which deals specifically with merger and acquisition activities by carrier licensees in Hong Kong's telecommunications sector. The 2003 Ordinance gives the TA the power to review mergers and acquisitions and to direct a carrier licensee to take such actions as the TA sees fit so as to eliminate any anti-competitive effect when there are pre-defined changes in the ownership and control over a carrier licensee if the TA is of the opinion that such change has, or is likely to have, the effect of substantially lessening competition in a telecommunications market without any outweighing public benefits. The TA also has the right to impose additional conditions on the carrier licensee or may unwind the merger or acquisition in whole or in part. Failure to comply with the TA's direction would constitute a breach of the relevant provisions in the 2003 Ordinance. The TA may also impose a financial penalty on the carrier licensee in breach or suspend or revoke its carrier license. A carrier licensee or an interested party may, on a voluntary basis, seek prior approval from the TA for a proposed change in control. A de novo appeal to the Competition Board of the TA's decision is also part of the 2003 Ordinance.

Fixed Telecommunication Network Services

Local fixed exchange line services and facilities are currently provided by HKTC and by several other local carriers. HKTC's non-exclusive FTNS license permits it to provide public fixed telecommunications network services, establish and maintain a telecommunications network and possess and use telecommunications installations in Hong Kong. On January 14, 2005 HKTC exchanged its FTNS license for a new FC licence. The new license reflects a substantial change in the regulation of HKTC and in particular the adoption of an ex post tariff regime where prior TA approval of HKTC's tariff revisions is no longer required. HKTC now notifies the TA of tariff revisions one day before they are effective in the market. The FC license also deleted any language relating to dominance regulation. The FC license may not be transferred without the prior written consent of OFTA and HKTC may not dispose of more than 15% of the assets that constitute its network without the prior written consent of OFTA. In addition, the license requires HKTC to comply generally with the Telecommunications Ordinance which includes provisions relating to anti-competitive conduct.

The special conditions of HKTC's FC license include a Universal Service Obligation, requiring HKTC to provide, maintain and operate its fixed-line telecommunications network in a way which will ensure that good, efficient and continuous basic telephone service is reasonably available to all Hong Kong residents. HKTC receives a Universal Service Contribution, or USC, from other telecommunications operators, in proportion to their respective external traffic minutes and as determined by OFTA from time to time, in order to offset the cost of providing such basic services to customers where such provision would otherwise be uneconomical. The aggregate amount of the USC to which HKTC is entitled has progressively declined following the liberalization of the international telecommunications markets and the increase in its exchange line tariffs implemented in accordance with a framework agreement, or the Framework Agreement, entered into between various members of the HKT group and the Hong Kong Government in 1998.

Exchange line tariffs

Prior to the execution of the Framework Agreement, the Hong Kong Government subjected HKTC to strict price controls on its exchange line tariffs. The TA removed the caps on business exchange line tariffs effective July 1, 1998. In addition, the TA permitted HKTC to increase its residential line rental charge, subject to a price cap, over a period of three years ending January 1, 2001. HKTC increased its monthly charge for residential telephone lines from HK\$68.90 to HK\$90.00 effective September 1, 1999, and from HK\$90 to HK\$110 effective January 22, 2001. As at January 1, 2002, the price caps on maximum residential line tariffs expired. However, all tariff revisions required the TA's prior approval, including revisions for promotions, discounts and service bundles.

On August 8, 2003 and October 22, 2003, HKTC filed applications to OFTA to remove its dominant status in the business and residential exchange line markets, respectively. In relation to these applications, OFTA initiated two consultations in September 2003 and November 2003. Submissions were filed in January and March 2004.

On October 8, 2004, the TA released a consultation paper proposing that due to changed circumstances in the market, including increased competition, HKTC move from ex ante to ex post tariff regulation. Under the proposal, HKTC would not seek the TA's prior approval to revise its tariffs but would do so by way of a notification filing.

On January 13, 2005, the TA released the decision on moving HKTC to an ex post regime which would be implemented by issuing to HKTC a new FC license. The FC license would eliminate the prior approval requirement for tariff revisions, remove language relating to dominance, and remove language redundant with the Telecommunications Ordinance. Tariff notifications would be filed one day before the revisions became effective and would replace the previous prior approval process. Notifications cover discounts, bundles, promotions, and other tariff changes. On January 14, 2005, HKTC exchanged its FTNS license for the new FC license.

External Fixed Telecommunications Network Services

On March 31, 1998, pursuant to the terms of the Framework Agreement, HKTI surrendered its exclusive license to provide all external telecommunications facilities in Hong Kong. In the second half of 1998, OFTA began issuing non-exclusive licenses to third parties to provide external telecommunications services utilizing IPLCs supplied by HKTI, effective January 1, 1999. The Hong Kong Government also announced that competition would be introduced in the market for external facilities from January 1, 2000. The licenses of the FTNS operators were amended on June 19, 1998 to include an authorization to provide external telecommunications services from January 1, 1999 and services via their own external telecommunications facilities from January 1, 2000.

Pursuant to the Framework Agreement, a tripartite FTNS license was issued to HKTI, HKTC and a subsidiary of HKT, allowing the parties to provide both external telecommunications services and facilities.

Upon the establishment of Reach and the acquisition of HKTI by Reach, the tripartite FTNS license held by HKTC, HKTI and a subsidiary of HKT, was individualized effective January 31, 2001 so that separate FTNS licenses were held by HKTC and HKTI, but not by the HKT subsidiary. HKTC's FTNS license authorizes it to provide all local facilities and services and external telecommunications services on a wholesale and retail basis over external telecommunications circuits supplied to it by an authorized licensee. On June 17, 2004 HKTC was authorized to provide its own external facilities. These rights are now part of HKTC's FC license.

Local access charges and delivery fees for international services

Historically, international traffic routes were classified by OFTA as either "Category A" or "Category B" routes. Category A routes are those routes where there is demonstrable price competition for wholesale services. Category B routes were those routes that do not meet the conditions to be classified as Category A. On October 8, 2002, HKTC was declared non-dominant over all international routes. On August 25, 2003, all international routes were re-classified as Category A routes.

Concurrently with the 1999 introduction of International Simple Resale, or ISR, OFTA introduced a local access charge and modified delivery fee system effective January 1, 1999. Local Access Charges, or LAC, and Modified Delivery Fees, or MDF, applied differently to Category A and Category B routes and differed as to whether the calls are incoming to Hong Kong or outbound from Hong Kong. These charges were designed to

replace the then existing subsidy flows from external services to the domestic market. Under these charge arrangements, access fees flow from international service suppliers to domestic service suppliers upon whose network international calls either originate or terminate. The LAC is still a relevant charge.

The ETS operators are also required to pay LAC to HKTC and other FTNS or FC licensees for the delivery of traffic over the local network. Between July 2001 and May 2004, LACs at 12.1 cents and 12.6 cents per minute were charged for outgoing and incoming IDD calls, respectively. For IDD calls via a transit network, LAC was set at 10.6 cents per minute.

On May 4, 2004, OFTA issued a determination of revised LAC rates proposed to be effective June 1, 2004. The revised LAC rates were 8.6 cents and 8.8 cents per minute for outgoing and incoming IDD calls, respectively, and 7.6 cents per minute for IDD calls delivered via a transit network. On May 27, 2004, in response to an application by HKTC, the High Court granted an interim stay of OFTA's LAC determination, pending a judicial review. In June 2004, OFTA filed an application to the High Court to set aside the interim stay, which was denied. HKTC's substantive judicial review application was heard on the merits on September 13 and 14, 2004. On March 30, 2005, the High Court found that the TA lacked the power to make the LAC determination and, accordingly, the LAC determination was unlawful and has been quashed.

Retail international tariffs

HKTC is no longer classified as dominant in the provision of international services, in both IDD and bandwidth services. Nevertheless, it must file maximum tariffs and abide by provisions prohibiting anti-competitive conduct in the Telecommunications Ordinance. As HKTC is classified as a non-dominant operator for these services and operates under maximum tariffs, the prior notification requirements of the new FC license do not attach.

Class license

In-building telecommunications systems are now authorized under a class license regime since 2002. Under this regime, a building's owner is automatically licensed to establish, maintain and operate an in-building telecommunications system within the common parts of a building and to provide telecommunications services within the building. No public telecommunications service can be provided. HKTC, as a fixed telecommunications operator, continues to enjoy the right to building access and to interconnect with in-building systems on a non-discriminatory basis.

The Wireless Local Area Network, or wi-fi, class licensing regime has been in place since February 21, 2003, allowing operators meeting the license criteria to automatically provide wi-fi services that do not cross any public streets. As at November 1, 2004, there were 23 wi-fi class licensees.

Interconnection and Facilities Sharing

Under the Telecommunications Ordinance and the terms of their licenses, HKTC and the other local fixed-line carriers are required to interconnect their services and networks with each other and with those of mobile and international carriers. Interconnection is of two main types: Type I interconnection (i.e., interconnection between network gateways) and Type II interconnection (i.e., unbundling of local loops). The local fixed-line carriers are also required to share certain facilities where the sharing of those facilities is considered to be in the public interest. The TA may intervene if the parties cannot agree on the terms of interconnection or facilities sharing. The TA has powers under section 36B of the Telecommunications Ordinance to direct that interconnection be secured, under section 36A to determine the terms of interconnection and under section 36AA to direct the sharing of facilities. The TA has used these powers in the past and has indicated that he may use them in the future.

Pursuant to various TA policy statements and its license, HKTC commercially entered into Type I interconnection agreements with each of the other FTNS licensees in 1995. Pursuant to these TA policy statements, HKTC also commercially entered into Type II interconnection agreements with each of the other FTNS licensees, licensed in 1995, to provide them access to its narrowband copper local lines between the local exchange and customer sites for voice and premium services (transmission rates up to 144 kilobits per second). These unbundling arrangements allow customers to switch their direct network connection between HKTC and other fixed-line

telecommunications licensees at the HKTC exchanges. The ability to provide direct connection to customers utilizing HKTC's network enhances the potential for other FTNS licensees to provide services to more users.

On May 23, 2003, the Secretary for Commerce, Industry and Technology of the Hong Kong Government initiated a review of the policy on compulsory broadband and narrowband Type II interconnection due to the changing market landscape, the advent of new or improved technologies and the fact that seven years have passed since narrowband unbundling was implemented. On July 6, 2004, the Executive Council adopted a decision to phase out compulsory unbundled local loop by June 30, 2008. For buildings already connected by at least two self-built customer access networks, new customers could be added for two years (the transitional period) followed by a one-year grand-fathering period. For buildings not yet connected by at least two self-built customer access networks, the same timeframe would apply starting from the time the second network connection was established. The entire compulsory period will end on June 30, 2008, regardless of where a specific building is on this timeframe. Buildings meeting an essential facility test would remain subject to compulsory unbundling beyond mid-2008.

Broadband interconnection

On November 14, 2000, the TA issued a statement on the regulatory framework for broadband interconnection, including the principles underlying the determination of broadband unbundled local loop arrangements and interconnection charges. Following the approval of OFTA, on October 19, 2001, we published a new wholesale tariff which sets out the terms and conditions upon which other FTNS licensees can interconnect with HKTC's copper local loops on an unbundled basis to provide broadband services. Prior to the filing and publication of that tariff, two other FTNS licensees (i.e., Wharf T&T Limited and New World Telecommunications Limited) requested that OFTA make a determination regarding the terms, conditions and rates for interconnection to HKTC's broadband access line network. At the end of 2001, OFTA initiated two determination proceedings in response to these requests.

On May 15, 2002, the TA issued a direction to Wharf T&T Limited and us directing HKTC, as an interim measure, to promptly implement broadband Type II interconnection upon request, and HKTC did so per the terms of its tariff as amended in August 2002. Thereafter we sought judicial review of the TA's direction. The hearing of the judicial review challenging the lawfulness of the TA's decision to direct broadband Type II interconnection with Wharf T&T Limited was conducted in March 2004. On June 30, 2004, the High Court found that the TA's direction was unlawful and, on October 4, 2004, made an order quashing the direction. Until compulsory local loop unbundling is phased out by mid-2008, any new directions by the TA to mandate the unbundling of HKTC's broadband network could subject us to additional competition.

As to the determination proceedings, OFTA's Interconnection Determination Committee released its preliminary analyses on February 24, 2003 and HKTC submitted further submissions responding to those preliminary analyses on May 7, 2003. HKTC has also filed a number of notices of appeal and judicial review applications relating to the preliminary analyses and the decisions by the TA not to stop the determination proceedings and not to withdraw the preliminary analyses. Leave to judicially review the decision of the TA not to stop the proceedings was granted and on May 23, 2003, an interim stay of the determinations proceedings was granted and the TA agreed not to act on the determination requests pending the outcome of the Hong Kong Government's review of the policy on broadband and narrowband Type II interconnection. This agreement was reflected in a court consent order made on June 12, 2003 which provided that the interim stay granted by the court on May 23, 2003 would continue in effect.

Since the Executive Council's decision on July 6, 2004 on withdrawing compulsory local loop unbundling, one determination request has been dropped (New World Telecommunications Limited), and we have been involved in a series of bilateral negotiations with all of the relevant FTNS operators on broadband Type II interconnection. We continue to offer broadband unbundled loops per our wholesale tariff, as amended, but not per any TA decisions. Until compulsory local loop unbundling is phased out by mid-2008, any new determinations on the terms and conditions of interconnection could subject us to reduced margins on our narrowband and broadband services.

Interconnection reviews

On March 18, 2002, OFTA published the Interconnection and Related Competition Issues Statement No. 7 (Second Revision) which concluded its review of the interconnection charging principles initially established in 1995. In the Statement, OFTA reconfirmed that in future determinations for Type I and Type II interconnection it would continue to use an LRAIC approach and apply a current cost standard subject to the use of historical cost on certain items (land, building, copper infrastructure pre-1995) to the costing of network assets. On June 18, 2002, OFTA clarified that it would not refer to the costing methodology in the Statement when making broadband Type II interconnection determinations but would consider representations from parties concerned. OFTA also indicated on June 18, 2002 that it would consider in due course whether there was a need to further revise Statement No. 7 to make it applicable to both broadband and narrowband interconnections. This potential revision may result in interconnection charge levels less than those currently in existence and may adversely affect our business, results of operations or financial condition.

On November 12, 2004, OFTA announced that it would review the existing charging methodology, including the continued use of the fully distributed cost, or FDC, standard, for mobile and value added service interconnection to our FTNS network. One option would be to change the FDC standard to the LRAIC standard in line with Type I and Type II interconnection. OFTA also indicated on November 12, 2004 that it would conduct a more comprehensive review of charging arrangements for interconnection between fixed and mobile carriers in the light of fixed and mobile convergence. These reviews may result in interconnection charge levels less than those currently in existence and may adversely affect our business, results of operations or financial condition.

VoIP services

On October 4, 2004, OFTA initiated a consultation on how VoIP services should be regulated. The consultation paper raised issues concerning the licensing of VoIP services and the manner in which such services could be provided. It also dealt with the allocation of telephone numbers and number portability rights, the need to provide any-to-any connectivity, network interconnection and Calling Line Identification, the payment of interconnection charges, and a range of consumer welfare issues. The outcome of the consultation is expected to be announced by the TA in 2005. Depending on how the TA decides to regulate VoIP services, such services could pose a serious competitive threat to HKTC's fixed line and IDD business, resulting in reduced revenues and margins.

Other Telecommunications Services

The conditions of HKTC's new FC license, the provisions of the Telecommunications Ordinance and Statements or Directions from the TA apply to all of HKTC's telecommunications services, including local data services and local leased circuits. These conditions include tariff notification requirements and restrictions on anti-competitive practices.

International Telecommunications Networks

Subject to the overseas regulatory requirements, the construction and operation of telecommunications networks and the provision of telecommunications services in foreign countries may require a variety of permits, licenses and authorizations in the ordinary course of business. In addition to telecommunications licenses and authorizations, we may be required to obtain environmental, construction, zoning and other permits, licenses and authorizations. The construction and operation of telecommunications facilities and the provision of telecommunications services may be subject to regulation in other countries at the national, state, provincial and local levels.

The Internet and Electronic Commerce

The laws relating to the provision of Internet services in the Asia-Pacific region vary substantially from country to country and are undergoing rapid development and change. In countries such as New Zealand, South Korea, Taiwan, Japan, Philippines, Malaysia and the PRC, the regulation of content, intellectual property rights, operation and ownership of telecommunications facilities and the provision of Internet and related services are subject to varying degrees of regulation. Regulatory schemes in each of these countries distinguish among the various types of content and information services, Internet and telecommunication services and other value added services. Some or all of our services may fall under a formal licensing system or may be subject to foreign ownership restrictions, content-based regulations or other legal restrictions. As we continue to expand into international markets, these laws will have an increasing impact on our operations. We do not know whether new or existing laws or regulations could have a material adverse effect on us or our ability to offer some or all of our services in any country.

Internet Service Providers–Licensing

The following is a brief summary of licensing regulations affecting ISPs in some of our key markets.

Hong Kong

Internet access services are “public non-exclusive telecommunication services” which require a Public Non-Exclusive Telecommunications Service, or PNETS, license issued by OFTA. PNETS licenses are renewable annually on payment of a nominal fee to OFTA, subject to any terms or conditions specified by OFTA. There were 186 PNETS licenses for the operation of Internet access services as at April 3, 2005. The licenses are not transferable without OFTA’s prior written consent. Under the Telecommunications Ordinance, OFTA may suspend, cancel or withdraw a telecommunications license upon a breach by the licensee of the Telecommunications Ordinance or the terms and conditions of its license. In addition, the Chief Executive in Council may suspend or cancel a telecommunications license at any time if he considers that it is in the public interest to do so.

Taiwan

Under Taiwanese law, ISPs must obtain a Type II license from the Directorate General of Telecommunications, a division under the Ministry of Transportation and Communications to regulate the telecommunications sector. There are no foreign ownership restrictions on Type II enterprises. However, ISPs engaging in Internet backbone have to lease international circuits from fixed telecommunications network operators.

Telecommunications Regulations in the PRC

On April 1, 2002, the PRC issued a catalogue and regulations for guiding foreign investment, which lists the industries in which foreign investment is encouraged, restricted or prohibited. If no similar industry can be found, specific opinion on the permissibility of foreign investment in such industry must be obtained from the Ministry of Commerce. Telecommunications services have been moved from the prohibited category to the restricted category, which means that foreign companies will have a limited ability to invest in such industries subject to satisfaction of certain qualification requirements and compliance with application procedures of the Ministry of Information Industry and other governmental agencies.

A number of new rules and regulations have been issued by the Ministry of Information Industry with the intention to set up a proper legal framework governing the telecommunication industry, among which the Telecom Business Operation Licence Administration Rules and Telecom Business Classification Catalogue are of particular significance. Effective January 1, 2002, the Telecom Business Operation Licence Administration Rules set out the qualification requirements applicable to any telecommunications business operator conducting telecommunications business in the PRC and relevant license application and administration procedures. To further regulate the telecommunication business, the new Telecom Business Classification Catalogue, effective April 1, 2003 and slightly adjusted in January 2004, divides each of the basic telecommunications services and value-added telecommunications services into category I and II, respectively, for ease of supervision and administration. Telecommunications services which have a close relationship with national security and/or are of important economic significance are allocated to category I while those having relatively lower impact on the market fall into category II.

On June 15, 2004, the State Administration of Radio Film and Television passed the Administrative Rules for Broadcasting Audio and Video Programs on Internet-like Information Networks which was effective October 11, 2004. Operators may broadcast television, radio and other audio and video programs on the Internet subject to licensing. It is expected that certain mainland operators will receive licences and commence to provide such services on the Internet in 2005.

World Trade Organization

In accordance with the above catalogue and regulations, basic telecommunications services (which include fixed-line and mobile voice and data services, and domestic and international services) will be gradually opened to

foreign participation up to a maximum of 49%. Value-added telecommunications services (which include paging services, internet access, internet content provision and internet data centers) will be gradually opened to foreign participation up to a maximum of 50%. Additionally, geographical restrictions are imposed upon such activities for the first six years from the PRC's accession to the WTO.

However, even with the above new regulations, there are still ambiguities in these laws and regulations and uncertainties as to interpretation. Therefore, it is possible that interpretation and enforcement of such laws and regulations may change.

The PRC and Hong Kong Closer Economic Partnership Arrangement, or CEPA

The PRC and Hong Kong signed the main parts of CEPA and the six annexes on June 29, 2003 and September 29, 2003, respectively, which set out the main details of CEPA. Key liberalization measures under CEPA came into effect on January 1, 2004, and both sides have agreed to consider further liberalization measures in the future. Broadly speaking, the liberalization measures permit earlier access for Hong Kong service suppliers to the PRC market, ahead of the PRC's World Trade Organization timetable. Both sides entered into the CEPA in order to strengthen trade and investment cooperation between the PRC and Hong Kong and promote joint development of both sides, through the implementation of the following measures:

- progressively reducing or eliminating tariff and non-tariff barriers on substantially all trade in goods between the two sides;
- progressively achieving liberalization of trade in services through reduction or elimination of substantially all discriminatory measures; and
- promoting trade and investment facilitation.

As committed in Annex 4 to CEPA (Specific Commitments on Liberalization of Trade and Services), which applies to value added telecommunications services, effective October 1, 2003, the PRC allows Hong Kong service suppliers to establish joint venture enterprises in the PRC to provide the following five types of value-added telecommunications services as defined in the Telecom Business Classification Catalogue: Internet data center services, store and forward services, call center services, Internet access services and content services. Hong Kong service suppliers' share of ownership in the above joint venture enterprises should not exceed 50% and there is no geographic restriction for the joint venture enterprises engaging in the value-added telecommunications services mentioned above.

To benefit from CEPA, a service supplier will first need certification from the Hong Kong Government that it qualifies as a Hong Kong service supplier. Afterwards, a Hong Kong service supplier may then apply to the PRC authorities for the entitlements provided under CEPA.

On February 13, 2004, PCCW Teleservices (Hong Kong) Limited, our indirect wholly owned subsidiary, was granted a CEPA certificate for the provision of value-added telecommunications services in the PRC under CEPA, which expires on February 12, 2006.

Internet Content

There is currently a small but growing body of laws and regulations in various jurisdictions directly applicable to Internet content. Due to the increasing popularity and use of the Internet, it is likely that a growing number of laws and regulations will be adopted in various jurisdictions with respect to user privacy, freedom of expression, intellectual property rights and information security. Some governments, including those of the PRC, Malaysia and Singapore, block websites whose content breaches their standards. Problematic content generally consists of political speech, pornography and any content that may be deemed to have the effect of harming the society or the culture of a country, as such concepts are defined by the regulators.

C. Organizational Structure

We are a holding company for the following significant subsidiaries as at December 31, 2004:

| Name of company | Place of incorporation | Equity interest attributable to PCCW |
|---|------------------------|--------------------------------------|
| PCCW-HKT Limited | Hong Kong | 100% |
| PCCW-HKT Telephone Limited | Hong Kong | 100% |
| PCCW-HKT Business Services Limited | Hong Kong | 100% |
| PCCW-HKT Consumer Services Limited | Hong Kong | 100% |
| PCCW-HKT Network Services Limited | Hong Kong | 100% |
| PCCW-HKT Products & Services Limited | Hong Kong | 100% |
| PCCW Teleservices (Hong Kong) Limited | Hong Kong | 100% |
| PCCW-HKT Technical Services Limited | Hong Kong | 100% |
| PCCW VOD Limited (now known as PCCW Media Limited) | Hong Kong | 100% |
| PCCW Teleservices Operations (Hong Kong) Limited | Hong Kong | 100% |
| Cascade Limited | Hong Kong | 100% |
| PCCW IMS Limited | Hong Kong | 100% |
| Pacific Century Systems Limited | Hong Kong | 100% |
| Corporate Access Limited | Cayman Islands | 100% |
| BtN Access (HK) Limited | Hong Kong | 100% |
| Beyond The Network Limited | Hong Kong | 100% |
| PCCW (Beijing) Limited | The PRC | 100% |
| Omnalink Technology Limited | British Virgin Islands | 76.43% |
| Unihub China Information Technology Company Limited | The PRC | 38.22% |
| Unihub Limited | Hong Kong | 100% |
| PCCW Business eSolutions Limited | Hong Kong | 100% |
| PCCW Powerbase Data Center Services (HK) Limited | Hong Kong | 100% |
| Power Logistics Limited | Hong Kong | 100% |
| PCCW Directories Limited | Hong Kong | 100% |
| ChinaBiG Limited | Hong Kong | 62.31% |
| Pacific Century Premium Developments Limited | Bermuda | 51.07% |
| Cyber-Port Limited | Hong Kong | 51.07% |
| JALECO LTD. | Japan | 79.80% |
| Taiwan Telecommunication Network Services Co., Ltd. | Taiwan | 56.56% |
| UK Broadband Limited | U.K. | 100% |

D. Property, Plant and Equipment

Our properties consist primarily of our telecommunications network assets located in Hong Kong and our investment properties located in Hong Kong and the PRC. The table below shows the net book value of our fixed assets at December 31, 2004.

| | Net Book Value |
|-----------------------------|----------------|
| | (HK\$ million) |
| Investment properties | 5,184 |
| Land and buildings | 2,859 |
| Exchange equipment | 4,306 |
| Transmission plant | 4,865 |
| Other plant and equipment | 2,390 |
| Projects under construction | 642 |
| Total | 20,246 |

Our principal plant and equipment consists of transmission plant and exchange equipment (including switches, computer hardware, back-up power plant, etc.) and connecting lines (including cable ducting, copper and fiber optic cabling and poles). As at December 31, 2004, the total gross floor area of our owned operating facilities is approximately 250,750 square meters. In addition, we occupy approximately 33,350 square meters of leased

premises. Leasehold land and buildings principally consist of local telephone exchanges, which in certain cases include engineering facilities or administrative offices, technical and administration centers and data center and Internet web hosting facilities. Nearly all of the leases relating to such exchanges and centers are special purpose leases granted by the Hong Kong Government which contain restrictions on their use for other purposes and on their transfer. The majority of these leases do not expire before 2025. Land and buildings with aggregate carrying value of approximately HK\$33 million were pledged as security for certain of our bank borrowings as at December 31, 2004. We consider that our properties, plant and equipment are suitable and adequate for the provision of our range of telecommunications services.

Our investment properties (which are described under “Item 4.B. Business Overview–Infrastructure”) include our headquarters building, PCCW Tower in Hong Kong, which is held on a long-term lease, and Pacific Century Place in Beijing, which is held on a medium-term lease. The total gross floor area of our investment properties is approximately 202,341 square meters and 1,066 car park spaces. We did not pledge any of our investment properties as collateral for our bank borrowings as at December 31, 2004. On February 7, 2005, PCCW Tower was sold by Partner Link, a wholly owned subsidiary of PCPD, for cash consideration of HK\$2,808 million.

We also hold leasehold land in Hong Kong for development purposes and hold properties under development for investment and sale. None of the properties under development for investment was pledged as security for our bank borrowings as at December 31, 2004.

We are also developing the Cyberport project in Hong Kong and the provision of the NETVIGATOR wireless broadband service in the U.K. which are described in Item 4.B. above.

We are subject to various environmental laws. Compliance with such laws has not, and in our opinion, is not expected to have, a material adverse effect upon our utilization of the assets, capital expenditures, earnings or competitive position.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion and analysis are based on, and should be read in conjunction with, our consolidated financial statements and related notes included elsewhere in this annual report. Our consolidated financial statements have been prepared in Hong Kong dollars in accordance with HK GAAP and applicable local laws and regulations. HK GAAP differs in certain material respects from US GAAP. These differences are described in note 43 to our consolidated financial statements.

Overview

We are the largest telecommunications service provider in Hong Kong and one of Asia’s leading integrated communications companies, with turnover for the year ended December 31, 2004 of HK\$22,895 million. We have transformed ourselves from a predominantly Internet-focused business into a broad-based integrated communications company. The foundation for this transformation came with our acquisition of HKT, which became effective on August 17, 2000. As a result, our audited consolidated results include the results of HKT since August 17, 2000.

In addition to the financial performance described in the following discussion and analysis, our management also reviews key performance indicators for each of our business segments. These include the numbers of our exchange lines in service, IDD traffic volumes, the quantity of international bandwidth sold, the numbers of broadband and narrowband Internet access customers, as well as our market share for each of these performance indicators. See “Item 4.B. Business Overview.”

Business Segments

Our business comprises the following principal segments:

- *Telecommunications Services, or TSS*—We are Hong Kong’s leading provider of fixed-line telecommunications services, which include local telephony, IDD, Internet access, pay television and multimedia content.

- *Business eSolutions*—We offer systems integration, applications development, network integration and application-management services, IT solutions, business broadband Internet access, directories businesses, hosting and facilities management services and Internet data centers within Hong Kong and the PRC.
- *Infrastructure* covers our property portfolio in Hong Kong, such as the Cyberport development, and in the PRC, which is principally held by PCPD. We had a 61.66% interest in PCPD as at April 30, 2005.
- *Others* includes our overseas and other investments.

In addition, through a strategic alliance with Telstra, we own a 50% interest in Reach, which provides wholesale international communications infrastructure services primarily within the Asia-Pacific region. We sold our remaining 40% equity interest in RWC to Telstra on June 28, 2002. See “Item 4.B. Business Overview—Alliances—Telstra Alliance.”

Impact of the Liberalization of Hong Kong’s Telecommunications Markets

Our business is strongly influenced by the regulatory regime applicable to telecommunications service providers in Hong Kong and a number of structural changes that resulted from the liberalization of Hong Kong’s telecommunications market.

International Competition. International facilities-based competition was introduced from January 1, 2000, which enabled licensed carriers to install their own international facilities and enabled service providers to purchase wholesale switched minutes and leased circuit capacity from international carriers other than HKTI. Together with further reductions in international accounting rates, international facilities-based competition has had the effect of reducing further the retail and wholesale prices for international calls and bandwidth on certain routes. Consequently, the turnover for both outgoing and incoming services has been adversely affected.

Domestic Competition. Competition in the domestic fixed-line market has intensified since 2000. This was primarily due to five factors:

- relative price differentials between our products and services and those of our competitors;
- local network buildouts by our competitors;
- the continuation by the regulator of a local loop unbundling policy;
- the regulation of HKTC as a dominant service provider with the result that HKTC was unable to flexibly price its services; and
- increasing substitution of mobile service for fixed-line service.

This situation has caused our share of the domestic fixed-line market to decrease, adversely affecting turnover from these services.

On January 14, 2005, we exchanged our FTNS license for an FC license. The primary change is our move from an “ex ante” tariff regime (where TA prior approval of all of our tariff revisions was required) to an “ex post” tariff regime (where we give the TA notice one day before we effectuate a tariff revision, such as a discount, promotion or bundle). See “4.B. Business Overview—Regulation.”

During the past years, we successfully sought reform of the Hong Kong Government’s policies that we believe have unfairly restricted our ability to compete, in particular the compulsory provision of unbundled local loops to our competitors and the regulation of HKTC as a dominant service provider. See “Item 4.B. Business Overview—Regulation.”

Development of Reach

Reach continues to operate in a difficult environment and the industry is expected to remain challenging for some time. Prices for international voice and data carriage have been falling and the growth in usage has not been sufficient to compensate for the loss in revenue caused by the price reductions.

We and Telstra have historically been substantial acquirers of cross-border communications infrastructure services supplied by Reach, and we acquired a significant amount of such capacity from Reach in April 2005 as referred to below. Without access to these services, our business could suffer in the short to medium term, particularly if a market recovery should occur and suppliers of such services were to take advantage of stabilizing prices and resurgent demand. Demand from the two shareholders amounted to approximately one-third of Reach's overall business during 2004 and 2003, with the remaining two-thirds from other regional and international carriers.

Our purchase of international connectivity services from Reach Networks for the year ended December 31, 2004 was approximately HK\$855 million compared to approximately HK\$1,036 million and HK\$1,443 million in 2003 and 2002, respectively.

In view of the continuing difficult and volatile trading conditions in which Reach operates, we announced on February 20, 2003 that we had performed a preliminary review of Reach in accordance with the requirements of SSAP 31—"Impairment of assets", to ascertain whether there had been an impairment in the total investment cost in Reach as at December 31, 2002. Based on the results of this review, we believed that an impairment loss of HK\$8,263 million should be recognized for the goodwill attributable to our investment in Reach and such amount was included in the consolidated loss attributable to our shareholders for the year ended December 31, 2002. In 2003, we conducted a further impairment assessment of our interests in Reach and made a full provision for impairment of our entire interest in Reach as at December 31, 2003, including the amounts paid by us under the Capacity Prepayment Agreement, and a loss of HK\$4,159 million was recognized in our consolidated income statement for the year ended December 31, 2003.

Amendment of the US\$1,500 Million Syndicated Term Loan Facility in 2003. On April 15, 2003, Reach and its lenders amended the terms of Reach's US\$1,500 million (approximately HK\$11,700 million) syndicated term loan facility effective April 25, 2003. The key elements of the amendments were:

- Rescheduling of the principal amount outstanding so that, instead of being repayable in three installments in February 2004, 2006 and 2008, respectively, it was repayable in a single payment on December 31, 2010;
- Prepayment by a wholly owned subsidiary of Reach of US\$300 million (approximately HK\$2,340 million), thereby reducing the principal amount outstanding to US\$1,200 million (approximately HK\$9,360 million), together with the retention of US\$50 million (approximately HK\$390 million) which is to be deposited by a wholly owned subsidiary of Reach into a separate account and which would be available for use by members of Reach for possible future working capital and interest payment purposes;
- Interest on the remaining loan would be at the London inter-bank offered rate, or LIBOR, plus 250 basis points, with a step up from January 1, 2008 to 350 basis points unless the balance of the loans has been reduced to less than US\$900 million (approximately HK\$7,020 million);
- Removal of all financial ratio covenants;
- Excess cash flow of Reach would be shared between the lenders under the amended loan facility (who will receive 50% of such excess cash flow), in the form of early repayment of the principal amount outstanding and us and Telstra (who will each receive 25% of such excess cash flow), in the form of reducing the outstanding capacity prepayments (see "Capacity Prepayment Agreement" below), after which excess cash flows will be directed to repayment of the remaining principal amount outstanding; and
- Certain subsidiaries of Reach were required to provide security to the lenders under the amended loan facility. The amended loan facility will remain non-recourse for us and Telstra.

Refinancing arrangement in 2004. On June 17, 2004, we and Telstra agreed to purchase the entire outstanding portion of US\$1,200 million (approximately HK\$9,360 million) of the debt under the Reach Term Facility for approximately US\$311 million (approximately HK\$2,425 million) in consideration for, among other things, the complete release of all of the obligations of the Reach Group, and certain related parties of the Reach Group, by the lenders under the facility. We and Telstra paid equal proportions of approximately US\$155.45 million (approximately HK\$1,213 million) to purchase this debt on June 18, 2004. The Reach Term Facility will be repayable in full by Reach on December 31, 2010. The interest payable under this facility will be LIBOR plus 250 basis points. The interest payable on the purchased debt was suspended for six months after June 18, 2004 and agreed to be LIBOR plus 250 basis points following such period. While the consideration paid by us for the purchase of the Reach Term Facility was approximately US\$155.45 million, Reach's indebtedness to us with respect to that debt, referred to herein as the PCCW Shareholder Loan, remained at approximately US\$600 million which, with interest outstanding, amounted to US\$608 million as at March 18, 2005.

As part of the refinancing arrangement of Reach, on June 17, 2004, we and Telstra agreed to provide Reach with the Reach Working Capital Facility. We and Telstra will each contribute up to US\$25 million (approximately HK\$195 million) to this facility. The facility will be payable in full by Reach on December 31, 2007. The interest payable under this facility will be LIBOR plus 250 basis points. Our purchase of the debt under the Reach Term Facility and our contribution to the Reach Working Capital Facility was funded from our internal resources.

Capacity Prepayment Agreement. On April 15, 2003, we, HKTC and Telstra entered into the Capacity Prepayment Agreement with Reach and certain of its subsidiaries in accordance with the terms of existing connectivity agreements with Reach Networks and to each make a payment of US\$143 million (approximately HK\$1,115 million) (in aggregate US\$286 million (approximately HK\$2,231 million)) for the pre-purchase of capacity to be used in the future. The payments (which will be compounded to reflect the time value of money) are to be applied against the cost of the services and capacity supplied to Telstra and us by the Reach Group as and when the Reach Group has available surplus cash in accordance with a prescribed formula. Because it was uncertain when, if ever, Reach would have available surplus cash in accordance with such prescribed formula, we have fully written off this asset in 2003. This agreement was amended and restated on June 17, 2004 in connection with the purchase of the outstanding debt under the Reach Term Facility by Telstra and us. As at March 31, 2005, an amount of US\$143 million plus interest outstanding of US\$12 million was due by the Reach Group to us under the Capacity Prepayment Agreement.

Establishment of a new operating model for Reach and restructuring of Reach's debt in 2005. On April 16, 2005, we agreed with Telstra and Reach on a new operating model under which Reach would operate as an outsourcer of telecommunications network services for our group and the Telstra Group.

To implement this new operating model, a capacity allocation agreement, or the Capacity Allocation Agreement, was entered into by us, PCCW Communications (Singapore) Pte Ltd, or PCCW Communications, our indirect wholly owned subsidiary, Telstra and Reach Global Networks Limited, or Reach Global, a wholly owned subsidiary of Reach. Pursuant to the Capacity Allocation Agreement, PCCW Communications and Telstra each agreed to acquire indefeasible rights to use the Reach Group's international undersea cable capacity. Each of PCCW Communications and Telstra paid Reach Global US\$157 million for such capacity, which in our case, was settled by way of set-off against the equivalent amount outstanding under the PCCW Shareholder Loan, and not by way of new cash injections.

PCCW Communications and Telstra also agreed to each assume one half of Reach's committed future expenditure in order to support growth in their own retail services. PCCW Communications' share of this expenditure over the 17-year period from March 2005 to 2022 is expected to be approximately US\$106 million. PCCW Communications and Telstra will only assume any additional future capital expenditure if such expenditure is approved by both PCCW Communications and Telstra. The obligations of PCCW Communications under the Capacity Allocation Agreement are guaranteed by us.

Certain members of our group, the Telstra Group and the Reach Group also entered into a debt and asset restructure deed, or the Reach Debt and Asset Restructure Deed, whereby the consideration of US\$157 million payable by each of PCCW Communications and Telstra under the Capacity Allocation Agreement was set-off against, in our case, the equivalent amount outstanding under PCCW Shareholder Loan. In addition, interest of

US\$6 million due by Reach to our group was waived, and US\$445 million of the remaining balance of the PCCW Shareholder Loan was capitalized by way of the issue of shares in Reach to Pacific Century Cable Holdings Limited, or PCCHL, our wholly owned subsidiary and holder of our interest in Reach since Reach's formation. After the issue of Reach shares, PCCHL continues to hold 50% of the issued share capital of Reach. Following the set-off and capitalization referred to above, Reach's aggregate indebtedness to us was reduced to US\$155 million. Our group and Telstra jointly have charges over Reach's assets in relation to this outstanding amount and Telstra's outstanding amount.

Further, pursuant to a network services agreement, or the Reach Network Services Agreement, Reach will provide to our group and the Telstra Group certain outsourcing services in relation to the international undersea cable capacity allocated by way of the grant of indefeasible rights to use as described above.

Reach has ceased to pursue sales of data services to third parties, and data services will be sold to third parties directly by our group and the Telstra Group. Reach will continue to provide voice and satellite services to our group and the Telstra Group, as well as to third parties.

All definitive agreements relating to the arrangements described above were entered into on April 16, 2005, but the effective date of such arrangements was March 1, 2005.

As part of the arrangements relating to the establishment of the new operating model for Reach, the International Services Agreement was terminated pursuant to the provisions of the Reach Network Services Agreement, and our obligations under the Capacity Prepayment Agreement have been satisfied under the Reach Debt and Asset Restructure Deed.

For risks related to Reach, see "Item 3.D. Risk Factors—We will be susceptible to risks associated with Reach, our primary international connectivity services provider."

Debt Financing

As at December 31, 2004, we continued to deleverage and reduced net debt¹ by 10% to HK\$26,200 million as at December 31, 2004 from HK\$29,131 million as at December 31, 2003.

For more detailed descriptions of our major borrowings, see below "Liquidity and Capital Resources—Debt Financing."

Credit Ratings of HKTC

As at December 31, 2004, HKTC had investment grade ratings with a stable outlook from Moody's Investors Service, or Moody's, (Baa2) and Fitch Ratings (BBB+). In August 2004, Standard and Poor's Ratings Services, or S&P, placed the rating on HKTC (BBB) on CreditWatch with developing implications following our announcement of our potential strategic alliance with CNC. In January 2005, all three rating agencies affirmed their ratings on HKTC following our joint announcement with CNC on the strategic alliance.

Description of Certain Items in Consolidated Financial Statements

Turnover

Turnover from TSS consists of turnover from local telephony services, turnover from local data services, turnover from international telecommunications services and turnover from other services:

- Turnover from *local telephony services* consists of turnover from local exchange line services, value-added services and interconnection and network access services for traffic carried for other local operators and service providers. Interconnection fees include fees for the delivery of traffic and fees for the physical interconnection of facilities as determined by OFTA or by commercial agreements between us and other local carriers.

¹ This measure is defined and reconciled to a GAAP measure in Appendix A of this section.

- Turnover from *local data services* consists of turnover from the provision of data and network services, wholesale broadband access lines, retail consumer Internet access services and pay television services utilizing our fiber optic network and digital subscriber line technology.
- Turnover from *international telecommunications services* consists of turnover from retail IDD, retail international data services and delivery fees for the origination and termination of international calls on our network.
- Turnover from *other services* consists primarily of turnover from the sale of network equipment, CPE and connectivity products, fees for technical and maintenance subcontracting services and income from our contact centers unit.

Turnover from *Business eSolutions* consists of turnover from provision of IT services under the new brand name “UniHub”, retail business broadband Internet access services and our directories businesses, PCCW Directories in Hong Kong and ChinaBiG in the PRC. During 2002, our Internet data center operations were integrated into the Business eSolutions segment.

Turnover from *Infrastructure* consists of amounts received and receivable from sales of properties, amounts received and receivable from rental of investment properties and turnover from property entrustment work and management.

Turnover from *Others* includes turnover from our businesses in Taiwan, JALECO, Internet services and UK Broadband.

Eliminations consists of turnover from transactions between or across different business segments.

See note 5(a) of our consolidated financial statements.

Cost of Sales

Cost of sales consists of costs for international voice and data services primarily to Reach and its affiliates, disbursements for international interconnection services to other operators for access to, and use of, their networks and certain costs related to promotional programs. Cost of sales also includes cost of CPE sold, cost of content for our *now* Broadband TV and Internet media services, computer hardware and software and labor costs for our Business eSolutions business, cost of property sold and cost of infrastructure work completed for our Cyberport project. Certain construction and establishment costs of the Cyberport project previously capitalized were recognized as cost of sales during 2003.

General and Administrative Expenses

The principal components of general and administrative expenses include staff costs, repair and maintenance costs, rent, rates and utilities, publicity and promotion, professional and consulting fees and subcontracting costs.

Profit/(Loss) from Operations

Profit/(loss) from operations is profit/(loss) after deducting cost of sales, general and administrative expenses, provisions for impairment losses, restructuring costs and adjusted for other income and net gains on investments.

Adjusted EBITDA

Adjusted EBITDA represents earnings before interest, taxation, depreciation, amortization, gain or loss on disposal of fixed assets, net gains on investments, provisions for impairment losses, restructuring costs, impairment losses on interests in jointly controlled companies and associates, net losses on disposal of interests in RWC and MobileOne, other income and our share of results of jointly controlled companies and associates. While adjusted EBITDA is commonly used in the telecommunications industry worldwide as an indicator of operating performance, leverage and liquidity, it is not presented as a measure of operating performance in accordance with HK GAAP and should not be considered as representing net cash flows from operating activities. The computation of our adjusted EBITDA may not be comparable to similarly titled measures of other companies. Adjusted EBITDA is reconciled to GAAP measures in Appendix A of this section.

Other Recent Developments

Subscription by CNC

On April 1, 2005, pursuant to the CNC Subscription Agreement, China Netcom (BVI) subscribed for 1,343,571,766 new ordinary shares in us at a price of HK\$5.90 per share, representing approximately 20% of our enlarged issued share capital. The proceeds of the subscription were approximately HK\$7,927 million (before deduction of expenses). Subject to our capital investment procedures and the identification of appropriate investment opportunities, we intend to invest up to HK\$5,000 million of these proceeds in telecommunications opportunities in the PRC. The remainder will be used for reducing our debt and general corporate purposes. Under the terms of the CNC Subscription Agreement, CNC has been granted certain rights, including the right to nominate three Directors and anti-dilution rights.

Sale of PCCW Tower

On February 7, 2005, PCCW Tower was sold by Partner Link, a wholly owned subsidiary of PCPD, for cash consideration of HK\$2,808 million. Pursuant to a deed of rental guarantee, Partner Link guaranteed a net rental of HK\$13,338,000 per month to the purchaser for five years commencing on the closing date of the sale. The purchaser appointed Pacific Century Paramount, another wholly owned subsidiary of PCPD, as the leasing agent and estate manager of PCCW Tower during the term of the deed of rental guarantee. The deed of rental guarantee can be terminated in limited circumstances, for example, if the appointment of Pacific Century Paramount as the leasing agent and estate manager is terminated by the purchaser. Partner Link will receive the actual rents and license fees paid by the tenants and licensees at PCCW Tower, including any amounts above the guaranteed amount. Pursuant to the deed of rental guarantee, Pacific Century Paramount and/or Partner Link is/are responsible for all expenses in respect of PCCW Tower, except for any expenditure of a capital or non-recurring nature, any expenditure for works required by any government department or other competent authority, certain taxes levied on the guaranteed rental and any insurance premium for which the purchaser will remain responsible.

Critical Accounting Policies under HK GAAP

The preparation of our financial statements requires management to select and apply significant accounting policies and to make estimates and judgments that affect our reported financial condition and results of operations. Notwithstanding the presentation of our principal accounting policies in note 2 to our consolidated financial statements presented elsewhere herein, we believe the following are some of our most critical accounting policies in presenting our financial statements in accordance with HK GAAP.

Revenue Recognition

Telecommunications services revenues based on usage are recognized when the services are rendered. Telecommunications revenues for services provided for fixed periods are recognized on a straight-line basis over the respective periods. We are required to exercise considerable judgment in revenue recognition particularly in the areas of customer discounts, billing reserves for pricing changes, customer disputes and revenue reserve for special customer agreements. Significant changes in management estimates may result in material revenue adjustments.

Infrastructure segment revenues include income arising from the pre-sale of properties under development. This revenue is recognized on the percentage of construction completion basis when legally binding unconditional sales contracts are signed and exchanged, provided that the construction work has progressed to a stage where the ultimate realization of profit can be reasonably determined and on the basis that the total estimated profit is apportioned over the entire period of construction to reflect the progress of the development. In this regard, the pre-sales of Bel-Air of the Cyberport project commenced in early 2003. We have made certain assumptions concerning the state of completion of properties subject to pre-sale and the estimated costs to be incurred to completion that could be material to our financial statements.

Depreciation and Amortization

We have significant property, plant and equipment and intangibles comprising goodwill and other intangibles acquired through the purchases of various subsidiaries, particularly HKT. We are required to estimate the useful lives of property, plant and equipment and intangibles in order to ascertain the amount of depreciation and amortization charges for each reporting period. A significant amount of these assets have estimated useful lives that extend beyond ten years.

The useful lives are estimated at the time these purchases are made after considering the future technology changes, business developments and our strategies. Should there be unexpected adverse changes in the circumstances or events, we would be required to assess the need to shorten the useful lives and/or make impairment provisions. Indications of these unexpected adverse changes include declines in projected operating results, negative industry or economic trends, rapid advancement in technology and significant downturn in our stock price.

Deferred Taxation

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

Impairment of Assets

At each balance sheet date, we review internal and external sources of information to identify indications that fixed assets, investments in subsidiaries, associates and jointly controlled companies, intangible assets and goodwill may be impaired or an impairment loss previously recognized no longer exists or may have decreased. If such an indication exists, the asset's recoverable amount is estimated. An impairment loss is recognized in the income statement whenever the carrying amount of an asset exceeds its recoverable amounts.

The sources utilized to identify indications of impairment are often subjective in nature and require us to use judgment in applying such information to our businesses. Our 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 our telecommunications and infrastructure businesses in Hong Kong.

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

Provisions

We recognize provisions when we have a present obligation (legal or constructive) as a result of a past event and we believe it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The recording of provisions requires the application of judgments about the ultimate resolution of these obligations. As a result, provisions are reviewed at each balance sheet date and adjusted to reflect our current best estimate.

Retirement Scheme Costs

In computing retirement scheme costs, we must make numerous assumptions about such things as employee mortality and turnover, expected salary and wage increases, discount rates, expected return on scheme assets and expected future economic cost increases. Two of these items, discount rate and expected rate of return on scheme assets, generally have the most significant impact on the level of cost.

Changes in any of the assumptions made in computing the retirement scheme costs could have an impact on various components that comprise these expenses. Factors to be considered include the strength or weakness of the investment markets, changes in the composition of the employee base, fluctuations in interest rates and significant employee hirings and downsizings.

Critical Accounting Policies under US GAAP

In addition to the above accounting policies, in connection with the preparation and reconciliation of our financial statements in accordance with US GAAP, we believe the following additional accounting policies are critical. See “–Differences Between Hong Kong (HK) and United States (US) GAAP.”

Goodwill and Intangible Assets with Indefinite Lives

We adopted Statement of Financial Accounting Standards, or SFAS, No. 142, “Goodwill and Other Intangible Assets”, on January 1, 2002 and ceased to amortize goodwill and intangible assets with indefinite useful lives. SFAS No. 142 requires that goodwill and other indefinite lived intangible assets be tested for impairment at least annually using a two-step approach at the reporting unit level. The first step screens for potential impairment if the fair value of the reporting unit, including goodwill and intangible assets, is less than its carrying value. The determination of fair value of each reporting unit, which requires significant judgment, is generally based on the present value of future cash flows. The second step measures the amount of impairment by comparing the fair values to the book values of the reporting units’ goodwill and intangible assets. The fair value of goodwill is determined based upon the differences between the fair value of the reporting unit and the net of the fair values of the identifiable assets and liabilities of the reporting unit. The fair value of indefinite lived intangible assets is determined based on expected discounted future cash flows. If the fair value of goodwill and other indefinite lived intangible assets are less than their book values, the differences are recorded as impairment charges.

Upon adoption of SFAS No. 142, we carried out an assessment of impairment of goodwill as at January 1, 2002. The implied carrying value of goodwill was derived from allocating the fair values of the reporting units to identifiable tangible and intangible assets of those reporting units as if a purchase price allocation using the fair value of the reporting units as the purchase consideration had occurred on January 1, 2002. We have also performed an annual impairment review as at December 31, 2002 and thereafter. In performing the impairment assessment as at January 1, 2002 as well as the annual impairment assessments thereafter, the determination of fair value of reporting units, identifiable assets and liabilities is a critical element of the process. We may determine such fair values utilizing internal resources or we may engage external advisors to counsel us in making the determinations. Regardless of the resources utilized, we are required to make significant judgments and assumptions on, among others, the use of assets, cash flows to be generated, projected market and regulatory conditions and appropriate market discount rates. Changes in any of these assumptions could result in a material change to estimates of the fair value of goodwill and intangible assets with indefinite lives which would impact the amount of impairment charges recorded.

Impairment of Intangible Assets with Finite Useful Lives and Other Long-lived Assets

We review intangible assets with finite useful lives and other long-lived assets, including property, plant and equipment, for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability of assets is measured by comparing the sum of the future undiscounted cash flows derived from an asset or a group of assets to their carrying value. If the carrying value of the asset or the group of assets exceeds the sum of the future undiscounted cash flows, impairment is considered to exist. If an impairment is considered to exist on the basis of undiscounted cash flows, the impairment charge is measured using an estimation of the assets’ fair value, typically using a discounted cash flow method or, when necessary or required,

market based valuations. The identification of impairment indicators, the estimation of future cash flows and the determination of fair values for assets or groups of assets require management to make significant judgments and assumptions concerning the identification and validation of impairment indicators, expected cash flows and applicable discount rates or control premiums. Changes in assumptions could significantly affect our operating results.

Deferred Taxation

Under US GAAP, we have recorded a valuation allowance to reduce the deferred tax assets to an amount that we believe is more likely than not to be realized. In assessing the need for the valuation allowance, we considered future taxable income and ongoing prudent and feasible tax planning strategies. In the event that our estimates of projected future taxable income and benefits from available tax strategies are changed, or changes in current tax regulations are enacted that would impact the timing or extent of our ability to utilize the tax benefits of net operating loss carryforwards in the future, adjustments to the recorded amount of net deferred tax assets and taxation expense would be made.

Derivatives Fair Value

Derivative financial instruments, mainly including instruments used in our strategy to manage our exposures to fluctuations in interest rates, foreign currencies and prices of investments in equity securities and derivatives embedded in certain contracts, are recorded at fair value. Unrealized gains and losses for those derivatives which do not qualify as hedges under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", are reflected in earnings. Fair values are based on listed market prices, where possible. If listed market prices are not available, fair value is based on other relevant factors, including banker price quotations and price quotations for similar instruments traded in different markets. Fair values for certain derivative contracts are derived from pricing models that consider current market and contractual prices for the underlying financial instruments, as well as time value and yield curve or volatility factors underlying the positions.

Pricing models and their underlying assumptions impact the amount and timing of unrealized gains and losses recognized and the use of different pricing models or assumptions could produce different financial results. To the extent financial contracts have extended maturity dates, our estimates of fair value may involve greater subjectivity due to the low level of availability of transparent market data upon which to base modeling assumptions.

Results of Operations

We describe below our results of operations for the three years ended December 31, 2004, 2003 and 2002.

Basis of Presentation

The financial data presented in the table below has accounted for our 50% interest in Reach under HK GAAP using the equity method of accounting since Reach's formation in February 2001. In 2004, we did not recognize any profit or loss from Reach because we have written down our interest in Reach to zero at the end of 2003. Our 40% interest in RWC was accounted for using the equity method of accounting until its disposal on June 28, 2002. Even though we only hold an effective 38.2% interest of UCITC, we account for UCITC as a consolidated subsidiary because we control UCITC.

Consolidated Profit and Loss

| | For the year ended December 31, | | |
|--|--|-------------|-------------|
| | 2004 | 2003 | 2002 |
| | (HK\$ million) | | |
| HK GAAP | | | |
| Turnover | 22,895 | 22,550 | 20,112 |
| Operating profit before net gains on investments, provisions for impairment losses and restructuring costs | 4,066 | 4,339 | 5,212 |
| Gains on investments, net | 461 | 407 | 13 |
| Provisions for impairment losses | (40) | (2,452) | (534) |
| Restructuring costs | (51) | (38) | (311) |
| Profit from operations | 4,436 | 2,256 | 4,380 |
| Finance costs, net | (1,929) | (2,117) | (1,997) |
| Share of results of jointly controlled companies | (4) | (891) | 550 |
| Share of results of associates | 152 | 65 | 281 |
| Impairment losses on interests in jointly controlled companies and associates | (16) | (4,464) | (8,263) |
| Losses on disposal of interests in RWC and MobileOne, net | - | - | (1,433) |
| Profit/(Loss) before taxation | 2,639 | (5,151) | (6,482) |
| Taxation | (981) | (1,165) | (1,406) |
| Profit/(Loss) after taxation | 1,658 | (6,316) | (7,888) |
| Minority interests | (20) | 216 | 126 |
| Profit/(Loss) for the year attributable to shareholders | 1,638 | (6,100) | (7,762) |

Operating profit before net gains on investments, provisions for impairment losses and restructuring costs was derived by reducing turnover by cost of sales and general and administrative expenses, as set forth in the table below.

| | For the year ended December 31, | | |
|--|--|-------------|-------------|
| | 2004 | 2003 | 2002 |
| | (HK\$ million) | | |
| HK GAAP | | | |
| Turnover | 22,895 | 22,550 | 20,112 |
| Cost of sales | (10,531) | (8,730) | (5,295) |
| General and administrative expenses | (8,298) | (9,481) | (9,605) |
| Operating profit before net gains on investments, provisions for impairment losses and restructuring costs | 4,066 | 4,339 | 5,212 |

Consolidated Results for Year ended December 31, 2004 Compared To Year ended December 31, 2003

The table below sets forth financial data with respect to turnover by business unit and adjusted EBITDA, excluding Reach, for the years ended December 31, 2004 and 2003.

| | For the year ended December 31, | | Increase/ (Decrease) |
|----------------------------------|--|-----------------------|---------------------------------|
| | 2004 | 2003 | |
| | (HK\$ million) | (HK\$ million) | |
| Turnover | | | |
| TSS | 15,227 | 16,572 | (8)% |
| Business eSolutions | 2,701 | 2,326 | 16% |
| Infrastructure | 5,863 | 4,600 | 27% |
| <i>Infrastructure ex-Bel-Air</i> | 448 | 489 | (8)% |
| <i>Bel-Air</i> | 5,415 | 4,111 | 32% |
| Others | 372 | 426 | (13)% |
| Eliminations | (1,268) | (1,374) | (8)% |
| Total Turnover | 22,895 | 22,550 | 2% |

For the year ended December 31,

| | 2004 | 2003 | Increase/ (Decrease) |
|---|-------------------|-------------------|-------------------------|
| | (HK\$ million) | (HK\$ million) | |
| Cost of sales | (10,531) | (8,730) | 21% |
| Operating expenses | (5,812) | (6,448) | (10)% |
| Depreciation and amortization | (2,542) | (2,888) | (12)% |
| Gain/(Loss) on disposal of fixed assets | 56 | (145) | NA |
| Operating profit ⁽¹⁾ | 4,066 | 4,339 | (6)% |
| Adjusted EBITDA | 6,552 | 7,372 | (11)% |
| Adjusted EBITDA Margin | 29% | 33% | (4)% |

(1) Operating profit before net gains on investments, provisions for impairment losses and restructuring costs.

Turnover

Total turnover increased 2% to HK\$22,895 million in 2004 primarily due to a 32% increase in turnover from sales of Bel-Air to HK\$5,415 million and a 16% increase in turnover of our Business eSolutions segment to HK\$2,701 million. This was largely offset by a 8% decrease in turnover of our TSS segment to HK\$15,227 million and a 13% decrease in turnover of our Others segment to HK\$372 million.

Telecommunications Services, or TSS

The table below sets forth the unaudited financial data with respect to turnover of TSS for the years ended December 31, 2004 and 2003:

For the year ended December 31,

| | 2004 | 2003 | Increase/ (Decrease) |
|---|-------------------|-------------------|-------------------------|
| | (HK\$ million) | (HK\$ million) | |
| Local Telephony Services | 5,303 | 6,024 | (12)% |
| Local Data Services | 4,386 | 4,396 | 0% |
| International Telecommunications Services | 2,385 | 2,970 | (20)% |
| Other Services | 3,153 | 3,182 | (1)% |
| Total Turnover | 15,227 | 16,572 | (8)% |

Turnover from TSS decreased by 8% to HK\$15,227 million in 2004 from HK\$16,572 million in 2003. The decrease was primarily due to the continuing competition in the Hong Kong telecommunications market and the significant downward pricing pressure for international telecommunications services.

Local Telephony Services. Local telephony services turnover decreased by 12% to HK\$5,303 million in 2004 from HK\$6,024 million in 2003. This primarily reflected a reduction in the overall number of direct exchange lines in service we operate and lower interconnection fee turnover due to a rate reduction determined by OFTA which became effective in October 2003.

There are a number of challenging factors that have caused our market share to decline. These factors include increasing liberalization of the fixed-line market since 1995, and further full liberalization since the beginning of 2003; competition from other fixed-line operators; substitution by broadband access lines and wireless telecommunications services; and, until recently, the softening of the Hong Kong economy. We continue to enhance and market innovative products to retain and win-back fixed-line customers. For example, the functionalities of NGFL services have been enhanced, and 969,000 exchange lines were signed up by the end of 2004. Net exchange line loss reduced from 359,000 in 2003 to 212,000 in 2004.

The decline in the number of direct exchange lines in service we operated during 2004 was due to a combination of factors, including continuing competition from other fixed-line operators and users substituting exchange lines with broadband access lines and wireless telecommunications services.

According to industry statistics provided by OFTA and our estimates, the total number of direct exchange lines in the fixed line market contracted by approximately 1.1% in 2004 as compared to 0.6% in 2003. At the end of 2004, we operated approximately 2,567,000 direct exchange lines with an overall market share at 68%, 67% in the residential sector and 69% in the business sector. As at December 31, 2003, we had approximately 2,779,000 direct exchange lines with 73% total market share, 73% in the residential sector and 73% in the business sector. The total number of our residential exchange lines decreased to approximately 1,423,000 as at December 31, 2004 from approximately 1,543,000 as at December 31, 2003, and the total number of our business exchange lines in service decreased to approximately 1,144,000 as at December 31, 2004 from approximately 1,236,000 as at December 31, 2003.

Local Data Services. Local data services turnover decreased slightly to HK\$4,386 million in 2004 from HK\$4,396 million in 2003. This decrease was primarily due to severe pricing pressure in the provision of local area and wide area (LAN and WAN) corporate networks, and high-speed, high-volume data transmissions from mobile telephone operators and Internet service providers. This decrease was partially offset by an increase in turnover from broadband internet access services and now Broadband TV services. Total broadband access lines grew by 13% to 796,000, and now Broadband TV services installed reached 361,000 as at December 31, 2004 from 147,000 services as at December 31, 2003.

International Telecommunications Services. International telecommunications services turnover decreased by 20% to HK\$2,385 million in 2004 from HK\$2,970 million in 2003. The international telecommunications markets for both voice and data services continued to be intensely competitive in 2004, with a decrease in retail prices more than offsetting increased traffic volumes. Retail outgoing IDD minutes increased 13% to 1,383 million minutes in 2004 from 1,226 million minutes in 2003. IPLC bandwidth sold increased by 278% to 6,020 Megabits per second, or Mbps, in 2004 compared to 1,592 Mbps in 2003. Unit prices of IPLC, IDD and other international data products were lower than those in 2003, which were in line with the global market trend. Delivery fee revenue also dropped due to a rate reduction as determined by OFTA effective June 2004.

Other Services. Other services turnover decreased by 1% to HK\$3,153 million in 2004 from HK\$3,182 million in 2003. This was mainly due to a decline in customer premise equipment sales revenue which was partially offset by an increase in technical consultancy and network operation outsourcing services revenue generated by Cascade.

Business eSolutions (including UniHub)

The table below sets out the financial performance of Business eSolutions for the years ended December 31, 2004 and 2003:

For the year ended December 31,

| | 2004 | 2003 | Increase/ (Decrease) |
|---------------------------|---------------------------|---------------------------|---------------------------------|
| | (HK\$ million) | (HK\$ million) | |
| UniHub business | 1,865 | 1,525 | 22% |
| Retail business broadband | 547 | 530 | 3% |
| Directories business | 289 | 271 | 7% |
| Total Turnover | 2,701 | 2,326 | 16% |

Business eSolutions turnover increased by 16% to HK\$2,701 million in 2004 from HK\$2,326 million in 2003, primarily due to turnover attributable to the UniHub business, including the business from UCITC, our subsidiary co-owned with China Telecommunications Corporation established in 2003. Turnover from our retail business broadband and directories businesses also increased by 3% and 7%, respectively.

Infrastructure

Infrastructure turnover increased by 27% to HK\$5,863 million in 2004 from HK\$4,600 million in 2003. The significant increase in Infrastructure turnover primarily reflected sales of Bel-Air and higher average sales prices due to a more favorable property market condition. In May 2004, we sold to DFG the property assets and related businesses of our Infrastructure division in exchange for a controlling interest in DFG, which we renamed Pacific Century Premium Developments Limited. See “Item 4. Information on our Company B. Business Overview–Infrastructure.”

We recorded turnover from pre-sales of Bel-Air of HK\$5,415 million in 2004 compared to HK\$4,111 million in 2003, based on the percentage of completion method. During 2004, more than 560 residential units were pre-sold, generating US\$1.15 billion of sales proceeds. Construction of Bel-Air commenced in 2002. Phase one was completed in 2004 and the remaining phases are expected to be completed between 2005 and 2008. For further discussions of Cyberport, see “Item 4. Information On Our Company B. Business Overview–Infrastructure–Cyberport.”

Others and Eliminations

Turnover from Others primarily included turnover from the Group’s businesses in Taiwan and Japan. We continued to streamline certain loss-making businesses including the gaming business in Japan. Thus, turnover from Others decreased 13% to HK\$372 million.

Eliminations decreased to HK\$1,268 million in 2004 from HK\$1,374 million in 2003 and were predominantly related to internal charges for communications services consumed, IT support and computer system network charges, customer support services and rental between our business units.

Cost of Sales

Total costs of sales for the year ended December 31, 2004 increased 21% to HK\$10,531 million from HK\$8,730 million for the year ended December 31, 2003 due to an increase in the cost of properties sold in connection with the Cyberport project, an increase in cost of sales in relation to UniHub business in the PRC, including the subsidiary co-owned with China Telecom, and an increase in marketing and customer acquisition costs of new products and services, such as *now* Broadband TV and NGFL services. Certain construction and establishment costs of the Cyberport project previously capitalized were recognized as costs of sales during the year reflecting sales of Bel-Air.

General and Administrative Expenses

The table below sets forth unaudited financial data for general and administrative expenses for the years ended December 31, 2004 and 2003:

For the year ended December 31,

| | 2004 | 2003 | Increase/ (Decrease) |
|--|-------------------|-------------------|-------------------------|
| | (HK\$ million) | (HK\$ million) | |
| Staff compensation expense | 2,903 | 3,150 | (8%) |
| Repair and maintenance | 358 | 423 | (15%) |
| Other general and administrative expenses | 2,551 | 2,875 | (11%) |
| General and administrative expenses before depreciation and amortization | 5,812 | 6,448 | (10%) |
| Depreciation and amortization | 2,542 | 2,888 | (12%) |
| (Gain)/Loss on disposal of fixed assets | (56) | 145 | NA |
| General and administrative expenses | 8,298 | 9,481 | (12%) |

General and administrative expenses before depreciation and amortization decreased 10% to HK\$5,812 million in 2004 from HK\$6,448 million in 2003 by streamlining certain loss making businesses, including the gaming business in Japan, improving corporate overhead efficiency and overall productivity level, and restructuring our

defined benefit schemes. We recognized development costs for our wireless broadband network business in the U.K., which offset a portion of the savings in total general and administrative expenses.

Staff compensation expense decreased by 8% to HK\$2,903 million in 2004 from HK\$3,150 million in 2003 due to restructuring our defined benefit schemes and a slight decrease in the number of employees.

The table below sets forth the number of our employees in each of our principal business segments for 2004 and 2003:

| | Year ended December 31, | |
|--|--------------------------------|---------------|
| | 2004 | 2003 |
| TSS | 8,772 | 8,897 |
| Business eSolutions ⁽¹⁾ | 2,046 | 2,229 |
| Infrastructure | 455 | 365 |
| Others ⁽²⁾ | 975 | 1,019 |
| Total | 12,248 | 12,510 |
| Total (excluding part-time/temps) | 11,928 | 12,013 |

(1) Business eSolutions includes IT business provided under UniHub, retail business broadband and our directories businesses.

(2) Others primarily includes corporate functions, our business in Taiwan, JALECO, UK Broadband and Internet services.

Other general and administrative expenses primarily included rent, rates and utilities; publicity and promotion expenses; professional and consulting fees and subcontracting costs. Other general and administrative expenses decreased by 11% to HK\$2,551 million in 2004 from HK\$2,875 million in 2003, primarily due to decreases in professional and consulting fees, subcontracting costs, lower data processing charges and fewer bad debts.

Adjusted EBITDA

Adjusted EBITDA² decreased approximately 11% to HK\$6,552 million in 2004 from HK\$7,372 million in 2003, primarily attributable to the lower adjusted EBITDA contribution from TSS, partially offset by a more significant contribution from Infrastructure as a result of sales of Bel-Air and a reduction in adjusted EBITDA loss from our business in Japan and from cost savings in corporate overhead.

Adjusted EBITDA² margin decreased to approximately 29% for 2004 as compared to 33% in 2003, primarily due to a lower TSS adjusted EBITDA margin as a result of the change in business mix and the marketing and customer acquisition costs in relation to the new products and services incurred in 2004. The decrease in TSS margin was partially offset by a higher margin contribution from sales of Bel-Air in 2004 as compared to 2003.

Depreciation and Amortization

Depreciation and amortization decreased 12% to HK\$2,542 million in 2004 compared to HK\$2,888 million in 2003.

Operating Profit Before Net Gains on Investments, Provisions for Impairment Losses and Restructuring Costs

Operating profit before net gains on investments, provisions for impairment losses and restructuring costs decreased by 6% to HK\$4,066 million in 2004 from HK\$4,339 million in 2003 for the reasons described above.

²Adjusted EBITDA and adjusted EBITDA margin are defined and reconciled to GAAP measures in Appendix A of this section.

Net Gains On Investments

We had a net gain on investments of HK\$461 million in 2004 compared to a net gain of HK\$407 million in 2003, primarily reflecting:

- gain on disposal of PCPD shares, net of expenses of HK\$563 million and gain on deemed disposal of interest in subsidiaries of HK\$72 million in 2004 compared to zero in 2003; and
- a provision for impairment of investments of HK\$187 million in 2004 compared to HK\$258 million in 2003.

In 2003, there was a gain on termination and amendment of the terms of cross currency swap contracts of HK\$532 million, but no similar gain in 2004.

Provisions for Impairment Losses

Provisions for impairment losses decreased to HK\$40 million in 2004 from HK\$2,452 million in 2003. Provisions of HK\$40 million made in 2004 were primarily due to a write off of obsolete network assets of HK\$29 million and goodwill of certain of our subsidiaries of HK\$11 million. In 2003, provisions of HK\$2,452 million were made primarily to reflect technology developments and market changes that affected our businesses. See “–Consolidated Results for Year ended December 31, 2003 Compared to Year ended December 31, 2002.”

Restructuring Costs

Restructuring costs increased to HK\$51 million in 2004 from HK\$38 million in 2003. Restructuring costs mainly represent severance payments in 2004 due to closing down certain facilities and relocating certain operations to the PRC. In 2003, they also included the write-off of development costs and inventories related to the restructuring of JALECO’s on-line game and game development businesses.

Profit from Operations

We recorded a profit from operations of HK\$4,436 million in 2004 compared to HK\$2,256 million in 2003.

Finance Costs

Finance costs decreased 9% to HK\$1,929 million in 2004 from HK\$2,117 million in 2003, in line with the 10% decrease in our net debt. In 2003, we moved the majority of debt from floating to fixed rates. As at December 31, 2004, weighted average maturity was about six years. As a result, average cost of debt, calculated as total interest, including financing fees, over average debt outstanding, increased to 6.1% in 2004 from 5.6% in 2003. The balance also included arrangement fees and facility fees expensed of approximately HK\$154 million in 2004 compared with HK\$246 million in 2003 incurred in respect of our bank loans and other long-term borrowings.

Share of Results of Jointly Controlled Companies

Share of loss of jointly controlled companies was HK\$4 million in 2004 compared to a share of loss of HK\$891 million in 2003. In 2004, we did not recognize any profit or loss from Reach because we had written down our interest in Reach to zero at the end of 2003 compared with our share of loss before tax of HK\$821 million in 2003.

Share of Results of Associates

Share of profit of associates increased to HK\$152 million in 2004 from HK\$65 million in 2003. This was primarily due to the profit from our investment in MobileOne.

Impairment Losses on Interests in Jointly Controlled Companies and Associates

Impairment losses on interests in jointly controlled companies and associates decreased to HK\$16 million from HK\$4,464 million in 2003. We performed an assessment of the fair value of our interest in Reach, including the related goodwill that had previously been eliminated against reserves, as at December 31, 2003. As a result, we

made a full provision for impairment of our previously unimpaired interest in Reach, recognizing an impairment loss of approximately HK\$4,159 million. Accordingly, our total interest in Reach, including the amounts paid by us under the Capacity Prepayment Agreement, was written down to zero as at December 31, 2003. In addition, due to losses, as at December 31, 2003, we performed an assessment of the carrying value of our interest in a jointly controlled company engaged in the on-line game business. Based on the results of the assessment, we made a full provision for impairment in our interest, recognizing an impairment loss of approximately HK\$227 million.

Taxation

Our tax charge decreased by 16% to HK\$981 million in 2004 compared to HK\$1,165 million in 2003. This decrease was primarily due to over provision of profits tax and reversal of deferred tax. Our effective tax rate for the year ended December 31, 2004 was 36%, excluding the provisions for impairment losses and the impairment losses on interests in jointly controlled companies and associates. Under the current tax system in Hong Kong, there is no group loss relief on Hong Kong and overseas operating losses. Furthermore, our financing costs, to the extent that they are attributable to the acquisition of HKT and other companies, are not tax deductible.

HKTC has been in dispute with the IRD regarding the deductibility of certain interest payments totaling HK\$1,708 million in the current and previous year's tax computations. Subsequent to the balance sheet date, HKTC received additional assessments totaling HK\$240 million as a result of disallowance by the IRD of the interest payments in dispute. The directors consider that their grounds for claiming the deduction are reasonable and will lodge a formal objection to the IRD against the additional assessments and accordingly no provision for taxation has been made in our financial statements.

Minority Interests

Profit attributable to minority interests was HK\$20 million in 2004 compared with a loss attributable to minority interests of HK\$216 million in 2003. The profit in 2004 was primarily due to profits from PCPD.

Profit/(Loss) for the Year Attributable to Shareholders

Profit attributable to shareholders for the year was HK\$1,638 million in 2004 compared to a loss of HK\$6,100 million in 2003 primarily due to the significant asset and investment impairment losses recorded and operating loss picked up from Reach in the previous year.

Highlights of Reach

| | Year ended December 31, | | | | | |
|--|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| | 2004 | | | 2003 | | |
| | (HK\$ million) | (HK\$ million) | (HK\$ million) | (HK\$ million) | (HK\$ million) | (HK\$ million) |
| | (HK GAAP (Unaudited)) | (HK GAAP (Unaudited)) | (US GAAP (Unaudited)) | (HK GAAP (Unaudited)) | (HK GAAP (Unaudited)) | (US GAAP (Unaudited)) |
| Turnover | 6,300 | 808 | 808 | 7,036 | 902 | 902 |
| PCCW's 50% share of (loss)/profit before tax, excluding impairment | – | – | NA | (821) | (105) | NA |

In February 2001, we formed Reach, a 50:50 venture between Telstra and us, which merged the respective international infrastructure assets of both shareholders. Reach provides wholesale voice, data and Internet connectivity services in the Asia-Pacific region. We contributed the international wholesale business to Reach at cost.

During 2003, we performed a further impairment assessment of our interests in Reach and, as a result, made a decision to make a full provision for impairment of our entire interest in Reach and a loss of HK\$4,159 million was recognized in 2003. Accordingly, our total interest in Reach, including the amounts paid by us under the Capacity Prepayment Agreement, was written down to zero as at December 31, 2003.

Reach generated total turnover of HK\$6,300 million in 2004 compared to HK\$7,036 million in 2003, and a loss before tax and excluding impairment in 2004 of HK\$208 million compared with HK\$1,678 million in 2003. In 2004, we did not recognize any profit or loss from Reach because we had written down our interest in Reach to zero at the end of 2003.

Reach continues to operate in a difficult environment and the industry is expected to remain challenging for some time. Prices for international voice and data carriage have been falling and the growth in usage has not been sufficient to compensate for the loss in revenue caused by the price reductions. Reach is continuing to focus on core business and cost containment. In addition a suite of new IT systems platforms have been progressively introduced to enhance operational performance and customer satisfaction.

On April 15, 2003, Reach entered into an agreement with its lenders to amend the terms of the Reach Term Facility. On June 17, 2004, we and Telstra agreed to purchase from the syndicate of banks the entire outstanding portion of US\$1,200 million of the debt under the Reach Term Facility for approximately US\$311 million (approximately HK\$2,425 million) and we purchased 50% of this debt for approximately US\$155.45 million (approximately HK\$1,213 million) on June 18, 2004. Also, on June 17, 2004, we and Telstra agreed to provide Reach with the Reach Working Capital Facility, with each of us contributing up to US\$25 million (approximately HK\$195 million) to this facility. On April 16, 2005, we agreed with Telstra and Reach on a new operating model under which Reach would operate as an outsourcer of telecommunications network services for our group and the Telstra Group. For further details on the new operating model for Reach, see “—Overview—Development of Reach.”

We have historically been a substantial acquirer of cross-border connectivity services supplied by Reach. Through HKTC, we and Reach were parties to a Hong Kong domestic connectivity agreement (as amended) and were parties to the International Services Agreement (as amended), for the provision of domestic and international connectivity services in Hong Kong and between Hong Kong and other countries. We made purchases pursuant to the amended International Services Agreement of approximately HK\$855 million in 2004 compared to approximately HK\$1,036 million in 2003. The International Services Agreement was terminated in connection with the implementation of the new operating model for Reach in April 2005, as described above.

For further details on Reach, see “—Overview—Development of Reach.”

Consolidated Results for Year ended December 31, 2003 Compared To Year ended December 31, 2002

The table below sets forth financial data with respect to turnover by business unit and adjusted EBITDA, excluding Reach, for the years ended December 31, 2003 and 2002.

For the year ended December 31,

| | 2003 | 2002 | Increase/ (Decrease) |
|---|---------------------------|---------------------------|---------------------------------|
| | (HK\$ million) | (HK\$ million) | |
| Turnover | | | |
| TSS | 16,572 | 18,007 | (8)% |
| Business eSolutions | 2,326 | 2,234 | 4% |
| Infrastructure | 4,600 | 685 | 572% |
| <i>Infrastructure ex-Bel-Air</i> | 489 | 685 | (29)% |
| <i>Bel-Air</i> | 4,111 | — | — |
| Others | 426 | 793 | (46)% |
| Eliminations | (1,374) | (1,607) | (14)% |
| Total Turnover | 22,550 | 20,112 | 12% |
| Adjusted EBITDA | 7,372 | 8,120 | (9)% |
| Depreciation and amortization | (2,888) | (2,832) | 2% |
| Loss on disposal of fixed assets | (145) | (76) | 91% |
| Operating Profit⁽¹⁾ | 4,339 | 5,212 | (17)% |
| Adjusted EBITDA Margin⁽²⁾ | 33% | 40% | |

(1) Operating profit before net gains on investments, provisions for impairment losses and restructuring costs.

(2) Turnover from Bel-Air was HK\$4,111 million in 2003 compared to zero in 2002. The adjusted EBITDA margin of Bel-Air was negligible in 2003. This caused our adjusted EBITDA margin to decrease in 2003 compared to 2002. Excluding the impact of Bel-Air, our adjusted EBITDA margin in 2003 was stable compared to 2002.

Turnover

Total turnover increased 12% to HK\$22,550 million in 2003 primarily due to a 572% increase in turnover of our Infrastructure segment to HK\$4,600 million and a 4% increase in turnover of our Business eSolutions segment to HK\$2,326 million. This was partially offset by a 8% decrease in turnover of our TSS segment to HK\$16,572 million and a 46% decrease in turnover of our Others segment to HK\$426 million.

Telecommunications Services, or TSS

The table below sets forth the unaudited financial data with respect to turnover of TSS for the years ended December 31, 2003 and 2002:

For the year ended December 31,

| | 2003 | 2002 | Increase/ (Decrease) |
|---|-------------------|-------------------|-------------------------|
| | (HK\$ million) | (HK\$ million) | |
| Local Telephony Services | 6,024 | 6,849 | (12)% |
| Local Data Services | 4,396 | 4,457 | (1)% |
| International Telecommunications Services | 2,970 | 3,557 | (17)% |
| Other Services | 3,182 | 3,144 | 1% |
| Total Turnover | 16,572 | 18,007 | (8)% |

Turnover from TSS decreased by 8% to HK\$16,572 million in 2003 from HK\$18,007 million in 2002. This was mainly due to a reduction in our market share in fixed-line resulting from increasing market competition and the significant pricing pressure in the traditional local data and international telecommunications markets. The turnover decline was partially offset by turnover growth from broadband Internet access services and an increase in turnover from wholesaling local access lines in 2003 as compared to 2002.

Local Telephony Services. Turnover from local telephony services decreased by 12% to HK\$6,024 million in 2003 from HK\$6,849 million in 2002. This primarily reflected a reduction in the overall number of direct exchange lines in service operated by us and lower interconnection fee turnover due to a rate reduction by OFTA in October 2003, partially offset by an increase in turnover from wholesaling local access lines to other fixed-line operators.

The decline in the number of direct exchange lines in service we operated during 2003 was due to a combination of factors including increasing competition from other fixed-line operators, softening of the Hong Kong economy and users substituting exchange lines with broadband access lines and wireless telecommunications services.

According to industry statistics provided by OFTA, the overall fixed-line telecommunications market contracted by approximately 1% in 2003 and approximately 2% in 2002. Based on our estimates and OFTA's statistics, we had approximately 73% of total market share as at December 31, 2003, 73% in the residential sector and 73% in the business sector. As at December 31, 2002, we had approximately 82% total market share, 84% in the residential sector and 79% in the business sector. The total number of our exchange lines decreased by 11% to approximately 2,779,000 as at December 31, 2003 from approximately 3,138,000 as at December 31, 2002. The total number of our residential exchange lines decreased to approximately 1,543,000 as at December 31, 2003 from approximately 1,802,000 as at December 31, 2002 and the total number of our business exchange lines in service decreased to approximately 1,236,000 as at December 31, 2003 from approximately 1,336,000 as at December 31, 2002.

Local Data Services. Local data services turnover decreased to HK\$4,396 million in 2003 compared to HK\$4,457 million in 2002. This decrease was primarily due to a decrease in turnover from the provision of LAN and WAN, corporate networks and high-speed, high-volume data transmissions from mobile telephone operators and ISPs as a result of intense pricing pressure. This decrease was partially offset by an increase in turnover from broadband Internet access services.

International Telecommunications Services. International telecommunications services turnover decreased approximately 17% to HK\$2,970 million in 2003 from HK\$3,557 million in 2002. The international telecommunications markets for both voice and data services continued to be intensely competitive in 2003, with decreased retail prices more than offsetting increased traffic volumes. Our retail IDD minutes increased by approximately 18% in 2003 to 1,226 million minutes compared to 1,041 million minutes in 2002.

Sales of our IPLC bandwidth increased to 1,592 Mbps in 2003 compared to 855 Mbps in 2002. Unit prices of IPLC and other managed data products were lower than those in 2002, in line with the general global market trend. There was also a decrease in our delivery fee turnover as more international traffic was carried by mobile operators than over our network.

Other Services. Turnover from other services increased to HK\$3,182 million in 2003 compared to HK\$3,144 million in 2002. The increase was primarily due to an increase in turnover from the provision of connectivity products and services including IP-based end-to-end communications and the sale of CPE. These factors more than offset the decrease in turnover from maintenance subcontracting services and our contact centers business.

Business eSolutions (including UniHub)

Business eSolutions turnover in 2003 increased 4% to HK\$2,326 million from HK\$2,234 million in 2002.

Turnover from UniHub, our IT services business (including Internet data centers), increased 9% to HK\$1,525 million in 2003 from HK\$1,397 million in 2002. This increase was primarily driven by an increase in business in the PRC. Our IT services business in Hong Kong, however, was affected by the outbreak of SARS during the year.

For some of our completed and ongoing IT contract work, see “Item 4.B.–Business Overview–Business eSolutions.”

Turnover from business broadband Internet access services remained flat at HK\$530 million in 2003 compared to HK\$531 million in 2002.

Turnover from our directories businesses decreased to HK\$271 million in 2003 from HK\$306 million in 2002. The unfavorable economic conditions in Hong Kong resulted in lower advertising turnover.

Infrastructure

Infrastructure turnover (excluding sales of Bel-Air) decreased to HK\$489 million in 2003 from HK\$685 million in 2002. This decrease was primarily due to lower average rental rates of our investment properties which was in line with trends in the Hong Kong real estate market. In addition, in 2002, we recorded a one-off turnover of HK\$83 million which included infrastructure work completed for the Cyberport development and turnover recorded from the sale of certain properties in the PRC.

All 1,204 residential units of the first and second phases of Bel-Air were sold. We recorded turnover of HK\$4,111 million in 2003 compared to zero in 2002, based on the percentage of completion method. As a result, infrastructure turnover as a whole increased to HK\$4,600 million in 2003 from HK\$685 million in 2002. Construction of Bel-Air commenced in 2002. Phase one was completed in 2004 and the remaining phases are expected to be completed in phases between 2005 and 2008. For further discussions of Cyberport, see “Item 4. Information On Our Company B. Business Overview–Infrastructure–Cyberport.”

Others and Eliminations

Turnover from Others decreased 46% to HK\$426 million in 2003 compared to HK\$793 million in 2002.

Turnover from TTNS was lower after exiting certain unprofitable products and services. SARS and intense competition resulting in lower product prices both had an impact on demand for our telecommunications and CPE businesses in Taiwan.

During 2003, JALECO restructured its gaming business and exited certain legacy businesses. Turnover in 2003 was lower as a result of the delay in development and launch of certain game software.

Eliminations decreased to HK\$1,374 million in 2003 from HK\$1,607 million in 2002 and were predominantly related to internal charges for communications services consumed, IT support and computer system network charges, customer support services and rental charges between our business units.

Cost of Sales

Total cost of sales in 2003 were HK\$8,730 million compared to HK\$5,295 million in 2002. Certain construction and establishment costs of the Cyberport project previously capitalized were recognized as cost of sales during the year reflecting the commencement of pre-sales of Bel-Air.

TSS cost of sales decreased to HK\$3,788 million in 2003 compared to HK\$3,993 million in 2002. This was primarily due to a decline in wholesale international voice and data disbursements, which was partially offset by customer acquisition costs incurred in the second half of 2003 in relation to new products and services launched.

General and Administrative Expenses

The table below sets forth unaudited financial data for general and administrative expenses for the years ended December 31, 2003 and 2002:

For the year ended December 31,

| | 2003 | 2002 | Increase/ (Decrease) |
|--|-------------------|-------------------|-------------------------|
| | (HK\$ million) | (HK\$ million) | |
| Staff compensation expense ⁽¹⁾ | 3,150 | 3,766 | (16%) |
| Repair and maintenance | 423 | 443 | (5%) |
| Other general and administrative expenses | 2,875 | 2,488 | 16% |
| General and administrative expenses before depreciation and amortization | 6,448 | 6,697 | (4%) |
| Depreciation and amortization | 2,888 | 2,832 | 2% |
| Loss on disposal of fixed assets | 145 | 76 | 91% |
| General and administrative expenses | 9,481 | 9,605 | (1%) |

(1) HK\$56 million paid to subcontracting companies formed in 2002 was reclassified as general and administrative expenses from staff compensation expense.

General and administrative expenses before depreciation and amortization decreased 4% to HK\$6,448 million in 2003 from HK\$6,697 million in 2002.

As a result of strategic realignment plans and efficiency programs implemented in 2002 and early 2003, staff compensation expense decreased substantially by 16% to HK\$3,150 million in 2003 from HK\$3,766 million in 2002. As part of the formation of Cascade effective January 1, 2003, approximately 3,000 employees accepted new service contracts with generally reduced salaries and benefit packages.

The table below sets forth the number of our employees in each of our principal business segments for 2003 and 2002:

| | Year ended December 31, | |
|------------------------------------|----------------------------|--------|
| | 2003 | 2002 |
| TSS | 8,897 | 8,445 |
| Business eSolutions ⁽¹⁾ | 2,229 | 1,280 |
| Infrastructure | 365 | 361 |
| Others ⁽²⁾ | 1,019 | 1,474 |
| Total | 12,510 | 11,560 |
| Total (excluding part-time/temps) | 12,013 | 10,978 |

(1) Business eSolutions includes Internet data centers.

(2) Others primarily includes corporate functions, our businesses in Taiwan, JALECO and Internet services.

The increase in the number of employees was primarily due to the inclusion in the Business eSolutions segment of all the employees from ChinaBiG, which became our indirect non wholly owned subsidiary in April 2003 and an increased workforce for the launch of PCCW's new products and services and the IT business in the PRC. This was partially offset by the reduction of JALECO's workforce.

Other general and administrative expenses primarily included rent, rates and utilities, publicity and promotion expenses, professional and consulting fees and subcontracting costs. Other general and administrative expenses increased to HK\$2,875 million in 2003 from HK\$2,488 million in 2002, primarily due to additional publicity and promotion expenses for the pre-sales of Bel-Air and new products and services and an increase in subcontracting costs as a result of the strategic realignment plans and efficiency programs implemented in 2002 and 2003.

Adjusted EBITDA

Adjusted EBITDA³ decreased approximately 9% to HK\$7,372 million in 2003 from HK\$8,120 million in 2002, primarily due to a lower adjusted EBITDA contribution from TSS.

Adjusted EBITDA³ margin decreased to approximately 33% for 2003 as compared to 40% in 2002, due to the recognition of the revenue and the corresponding costs from pre-sales of Bel-Air in 2003. Excluding the contribution from sales of Bel-Air, adjusted EBITDA margin remained stable.

Depreciation and Amortization

Depreciation and amortization was HK\$2,888 million in 2003 compared to HK\$2,832 million in 2002.

Operating Profit Before Net Gains on Investments, Provisions for Impairment Losses and Restructuring Costs

Operating profit before net gains on investments, provisions for impairment losses and restructuring costs decreased by 17% to HK\$4,339 million in 2003 from HK\$5,212 million in 2002 for the reasons described above and a loss on disposal of fixed assets in Japan.

Net Gains On Investments

We had a net gain on investments of HK\$407 million in 2003 compared to a net gain of HK\$13 million in 2002, primarily reflecting:

- net unrealized gains on investments of HK\$8 million in 2003 compared to net unrealized losses of HK\$142 million in 2002;

³Adjusted EBITDA and adjusted EBITDA margin are defined and reconciled to GAAP measures in Appendix A of this section.

- net realized gains from disposals of investments in jointly controlled companies and associates, investment securities and other investments of HK\$103 million in 2003 compared to net realized losses of HK\$92 million in 2002;
- a provision for impairment of investments of HK\$258 million in 2003 compared to HK\$581 million in 2002; and
- gain on termination and amendment of the terms of cross currency swap contracts of HK\$532 million in 2003 compared to HK\$332 million in 2002.

In 2002, there was a gain of HK\$464 million from a release of provision for an onerous contract, but no similar gain in 2003.

Provisions for Impairment Losses

Provisions for impairment losses increased to HK\$2,452 million in 2003 from HK\$534 million in 2002. This increase was primarily due to provisions made to reflect technology developments and market changes that affected our businesses. Certain of our network fixed assets and other intangibles became obsolete or impaired. Accordingly, we recognized an impairment loss on network fixed assets of HK\$1,155 million in 2003. In addition, JALECO restructured its gaming business and exited certain legacy businesses in 2003. Due to losses incurred by JALECO, management assessed the fair value of our interest in JALECO. As a result, we recognized an impairment loss of goodwill of HK\$742 million and other assets of HK\$151 million in 2003. Also, we wrote down the remaining carrying value of certain contents licenses related to our legacy multimedia businesses and recognized an impairment loss of HK\$301 million.

Restructuring Costs

Restructuring costs decreased to HK\$38 million in 2003 from HK\$311 million in 2002.

Restructuring costs mainly represent the severance payments and the write-off of development costs and inventories related to the restructuring of JALECO's on-line game and game development businesses.

Profit from Operations

We recorded a profit from operations of HK\$2,256 million in 2003 compared to HK\$4,380 million in 2002.

Finance Costs

Finance costs increased 6% to HK\$2,117 million in 2003 from HK\$1,997 million in 2002. In 2003, we shifted a majority of our debt from floating to fixed rates. Weighted average maturity was also lengthened to nearly 7 years. As a result, our average cost of debt increased to 5.6% in 2003 from 5.0% in 2002. Finance costs included arrangement fees and facility fees incurred with respect to bank loans and other long-term borrowings of approximately HK\$246 million in 2003 compared to HK\$263 million in 2002.

Share of Results of Jointly Controlled Companies

Share of loss of jointly controlled companies was HK\$891 million in 2003 compared to a share of profit of HK\$550 million in 2002. This was primarily due to our 50% share of loss from Reach, the 50:50 venture between Telstra and us, of HK\$821 million in 2003 compared to a share of profit before tax of HK\$738 million in 2002.

Share of Results of Associates

Share of profit of associates decreased to HK\$65 million in 2003 from HK\$281 million in 2002. Share of profit of associates in 2002 included our 40% share of profit before tax from RWC of HK\$137 million from January 1, 2002 to June 28, 2002, the date we disposed of our interests in RWC.

Impairment Losses on Interests in Jointly Controlled Companies and Associates

We performed an assessment of the fair value of our interest in Reach, including the related goodwill that had previously been eliminated against reserves, as at December 31, 2003. As a result, we made a full provision for impairment of our previously unimpaired interest in Reach, recognizing an impairment loss of approximately HK\$4,159 million. Accordingly, our total interest in Reach, including the amounts paid by us under the Capacity Prepayment Agreement, was written down to zero as at December 31, 2003. The carrying value as at December 31, 2002 was HK\$3,930 million, which reflected a provision for partial impairment of HK\$8,263 million recognized in 2002.

In addition, due to losses, as at December 31, 2003, we performed an assessment of the carrying value of our interest in a jointly controlled company engaged in the on-line game business. Based on the results of the assessment, we made a full provision for impairment in our interest, recognizing an impairment loss of approximately HK\$227 million.

Loss on Disposal of Interests in RWC and MobileOne

In connection with the disposal of our 40% interest in RWC and the disposal of our 8.4% indirect interest in MobileOne in 2002, we recorded an accounting loss of HK\$1,771 million and a gain of HK\$338 million, respectively, in 2002.

Taxation

Our tax charge decreased by 17% to HK\$1,165 million in 2003 compared to HK\$1,406 million in 2002. This decrease was primarily due to a write back of deferred tax on fixed asset impairment and over provision for overseas taxes, partially offset by the effect of an increase in the Hong Kong statutory tax rate from 16% to 17.5%.

Our effective tax rate for the year ended December 31, 2003 was 66%, excluding the provisions for impairment losses and the impairment losses on interests in jointly controlled companies and associates. Under the current tax system in Hong Kong, certain impairment losses and overseas losses are not deductible permanently and there is no group loss relief on Hong Kong operating losses. Furthermore, our financing costs, to the extent that they are attributable to the acquisition of HKT and other companies, are not tax deductible.

Loss for the Year Attributable to Shareholders

Loss for the year was HK\$6,100 million in 2003 compared to a loss of HK\$7,762 million in 2002 as a result of the above factors.

Highlights of Reach

| | Year ended December 31, | | | | | |
|--|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| | 2003 | | | 2002 | | |
| | (HK\$ million) | (HK\$ million) | (HK\$ million) | (HK\$ million) | (HK\$ million) | (HK\$ million) |
| | (HK GAAP) (Unaudited) | (HK GAAP) (Unaudited) | (US GAAP) (Unaudited) | (HK GAAP) (Unaudited) | (HK GAAP) (Unaudited) | (US GAAP) (Unaudited) |
| Turnover | 7,036 | 902 | 902 | 9,854 | 1,263 | 1,263 |
| PCCW's 50% share of (loss)/profit before tax, excluding impairment | (821) | (105) | NA | 738 | 95 | NA |

In February 2001, we formed Reach, a 50:50 venture between Telstra and us, which merged the respective international infrastructure assets of both shareholders. Reach provides wholesale voice, data and Internet connectivity services in the Asia-Pacific region. We contributed the international wholesale business to Reach at cost.

In 2003, Reach generated total turnover of HK\$7,036 million compared to HK\$9,854 million in 2002. Our 50% share of loss before tax and excluding impairment in 2003 was HK\$821 million compared to a profit of HK\$738 million in 2002.

During 2003, we performed a further impairment assessment of our interests in Reach and, as a result, made a decision to make a full provision for impairment of our entire interest in Reach and a loss of HK\$4,159 million was recognized in 2003. Accordingly, our total interest in Reach, including the amounts paid by us under the Capacity Prepayment Agreement, was written down to zero as at December 31, 2003.

On April 15, 2003, Reach entered into an agreement with its lenders to amend the terms of the Reach Term Facility.

Through HKTC, we and Reach were parties to a Hong Kong domestic connectivity agreement (as amended) and the International Services Agreement (as amended), for the provision of domestic and international connectivity services in Hong Kong and between Hong Kong and other countries. In 2003, we made purchases pursuant to the amended International Services Agreement of approximately HK\$1,036 million.

For further discussion on Reach, see “–Overview–Development of Reach.”

Liquidity and Capital Resources

The following table presents a summary of significant cash flows for the years ended December 31, 2002, 2003 and 2004.

| | For the year ended December 31, | | |
|--|--|-------------|-------------|
| | 2004 | 2003 | 2002 |
| | (HK\$ million) | | |
| (in accordance with HK GAAP) | | | |
| Net cash inflow from operating activities | 4,765 | 3,816 | 3,917 |
| Net cash (outflow) from investing activities | (718) | (1,969) | (812) |
| Net cash (outflow) from financing activities | (6,107) | (4,202) | (2,719) |
| Capital expenditure ⁽¹⁾ | 1,972 | 1,958 | 1,611 |

(1) Capital expenditure refers to additions to fixed assets.

Our net cash inflow from operating activities increased to HK\$4,765 million in 2004 from HK\$3,816 million in 2003. Our operating profit before changes in working capital decreased to HK\$6,545 million in 2004 from HK\$7,517 million in 2003. The increase in net cash inflow from operating activities was primarily due to an allocation of HK\$920 million from surplus proceeds from the pre-sale of Bel-Air that were previously retained in specific bank accounts and restricted in use.

Net cash inflow from operating activities slightly decreased to HK\$3,816 million in 2003 from HK\$3,917 million in 2002. The decrease in net cash inflow from operating activities was primarily due to an increase in sales proceeds held in stakeholders' accounts and restricted cash of HK\$2,402 million and HK\$2,701 million, respectively, in 2003, from nil in 2002. This was partially offset by an increase in accruals, accounts payable, provisions, other payables and deferred income of HK\$3,448 million in 2003 from HK\$159 million in 2002, due to the proceeds from the pre-sale of Bel-Air in 2003.

Net cash outflow from investing activities decreased to HK\$718 million in 2004 from HK\$1,969 million in 2003. The decrease in net cash outflow from investing activities was primarily due to the proceeds from partial disposal of interest in our subsidiaries amounting to HK\$1,728 million in 2004.

Our net cash outflow from investing activities increased to HK\$1,969 million in 2003 from HK\$812 million in 2002. The increase was primarily attributable to the US\$143 million (approximately HK\$1,115 million) capacity prepayment to Reach made in April 2003.

Net cash outflow from financing activities increased to HK\$6,107 million in 2004 from HK\$4,202 million in 2003. Our net cash flows from financing activities in 2004 were primarily affected by the repayment in 2004 of certain term loans totaling HK\$4,983 million, including a HK\$750 million term loan, the outstanding balance of RMB1,220 million under the RMB1,300 million loan facility and the five-year term loan facility of HK\$3,003 million established in March 2003.

Net cash outflow from financing activities increased to HK\$4,202 million in 2003 from HK\$2,719 million in 2002. Our net cash flows from financing activities in 2003 were primarily affected by:

- long-term borrowings totaling HK\$10,459 million, including US\$456 million guaranteed notes and US\$500 million guaranteed notes issued by two of our indirectly wholly owned subsidiaries in January and July 2003, respectively, and HK\$3,003 million under a term loan facility we established in March 2003;
- net proceeds of HK\$3,068 million received from a share subscription on July 17, 2003;
- the repayment in 2003 of the remaining balance of the US\$4,700 million term loan facility established in 2001 totaling HK\$6,094 million and the two term loan facilities of HK\$5,000 million each established in March and April 2002, respectively; and
- the partial redemption of US\$143 million (approximately HK\$1,115 million) of a mandatory convertible note in April 2003.

Debt Financing

During 2004, we repaid a total of approximately HK\$4,837 million gross long-term debt including the HK\$1,058 million Beijing property RMB-denominated loan and two term loan facilities of HK\$750 million and HK\$3,003 million respectively.

Our major borrowings include the following:

On December 5, 2000, PCCW Capital Limited, a direct wholly owned subsidiary of PCCW, issued convertible bonds due 2005 in the principal amount of US\$1,100 million (approximately HK\$8,580 million). They are convertible into ordinary shares of PCCW at US\$4.9804 per share (after adjustments in connection with the share placement in July 2003) subject to adjustments at any time on or after January 5, 2001 and up to November 21, 2005 and bear interest at 3.5% per annum, payable annually in arrears.

On February 7, 2001, PCCW issued a mandatory convertible note due 2007 in the principal amount of US\$750 million (approximately HK\$5,850 million) to Telstra as part of our strategic alliance with Telstra. We redeemed this note on June 28, 2002 using the proceeds from the disposal of our remaining 40% interest in RWC to Telstra and the issue of a US\$190 million (approximately HK\$1,482 million) 5% mandatory convertible note due 2005. On April 15, 2003, we partially redeemed US\$143 million (approximately HK\$1,115 million) of the US\$190 million convertible note and issued an amended 5% mandatory convertible note in the principal amount of approximately US\$54 million (approximately HK\$421 million) due 2005 to Telstra.

On October 26, 2001, Profit Century Finance Limited, an indirect wholly owned subsidiary of PCCW, completed the placement of Yen 30,000 million 3.65% guaranteed notes due 2031. The Yen notes are redeemable at the option of Profit Century Finance Limited on any interest payment date falling on or after October 27, 2006. The Yen notes are unconditionally and irrevocably guaranteed by HKTC.

On November 15, 2001, PCCW-HKT Capital Limited, a direct wholly owned subsidiary of HKTC, issued US\$750 million 7.75% guaranteed notes due 2011. On November 26, 2001, PCCW-HKT Capital Limited issued a further US\$250 million 7.75% guaranteed notes due 2011 which are fungible and consolidated to form a single series with the guaranteed notes issued on November 15, 2001. The notes due 2011 are unconditionally and irrevocably guaranteed by HKTC.

The interest rate payable on the notes due 2011 will be subject to adjustment from time to time if either Moody's or S&P downgrades the rating ascribed to the senior unsecured debt of HKTC below Baa1 in the case of Moody's, or below BBB in the case of S&P. In this event, the interest rate payable on the notes due 2011 will be increased by 0.25% per annum for each rating notch downgrade below the applicable level by each rating agency. In addition, if Moody's or S&P subsequently increases the rating ascribed to the senior unsecured debt of HKTC, then

the interest rate then payable on the notes due 2011 will be decreased by 0.25% per annum for each rating notch upgrade by each rating agency, but in no event will the interest rate be reduced to below the initial interest rate on the notes due 2011. There is no limit to the number of times the interest rate payable on the notes due 2011 can be adjusted prior to their maturity.

The interest rate payable on the notes due 2011 is 8.00% based on the current ratings of HKTC.

On December 21, 2001, Profit Century Finance No. 2 Limited, an indirect wholly owned subsidiary of PCCW, arranged a HK\$750 million term loan facility and HK\$1,300 million standby letter of credit facility. The HK\$750 million term loan facility is repayable in 2008 and was drawn down in December 2002 to support our general working capital requirements. The standby letters of credit are used to support a RMB1,300 million loan facility we established on December 21, 2001. The RMB loan was granted to Beijing Jing Wei House and Land Estate Development Co., Ltd. for the financing and refinancing of the development of Pacific Century Place Beijing. The RMB loan is repayable over six years from 2003 to 2008. The Hong Kong dollar term loan facility was fully prepaid on January 19, 2004 and the RMB loan was fully prepaid on March 1, 2004.

On January 29, 2002, PCCW Capital No. 2 Limited, an indirect wholly owned subsidiary of PCCW, issued US\$450 million 1% guaranteed convertible bonds due 2007, which are unconditionally and irrevocably guaranteed on a joint and several basis by PCCW and HKTC. The convertible bonds due 2007 are convertible, at the option of their holders, up to and including January 15, 2007 into ordinary shares of PCCW at an initial conversion price of HK\$13.5836 per share (after adjustments in connection with the share placement in July 2003) and with a fixed exchange rate on conversion of US\$1.00 = HK\$7.80.

On January 24, 2003, PCCW Capital No. 3 Limited, an indirect wholly owned subsidiary of PCCW, issued and sold by way of a private placement US\$456 million 7.88% guaranteed notes due 2013 to raise funds for general corporate purposes. The notes were unconditionally and irrevocably guaranteed by PCCW until May 12, 2004. On May 12, 2004, the noteholders approved the novation of the guarantee to HKTC and amendments to certain terms of the notes.

On March 14, 2003, PCCW entered into a five-year term loan facility for HK\$3,003 million on an unsecured basis. The loan is repayable in 2008. The proceeds were used for general corporate purposes. The term loan facility was fully prepaid on February 26, 2004.

On July 17, 2003, PCCW-HKT Capital No.2 Limited, a direct wholly owned subsidiary of HKTC, issued US\$500 million 6.00% guaranteed notes due 2013. The notes due 2013 are unconditionally and irrevocably guaranteed by HKTC. The proceeds were used for general corporate purposes of HKTC.

On August 8, 2003, HKTC entered into a seven-year HK\$2,800 million revolving credit and term loan facility for general corporate purposes. The facility was split equally between the revolving credit and term loan facilities. On October 29, 2003, HKTC entered into an amendment agreement to increase the amount under the revolving loan facility to HK\$2,800 million and reduce the amount available under the term loan facility to zero. The interest is calculated at HIBOR plus a margin as determined by a pricing grid subject to the senior unsecured debt ratings assigned to HKTC.

On December 12, 2003, HKTC entered into a five-year HK\$6,000 million revolving credit facility for general corporate purposes. The interest is calculated at HIBOR plus a margin as determined by a pricing grid subject to the senior unsecured debt ratings assigned to HKTC.

On December 22, 2003, HKTC entered into a six-year HK\$2,000 million revolving credit facility for general corporate purposes. The interest is calculated at HIBOR plus a margin.

As at April 30, 2005, none of the long-term revolving credit facilities were drawn down by HKTC.

Capital Resources

We have established treasury and funding policies, guidelines and control procedures which are designed to ensure that we maintain an optimal level of liquidity to support current and future business requirements and to meet

our liabilities when due. We continually monitor our treasury positions, the credit ratings of our counterparties and we limit the amount of contract with any one party. The Finance and Management Committee, a subcommittee of the Executive Committee of our Board of Directors, meets regularly to review our funding and treasury policies. Interest rate and exchange rate exposure is continuously monitored and, if appropriate, financial instruments will be utilized to manage the risk. See “Off-Balance Sheet Arrangements.”

We expect that our principal liquidity requirements for 2005 will include our expected capital expenditures and cash to prepay indebtedness. We expect to fund our liquidity requirements primarily through cash flow from operations and through the proceeds from issuing new shares to CNC. Other than as described in “Off-Balance Sheet Arrangements”, we have not historically relied, and we do not plan to rely in the foreseeable future, on off-balance sheet financing arrangements to finance our operations or capital expenditure.

As at December 31, 2004, we had HK\$3,494 million in cash and cash equivalents and committed unutilized short-term and long-term revolving credit facilities of approximately HK\$11,286 million. A significant portion of our cash and cash equivalent is held in Hong Kong dollars and US dollars. For a discussion on the use of borrowings or committed facilities, see “Debt Financing.” For all of the three long-term revolving credit facilities that in the aggregate constituted approximately 95.7% of our committed unutilized revolving credit facilities as at December 31, 2004, we can make a drawdown from time to time provided that certain representations and warranties are true and accurate in all material respects on the date of the drawdown. The drawdown is also conditional on there being no occurrence of certain events including a default, disruption in the Hong Kong interbank market and material adverse changes in the business, assets, financial condition or trading position of HKTC and its subsidiaries that would reasonably be expected to affect HKTC’s ability to perform its payment obligations under these facilities. Our short-term committed facilities are subject to similar conditions.

As at December 31, 2004, we had short-term borrowings of HK\$9,031 million which included bank loans of HK\$2 million and the current portion of long-term borrowings and convertible note and bonds of HK\$12 million and HK\$9,017 million, respectively. The convertible note and bonds outstanding as at December 31, 2004 represented US\$1,100 million convertible bonds and US\$54 million convertible note, both maturing in 2005. We redeemed US\$143 million (approximately HK\$1,115 million) of an US\$190 million convertible note and issued an amended 5% mandatory convertible note in the principal amount of approximately US\$54 million (approximately HK\$421 million) due 2005 to Telstra in 2003. HK\$473 million of the short-term borrowings were secured borrowings. As at December 31, 2004, our short-term borrowings, excluding current portion of long-term borrowings and convertible note and bonds, were non-interest bearing.

As at December 31, 2004, we had an aggregate amount of HK\$20,663 million outstanding in long-term liabilities including long-term borrowings and convertible note and bonds. Contractual rates of interest for long-term borrowings and convertible note and bonds were within a range from 1% to 8% per annum.

Set forth below are the aggregate amounts, as at December 31, 2004, of our future cash payment obligations under our long-term borrowings.

| | 2004 |
|--|-----------------------|
| | (HK\$ million) |
| Long-Term Borrowings | |
| Repayable within a period | |
| –not exceeding one year | 12 |
| –over one year, but not exceeding five years | – |
| –over five years | 17,163 |
| | <u>17,175</u> |

In addition to these long-term borrowings, we had outstanding as at December 31, 2004 convertible bonds with the principal amounts of US\$450 million maturing in 2007.

Our borrowing requirements are not subject to seasonality.

At December 31, 2004, assets with an aggregate value of HK\$67 million were pledged to secure loan facilities utilized by our subsidiaries. In addition, certain investments, with an aggregate value of HK\$224 million were

placed as collateral in relation to certain equity-linked transactions we entered into.

Our 50% interest in Reach was used to secure the amended 5% mandatory convertible note of US\$54 million due 2005 issued to Telstra. Following the issue of additional shares in Reach to us in connection with the arrangements relating to the establishment of a new operating model for Reach and the restructuring of Reach's debt as described in "–Overview–Development of Reach", our 50% interest in Reach continues to be charged to secure the above mandatory convertible note.

Contingent Liabilities

As at December 31, 2004, we had contingent liabilities in the aggregate amount of HK\$248 million. These included a performance guarantee in the amount of HK\$129 million, a corporate guarantee given to an unconsolidated subsidiary in the amount of HK\$92 million, a guarantee in lieu of a cash deposit in the amount of HK\$5 million and an advance payment guarantee in the amount of HK\$6 million.

Contractual Obligations and Commercial Commitments

The following table summarizes contractual obligations as at December 31, 2004.

| Contractual obligations | Payments due by period | | | | |
|---|------------------------|---------------------|--------------|-----------|------------------|
| | Total | Less than 1 year | 1-3 years | 4-5 years | After 5 years |
| | (HK\$ million) | | | | |
| Long-term borrowings | 17,175 | 12 | – | – | 17,163 |
| Convertible note and bonds | 12,517 | 9,017 | 3,500 | – | – |
| Operating leases | 638 | 287 | 198 | 67 | 86 |
| Capital commitments | 1,909 | 1,148 | 756 | 5 | – |
| Other purchase commitments | 586 | 242 | 340 | 4 | – |
| Total contractual cash obligations | 32,825 | 10,706 | 4,794 | 76 | 17,249 |

On October 13, 2000, HKTC entered into agreements with Reach Networks relating to the supply of domestic connectivity services in Hong Kong by HKTC to Reach Networks and international connectivity services between Hong Kong and other countries by Reach Networks to HKTC. Pursuant to the original terms of the International Services Agreement, for the first five years of operation subsequent to the formation of Reach in February 2001, HKTC was required to acquire 90%, 90%, 80%, 70% and 60% per annum, respectively, of our total annual purchases of international connectivity services, including international public switched telephone network terminating access, international transmission capacity and Internet gateway access services from Reach Networks. The agreement for domestic connectivity services contemplates a reciprocal arrangement, whereby HKTC will provide local connectivity services to Reach Networks under similar terms and conditions. These agreements were subsequently amended on January 31, 2001 and further amended on April 15, 2003 such that we and Telstra agreed to purchase 90% per annum of our and Telstra's respective international public switched telephone network terminating access, international transmission capacity and Internet gateway access services from the Reach Group until repayment of the Reach Term Facility on December 31, 2010 or earlier, at rates benchmarked at least annually to prevailing market prices. The above obligation remained in force notwithstanding the purchase of the entire outstanding portion of the debt under the Reach Term Facility by Telstra and us in June 2004 as stated in "–Transactions with Related Parties." Reach Networks similarly had to acquire 90% per annum of its local connectivity services in Hong Kong from HKTC under the amended agreement for domestic connectivity services for the same period. As part of the arrangements relating to the establishment of a new operating model for Reach as described in "–Overview–Development of Reach", the International Services Agreement was terminated pursuant to the Reach Network Services Agreement, and our obligations under the Capacity Prepayment Agreement have been satisfied under the Reach Debt and Asset Restructure Deed.

Our other commercial commitments, comprised entirely of guarantees, consisted of the following as at December 31, 2004:

| Other commercial commitments | Amount of commitment expiration by period | | | | |
|------------------------------|---|------------------|-----------|-----------|---------------|
| | Total amounts committed | Less than 1 year | 1-3 years | 4-5 years | After 5 years |
| | (HK\$ million) | | | | |
| Guarantees | 248 | 110 | 32 | 1 | 105 |

Capital Expenditure Commitments

Our capital expenditure⁴ of HK\$1,972 million for the year ended December 31, 2004 consisted principally of investments in the local network to meet increased broadband demand, expansion of the core broadband network, IP-VPN technology and technology for the delivery of new Internet services to businesses and consumers.

Our material commitments for capital expenditures as at December 31, 2004 were approximately HK\$4,986 million. These commitments related primarily to the continuing construction of the Cyberport project. Other commitments include planned property construction and additions to fixed assets, primarily in our telecommunications business.

As at December 31, 2004, we had invested approximately HK\$4,428 million in the Cyberport project. Marketing and pre-sales of Bel-Air commenced in early 2003. The cash flow generated from pre-sales of Bel-Air are being used to cover existing and part of the future development costs of the Cyberport project. We may have to provide additional funding if such proceeds are not sufficient. The amount of additional funding required may be significant and will depend on a variety of factors including, for example, the timing of pre-sales and sales of the residential units, the demand for and pricing of these residential units and overall costs of, and expenditures relating to, the Cyberport project.

In addition to our ongoing core network expansion, capital expenditures in 2004 will include overseas network projects and other new products and services, including capital expenditures related to our Internet access services in the U.K. PCCW will determine investments using criteria such as internal rate of return, net present value or payback period depending on the type of business.

Based on our working capital projection, which has taken into account our available banking and other borrowing facilities at December 31, 2004, we believe that we have adequate working capital to meet our current requirements.

Off-Balance Sheet Arrangements

In the normal course of business, we use interest rate swaps, cross currency swaps, forward rate agreements, forward contracts, interest rate options and other financial instruments to manage our exposure to foreign exchange rates and interest rate fluctuations. The main purpose of these transactions is to mitigate or reduce the magnitude of market risks we face.

These off-balance sheet transactions are only used to manage market risk exposures. We do not hold any trading or speculative positions. Also, these off-balance sheet transactions are not used to create liquidity, capital resources or other benefits.

Every off-balance sheet transaction corresponds to an underlying asset or liability for the purpose of limiting our exposures to market risks that give rise to changes in the market value of the financial instrument. Therefore, in general, expenses or revenues from these transactions will only arise when we terminate these transactions early or we amend the terms of the transactions. 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 our risk management strategy. None of these transactions qualify for hedge accounting under US GAAP.

All transactions are executed with creditworthy financial institutions, and all foreign currency contracts are denominated in currencies of major industrial countries. Costs associated with entering into such contracts are not material to our financial results. For further details on our risk management policies and off-balance sheet

⁴ Capital expenditure refers to additions to fixed assets.

transactions, see “–Market Risk” and “Item 11. Quantitative and Qualitative Disclosures About Market Risk” and notes 2(z), 37, 38(c) and 45 to our consolidated financial statements.

Transactions with Related Parties

During the year, we had the following significant transactions with related companies:

| For the year ended December 31, | 2004 | 2003 | 2002 |
|--|----------------|-------|-------|
| | (HK\$ million) | | |
| Convertible bond interest paid or payable to Pacific Century Group Holdings Limited | 293 | 293 | 293 |
| Capital injection to a jointly controlled company | – | 117 | 117 |
| Loan to a jointly controlled company | 19 | – | – |
| Telecommunication service fees, rental charges and subcontracting charges received or receivable from: | | | |
| –an associate | – | – | 594 |
| –a jointly controlled company | 135 | 221 | 254 |
| System integration charges received or receivable from a shareholder of a PRC subsidiary | 387 | 59 | – |
| Telecommunications services fees and rental charges paid or payable to: | | | |
| –an associate | – | – | 162 |
| –a jointly controlled company | 905 | 1,086 | 1,474 |

On October 13, 2000, HKTC entered into agreements with Reach Networks relating to the supply of domestic connectivity services in Hong Kong by HKTC to Reach Networks and international connectivity services between Hong Kong and other countries by Reach Networks to HKTC. Pursuant to the original terms of the International Services Agreement, for the first five years of operation subsequent to the formation of Reach in February 2001, HKTC was required to acquire 90%, 90%, 80%, 70% and 60% per annum, respectively, of our total annual purchases of international connectivity services, including international public switched telephone network terminating access, international transmission capacity and Internet gateway access services from Reach Networks. The agreement for domestic connectivity services contemplates a reciprocal arrangement, whereby HKTC will provide local connectivity services to Reach Networks under similar terms and conditions. These agreements were subsequently amended on January 31, 2001 and further amended on April 15, 2003 such that we and Telstra agreed to purchase 90% per annum of our and Telstra’s respective international public switched telephone network terminating access, international transmission capacity and Internet gateway access services from the Reach Group until repayment of the Reach Term Facility on December 31, 2010 or earlier, at rates benchmarked at least annually to prevailing market prices. The above obligation remained in force notwithstanding the purchase of the entire outstanding portion of the debt under the Reach Term Facility by Telstra and us in June 2004 but was terminated pursuant to the establishment of a new operating model for Reach in April 2005 as described below. Reach Networks similarly must acquire 90% per annum of its local connectivity services from HKTC under the amended agreement for domestic connectivity services for the same period.

In addition, we entered into one-year fixed price bulk purchase agreements for international connectivity services from January 1, 2002 to December 31, 2002 which committed us to aggregate purchase levels in 2002. The agreement expired on December 31, 2002.

Purchases made by us for the year ended December 31, 2004 were approximately HK\$855 million, compared to approximately HK\$1,036 million and HK\$1,443 million in 2003 and 2002, respectively.

On April 15, 2003, we, HKTC and Telstra entered into the Capacity Prepayment Agreement with Reach and certain of its subsidiaries whereby we and Telstra each paid US\$143 million (approximately HK\$1,115 million) (in aggregate US\$286 million (approximately HK\$2,231 million)) for the purchase of capacity as stated above. These prepayments (which will be compounded to reflect the time value of money) are to be applied against the cost of the services and capacity supplied to Telstra and us by the Reach Group as and when the Reach Group has available surplus cash in accordance with a prescribed formula. As at December 31, 2003, the total balance of HK\$1,139 million comprising the prepayment of HK\$1,115 million and the accrued interest receivable of HK\$24 million was

written down to zero based on the results of our assessment of the fair value of our interest in Reach, and the total balance of prepayment remained zero as at December 31, 2004. This agreement was amended and restated on June 17, 2004 in connection with the purchase of the outstanding debt under the Reach Term Facility by Telstra and us.

On June 17, 2004, we and Telstra agreed to purchase from the syndicate of banks the entire outstanding portion of US\$1,200 million of the debt under the Reach Term Facility for approximately US\$311 million (approximately HK\$2,425 million) and we purchased 50% of this debt for approximately US\$155.45 million (approximately HK\$1,213 million) on June 18, 2004. The Reach Term Facility will be repayable in full by Reach on December 31, 2010. The interest payable under this facility will be LIBOR plus 250 basis points. The interest payable on this debt has been suspended for six months from June 18, 2004 and agreed to be at LIBOR plus 250 basis points following such period. As at December 31, 2004, the loan receivable from Reach was approximately HK\$1,214 million. Also, on June 17, 2004, we and Telstra agreed to provide Reach with the Reach Working Capital Facility, with each of us contributing up to US\$25 million (approximately HK\$195 million) to this facility. The facility is secured and will be payable in full by Reach on December 31, 2007 and interest payable under this facility will be LIBOR plus 250 basis point. As at December 31, 2004, none of the Reach Working Capital Facility has been drawn down by Reach. For further details, see “–Overview–Development of Reach.”

On April 16, 2005, we agreed with Telstra and Reach on a new operating model under which Reach would operate as an outsourcer of telecommunications network services for our group and the Telstra Group. To implement this new operating model, PCCW Communications, our indirect wholly owned subsidiary, and Telstra each agreed to acquire indefeasible rights to use the Reach Group’s international undersea cable capacity. Each of PCCW Communications and Telstra paid Reach Global US\$157 million for such capacity, which in our case, was settled by way of set-off against the equivalent amount outstanding under the PCCW Shareholder Loan, and not by way of new cash injections. In addition, interest of US\$6 million due by Reach to our group was waived and US\$455 million of the remaining balance of the PCCW Shareholder Loan was capitalized by way of the issue of shares in Reach to PCCHL, our wholly owned subsidiary and holder of our interest in Reach since Reach’s formation. Following the set-off and capitalization referred to above, Reach’s aggregate indebtedness to us was reduced to US\$155 million.

PCCW Communications and Telstra also agreed to each assume one half of Reach’s committed future capital expenditure in order to support growth in their own retail services. PCCW Communications’ share of this expenditure over the 17-year period from March 2005 to 2022 is expected to be approximately US\$106 million. PCCW Communications and Telstra will only assume any additional future capital expenditure if such expenditure is approved by both PCCW Communications and Telstra.

Further, pursuant to the Reach Network Services Agreement, Reach will provide to our group and the Telstra Group certain outsourcing services in relation to the international undersea cable capacity allocated by way of the grant of indefeasible rights to use as described above.

As part of the arrangements relating to the establishment of a new operating model for Reach, the International Services Agreement was terminated pursuant to the provisions of the Reach Network Services Agreement and our obligations under the Capacity Prepayment Agreement have been satisfied under the Reach Debt and Asset Restructure Deed.

Impact of Inflation/Deflation

Over the last several years, Hong Kong experienced an economic downturn and asset deflation until mid-2004. We do not believe that the general deflationary environment in Hong Kong has had or will have any material impact on our business. The annual deflation rate in Hong Kong was approximately 1.5% and 1.9% for the years ended December 2002 and 2003, respectively, with an annual inflation rate of 0.2% in 2004.

Seasonality

Our results of operations are not materially affected by seasonal variations in demand for our services.

Market Risk

Market risk composed of both foreign currency exposure and interest rate exposure deriving from our operation and funding activities. As a matter of policy, we continue to manage market risk that are directly related to our operations and financing, and we do not undertake any speculative trading activities that involve currency forwards, interest rate and currency swaps, forward rate agreements, options and other financial instruments. The Finance and Management Committee, a subcommittee of the Executive Committee of our Board of Directors, 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 our business. All treasury risk management activities are carried out in accordance with policies and guidelines approved by the Finance and Management Committee and the Executive Committee, which are reviewed on a regular basis. See “Item 11. Quantitative and Qualitative Disclosures About Market Risk.”

For a discussion on governmental economic, fiscal, monetary or political policies or factors that affected, or could materially affect our operations or investments by U.S. shareholders, see “Item 3. Key Information–Risk Factors”, “Item 4.B. Business Overview”, “Item 5. Operating and Financial Review and Prospects” and “Item 10. Additional Information.”

Differences Between Hong Kong (HK) and United States (US) GAAP

Our primary financial statements have been prepared in accordance with HK GAAP, which differ in certain significant respects from US GAAP. These differences are set out in note 43 to our consolidated financial statements along with a reconciliation to US GAAP of our net income/(loss) for 2002, 2003 and 2004, and a reconciliation of our shareholders’ equity/(deficit) as at December 31, 2003 and 2004.

Under US GAAP, net (loss)/gain for 2002, 2003 and 2004 would have been HK\$(52,057) million, HK\$(7,559) million and HK\$(15,667) million, respectively, as compared with HK\$(7,762) million, HK\$(6,100) million and HK\$1,638 million under HK GAAP.

Under US GAAP, shareholders’ equity as at December 31, 2003 and 2004 would have been HK\$71,696 million and HK\$55,979 million, respectively, as compared with shareholders’ deficit of HK\$7,839 million and HK\$6,716 million under HK GAAP.

The most significant differences that have affected our net loss and shareholders’ deficit under US GAAP are described below. These and other less significant differences, are more fully described in note 43 to our consolidated financial statements.

Accounting for goodwill

Under HK GAAP as specified in Statements of Standard Accounting Practice, or SSAP, 30, “Business combinations” issued by the Hong Kong Institute of Certified Public Accountants, or HKICPA, any goodwill arising from transactions completed from January 1, 2001 onwards is capitalized and amortized on a straight-line basis over its estimated useful life. The amortization charge for each period is recognized as an expense. Generally, goodwill is tested for impairment whenever there are indications that impairment may exist. However, goodwill that is taken initially to reserves arising on transactions prior to January 1, 2001 which was not restated as an asset on adoption of SSAP 30 in 2001 is required to be tested for impairment annually. Goodwill which is amortized over a period exceeding 20 years is also required to be tested for impairment annually. An impairment loss is recognized in the income statement whenever the carrying amount of a cash generating unit to which goodwill belongs exceeds its recoverable amount, which is defined as the higher of net selling price and value-in-use, estimated at each balance sheet date.

Upon the adoption under US GAAP of SFAS No. 142, “Goodwill and Other Intangible Assets” on January 1, 2002, goodwill and goodwill included in the carrying value of equity method investments are no longer to be amortized. In addition, SFAS No. 142 requires that goodwill be tested for impairment upon first adoption and annually thereafter, or more frequently if events or changes in circumstances indicate that it might be impaired, using the prescribed two-step process. The first step screens for potential impairment of goodwill if the fair value of

the reporting unit is less than its carrying value, while the second step measures the amount of goodwill impairment, if any, by comparing the implied fair value of goodwill to its carrying value.

Accounting for identifiable intangible assets

Under HK GAAP, acquired identifiable intangible assets have been limited to those assets that can be identified and controlled and for which the existence of future economic benefits can be determined. In the event the criteria cannot be met, identifiable intangibles acquired in a business combination are required to be classified as a component of goodwill. Identifiable intangible assets are amortized over their expected future economic lives.

Under US GAAP, acquired identifiable intangible assets are required to be determined separately from goodwill based on their fair value as at the acquisition date. SFAS No. 141, "Business Combinations", which became effective and was adopted by us on January 1, 2002, adds new and specific criteria that must be applied to determine whether an intangible asset should be recognized apart from goodwill. In particular, an intangible asset which is acquired in a business combination should be recognized as an asset apart from goodwill if it satisfies either the "contractual-legal" or "separability" criterion. As at the date that SFAS No. 142 was initially applied in its entirety, intangible assets that have been recognized separately from goodwill prior to the adoption of SFAS No. 142 should be reclassified as goodwill if the intangible assets do not meet one of the criteria for recognition apart from goodwill as stated in SFAS No. 141 or have been specifically excluded under SFAS No. 141. SFAS No. 141 specifically excludes assembled workforce acquired in a business combination from recognition apart from goodwill. In addition, as at the date SFAS No. 142 was initially applied in its entirety, the carrying amounts of any previously acquired intangible assets that have been included in the amount reported as goodwill should be reclassified and accounted for as intangible assets apart from goodwill only if (i) the asset meets the recognition criteria mentioned above; (ii) the asset had been assigned an amount equal to its estimated fair value at the date that the business combination was initially recorded; and (iii) the asset was accounted for separately from goodwill as evidenced by the maintenance of accounting records for that asset.

With the adoption of SFAS No. 142 on January 1, 2002, intangible assets with indefinite useful lives are no longer amortized, while intangible assets with finite useful lives will continue to be amortized over their useful lives which are no longer limited to 40 years.

Under HK GAAP, intangible assets are required to be tested for impairment when there are indications that impairment may exist. Impairment loss on intangible assets is recognized based on the excess, if any, of the carrying value of the intangible assets over the recoverable amount. The recoverable amount of an asset is the greater of its net selling price and value in use.

Under US GAAP, SFAS No. 144, which became effective January 1, 2002, requires that intangible assets with finite useful lives be tested for impairment if events or changes in circumstances indicate that the asset might be impaired, using the prescribed two-step process. The first step is a recoverability test which screens for potential impairment of an asset based on whether the undiscounted sum of estimated future cash flows from an asset is less than its carrying value. The second step measures the amount of impairment, if any, by comparing the fair value of the asset to its carrying value.

Impairment of long-lived assets

Under HK GAAP, if an indication of impairment exists, the asset's recoverable amount is estimated and an impairment loss is recognized in the income statement whenever the carrying value of an asset exceeds its recoverable amount. The recoverable amount of an asset is the greater of its net selling price and value in use.

Under HK GAAP, an impairment of long-lived assets is charged to the income statement as an expense unless it reverses a previous revaluation increase, in which case, it is charged directly against any related revaluation reserve to the extent the reduction does not exceed the amount held in the revaluation reserve in respect of the same item. Any excess will be charged to the income statement.

Under US GAAP, if the carrying value of a long-lived asset is less than its undiscounted sum of estimated future cash flows, the long-lived asset should be adjusted downward to the lower of carrying value and fair value

less cost to sell, establishing a new cost basis. The new cost basis is not changed for subsequent recoveries in fair value.

Investments in marketable equity securities

Under HK GAAP, investments in marketable equity securities are classified as either investment securities or other investments. Investment securities are included in the balance sheet at cost less any provisions for impairment. Provisions, if any, are reversed to the income statement when the circumstances and events that led to the provision cease to exist. Other investments are carried at fair value in the balance sheet and any unrealized holding gain or loss is recognized in the income statement.

Under US GAAP, investments in marketable equity securities are classified as either available-for-sale or trading securities. Trading securities are bought and held principally for the purpose of selling them in the near term and, thus, held for only a short period of time. Trading securities are carried at fair value and any unrealized gains or losses are included in net profit or loss for the period. Available-for-sale securities are investments not classified as trading securities. Available-for-sale securities are carried at fair value and any unrealized gains or losses are reported as a component of comprehensive income.

If a decline in fair value of available-for-sale securities is judged to be other than temporary, the cost basis of the individual security shall be written down to fair value as a new cost basis and the amount of the write-down shall be included in earnings as a realized loss. The new cost basis is not changed for subsequent recoveries in fair value. Subsequent increases in the fair value (and subsequent decreases in fair value, if not other-than-temporary) of available-for-sale securities are included as a component of comprehensive income.

Employee stock option schemes

We follow the current practice in Hong Kong that no accounting entry is made on grant of share options to employees. Under US GAAP, compensation expense for share options is recognized at the date of grant and amortized over the vesting period. In accordance with the provisions of SFAS No. 148 "Accounting for Stock-Based Compensation—Transition and Disclosure—an amendment of FASB Statement No. 123", we have selected only the disclosure provisions related to employee stock options and follow the recognition and measurement provisions of Accounting Principles Board, or APB, Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations in accounting for share options granted to employees. Accordingly, the amount of compensation expense is determined based on the intrinsic value, i.e. the excess, if any, of the quoted market price of the shares over the exercise price of the options at the date of the grant and is amortized over the vesting period of the option concerned.

During 2002, we cancelled and reissued certain staff options that had the effect of re-pricing the previously outstanding options. Under US GAAP, variable option accounting is applied for these options and the difference between the intrinsic value of the new share options granted and the intrinsic value of the old share options is calculated and amortized to income, requiring remeasurement at each reporting date.

Share award schemes

We have established two employee share incentive award schemes in 2002 under which selected employees are awarded shares at no cost to the employees. Directors of PCCW Limited are not eligible to participate in either scheme. The shares are either newly issued at par value or are purchased from the open market. Compensation expense for shares either purchased from the market or newly issued under the share award schemes is recognized at the date of grant and amortized over the respective vesting period. Under HK GAAP, the amount of compensation expense is measured by the issue price of the shares for newly issued shares which is the par value of the shares or the purchase price for shares purchased from the market. Under US GAAP, the amount of compensation expense is measured by the quoted market price of the shares at the measurement date less the amount, if any, that the employee is required to pay. The measurement date is not changed from the grant or award date to a later date solely by provisions that termination of employment reduces the number of shares that may be issued to an employee.

Shares granted by principal shareholder

Under HK GAAP, shares granted by the principal shareholder to our employees are not recognized in the financial statements.

Under US GAAP, shares granted by the principal shareholder to our employees are accounted for as shareholder's contribution for the purpose of enhancing or maintaining the value of the shareholder's investment. The contribution is measured by the quoted market price of the shares at the date of grant and is charged to the income statement as a compensation expense when the shares become vested.

Investment properties

Under HK GAAP, investment properties are stated on the basis of appraised values and depreciation is not provided. Under US GAAP, investment properties not held for resale are stated at historical cost less accumulated depreciation.

Revenue recognition

Under HK GAAP, revenues are recognized when services are provided, including up-front fees received for installation of equipment and activation of customer service, among others.

Staff Accounting Bulletin, or SAB, No. 104, "Revenue Recognition" issued by the SEC, applicable to financial statements prepared in accordance with US GAAP, requires, in certain cases, non-refundable up-front fees for services to be deferred and recognized over the longer of the contractual period or the expected customer relationship. Under US GAAP, we amortize these up-front fees over periods of 20 years.

Non-employee stock options

Under HK GAAP, share options issued for the provision of goods and services are not recognized in our financial statements.

Under US GAAP, the fair value of the share options granted is recorded to reflect these transactions on a similar basis as if such goods or services had been paid for in cash.

Onerous contract

Under HK GAAP, if an enterprise has a contract that is onerous, the present obligation under the contract should be recognized and measured as a provision. An onerous contract is defined as a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

Under US GAAP, no provision is allowed for obligations under onerous contracts.

Deferred income taxes

Under HK GAAP, deferred tax liabilities are provided in full on all taxable temporary differences while deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

For US GAAP purposes, deferred tax assets and liabilities are recognized for the expected future tax consequences of all taxable temporary differences and loss or tax credit carryforwards using enacted tax rates expected to be in effect when these differences are realized. Valuation allowances are recorded for deferred tax assets for which it is more likely than not that such assets will not be realized.

In general, deferred income taxes under HK GAAP and US GAAP are similar. However, as a result of the corresponding deferred tax effect for the GAAP differences mentioned elsewhere in this section such as intangible assets, there are differences in the deferred income tax recognized under HK GAAP and US GAAP.

Retirement scheme costs

With the adoption under HK GAAP of SSAP 34 “Employee benefits” from January 1, 2002, costs of retirement benefits are assessed using the projected unit credit method and the cost of providing retirement 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 who carry out a full valuation of the schemes on an annual basis. We chose to recognize the entire transitional liability, which represents the excess of the defined benefit obligation over fair value of the scheme assets as at January 1, 2002, against the opening balance of the accumulated deficit as at January 1, 2002 and carry such liability in the consolidated balance sheet as non-current liabilities.

Whenever a settlement or curtailment occurs, a gain or loss from settlement or curtailment, which comprises the resulting change in the present value of the defined benefit obligation and the fair value of scheme assets and any related unrecognized actuarial gains or losses, is recognized in the income statement. When a settlement or curtailment relates to only some of employees covered by the retirement scheme, the gain or loss includes a proportionate share of the unrecognized actuarial gain or loss based on the basis of the defined benefit obligation before and after the settlement or curtailment.

US GAAP requires that retirement scheme costs be recorded in accordance with SFAS No. 87, “Employers’ Accounting for Pensions” which recognizes in each accounting period the cost of providing retirement benefits earned by employees in that period. We adopted SFAS No. 87 on May 25, 2000 (i.e., the date of our acquisition of HKT in 2000) for US GAAP purposes.

SFAS No. 88 addresses an employer’s accounting for a settlement or a curtailment of its benefit pension scheme. The statement requires the employer to recognize a gain or loss in the income statement, the unrecognized net gain or loss plus any remaining unrecognized net assets or liabilities when a scheme obligation is settled. When a curtailment occurs, the unrecognized prior service cost associated with years of service no longer expected to be rendered shall be recognized as a loss.

On adoption of SSAP 34 on January 1, 2002 for HK GAAP purposes, the accounting for retirement scheme costs became substantially the same under both HK GAAP and US GAAP. However, GAAP reconciling adjustments still arise due to the difference in adoption dates of the applicable accounting standards under HK GAAP and US GAAP.

In conjunction with the acquisition of HKT, we assumed sponsorship of HKT’s defined benefit schemes.

Derivative instruments

Under HK GAAP, there are no specific accounting standards governing the accounting for derivative instruments. As a result, we adopt the following accounting policies under HK GAAP:

- Derivative financial instruments are not recognized in the financial statements;
- Premiums received or paid on written or purchased equity options are amortized over the terms of the options;
- Premiums received or paid on early termination or amendments of contract terms of the derivative financial instruments and any unamortized balance of premiums received or paid on terminated or amended derivative financial instruments are recognized in the income statement in the year of termination or amendment;
- Interest income or expenses arising from interest rate swap contracts are netted off against the related interest income or expenses applicable to the on-balance sheet items.

Under US GAAP, we adopt SFAS No. 133 “Accounting for Derivative Instruments and Hedge Activities”, as amended by SFAS No. 138 “Accounting for Certain Derivative Instruments and Certain Hedging Activities”, which requires all financial instruments and derivatives to be recognized on the balance sheet at fair value. The accounting for changes in fair value depends on whether the derivative instrument is designated and qualifies as a hedging

relationship. The gain or loss on a derivative instrument designated and qualifying as a fair value hedging instrument as well as the offsetting loss or gain on the hedged item attributable to the hedged risk shall be recognized currently in the income statement. The gain or loss on a derivative instrument designated and qualifying as a cash flow hedging instrument shall be reported as a component of other comprehensive income and reclassified into the income statement in the same period affected by the hedged forecasted transaction. The gain or loss on a derivative instrument not qualifying for hedge accounting should be recognized in the income statement.

In 1999, we issued an option, to the minority shareholder of a subsidiary to enable the minority shareholder to exchange its shares in the subsidiary for a fixed number of shares to be issued by us. For US GAAP purposes, the transaction has been reflected as if the acquisition of the minority interest in a subsidiary operating in the Internet services business in the "Others" segment had occurred at the date of grant. This instrument was recorded based on the fair value at the date of grant and purchase accounting was applied to allocate value to the net assets acquired. Under HK GAAP, the option was not recognized in the financial statements until the minority shareholder exercised the options for exchange of shares in 2002.

During 2002, we entered into certain equity swap contracts in relation to certain of our investments in equity securities which have been classified as other investments and trading securities in the financial statements under HK GAAP and US GAAP respectively. Each of these equity swap contracts comprises a debt instrument (the host contract) and embedded derivatives that are indexed to the prices of the equity investments. There are no specific accounting standards governing equity swap contracts under HK GAAP. The transactions were considered a combination of a forward sale of the trading securities and a call option held by the counterparty. The premium received from writing the call options was amortized over the term of the contracts. Under US GAAP, the debt instrument is carried at cost less discount while the compound embedded derivatives are bifurcated from the host contract and are separately accounted for in the financial statements at their fair market value at each balance sheet date.

Loss on disposal of interest in RWC

We disposed of our remaining 40% interest in RWC on June 28, 2002. Under HK GAAP, the disposal was recognized at the date of sale.

For US GAAP purposes, on first adoption of SFAS No. 142 on January 1, 2002, the goodwill recorded in RWC was tested and was found to be impaired. Our share of the impairment loss was included in "Cumulative effect of a change in accounting principle, net of tax" in the income statement for the year ended December 31, 2002 with a corresponding reduction in the carrying value of our investment in RWC. As a result of the reduction in carrying value, no loss on disposal was incurred under US GAAP when our 40% interest in RWC was sold in June 2002.

Equity pick up of results of Reach

Under HK GAAP, we did not recognize the losses of Reach for the year ended December 31, 2004 as the original investment in Reach and previous unsecured advances to Reach had been fully written off in 2003. Since the additional loan to Reach of approximately US\$155.45 million (approximately HK\$1,213 million) resulting from the purchase of the loan from the syndicate of banks in 2004 is fully secured, no further recognition of the losses of Reach by us is allowed under HK GAAP.

Under US GAAP, regardless of whether the loan receivable from Reach is secured or not, recognition of our share of the losses of Reach is required as long as we continue to have investments in loans to Reach.

Recent HK GAAP Accounting Pronouncements

The HKICPA has undertaken to converge by January 1, 2005 all Hong Kong Financial Reporting Standards, or HKFRSs, with International Financial Reporting Standards, or IFRSs, issued by the International Accounting Standards Board. As a result, the HKICPA has issued a number of new and revised HKFRSs, including Hong Kong Accounting Standards, or HKASs, HKAS Interpretations, or HKAS-INTS, and HKFRSs, which were aligned with the requirements of IFRSs in effect as at December 31, 2004 in all material respects and are effective for accounting periods beginning on or after January 1, 2005. As a consequence, the corresponding SSAPs and Interpretations are

superseded effective January 1, 2005. The applicable HKFRSs required to be adopted by us for the year ending December 31, 2005 are set out below.

| HKFRSs issued | | Standards superseded | |
|----------------------|---|-----------------------------|--|
| HKAS 1 | Presentation of Financial Statements | SSAP 1 | Presentation of financial statements |
| HKAS 2 | Inventories | SSAP 22 | Inventories |
| HKAS 7 | Cash Flow Statements | SSAP 15 | Cash flow statements |
| HKAS 8 | Accounting Policies, Changes in Accounting Estimates and Errors | SSAP 2 | Net profit or loss for the period, fundamental errors and changes in accounting policies |
| HKAS 10 | Events After the Balance Sheet Date | SSAP 9 | Events after the balance sheet date |
| HKAS 11 | Construction Contracts | SSAP 23 | Construction contracts |
| HKAS 12 | Income Taxes | SSAP 12 | Income taxes |
| HKAS 14 | Segment Reporting | SSAP 26 | Segment reporting |
| HKAS 16 | Property, Plant and Equipment | SSAP 17 | Property, plant and equipment |
| HKAS 17 | Leases | SSAP 14 | Leases |
| HKAS 18 | Revenue | SSAP 18 | Revenue |
| HKAS 19 | Employee Benefits | SSAP 34 | Employee benefits |
| HKAS 21 | The Effects of Changes in Foreign Exchange Rates | SSAP 11 | Foreign currency translation |
| HKAS 23 | Borrowing Costs | SSAP 19 | Borrowing costs |
| HKAS 24 | Related Party Disclosures | SSAP 20 | Related party disclosures |
| HKAS 27 | Consolidated and Separate Financial Statements | SSAP 32 | Consolidated financial statements and accounting for investments in subsidiaries |
| HKAS 28 | Investment in Associates | SSAP 10 | Accounting for investments in associates |
| HKAS 31 | Interests in Joint Ventures | SSAP 21 | Accounting for interests in joint ventures |
| HKAS 32 | Financial Instruments: Disclosure and Presentation | SSAP 24 | Accounting for investments in securities |
| HKAS 33 | Earnings Per Share | SSAP 5 | Earnings per share |
| HKAS 36 | Impairment of Assets | SSAP 31 | Impairment of assets |
| HKAS 37 | Provisions, Contingent Liabilities and Contingent Assets | SSAP 28 | Provisions, contingent liabilities and contingent assets |
| HKAS 38 | Intangible Assets | SSAP 29 | Intangible assets |
| HKAS 39 | Financial Instruments: Recognition and Measurement | SSAP 24 | Accounting for investments in securities |
| HKAS 40 | Investment Property | SSAP 13 | Accounting for investment properties |
| HKFRS 2 | Share-based Payment | – | |
| HKFRS 3 | Business Combinations | SSAP 30 | Business combinations |
| HKFRS 5 | Non-current Assets held for Sale and Discontinued Operations | SSAP 33 | Discontinuing operations |
| HKAS-INT 21 | Income Taxes – Recovery of Revalued Non-Depreciable Assets | Interpretation 20 | Income Taxes – Recovery of revalued non-depreciable assets |

The adoption of HKAS 1, 2, 7, 8, 10, 11, 12, 14, 16, 17, 18, 19, 21, 23, 24, 27, 28, 31, 33, 36, 37 and HKFRS 5 is not expected to result in substantial changes to our existing accounting policies under HK GAAP. In summary:

- HKAS 1 will affect certain presentations of accounts in the consolidated balance sheet, consolidated income statement and consolidated statement of changes in equity;
- HKAS 2, 8, 16, 21, 28 and 36 will affect certain disclosures in the financial statements;

- HKAS 7, 10, 11, 12, 14, 17, 18, 19, 23, 27, 31, 33, 37 and HKFRS 5 are not expected to have any material impact as our existing accounting policies already comply with the standards in all material respects; and
- HKAS 24 will affect the identification of related parties and the disclosure of related party transactions.

For the HKFRSs set out below, we are currently assessing the potential impact but are not yet in a position to state whether these HKFRSs would have a significant impact on our financial statements presented in accordance with HK GAAP:

- HKAS 38 requires an intangible asset to be recognized as an asset apart from goodwill if it satisfies either the “separability” or “contractual-legal” criterion. It requires intangible assets with infinite useful lives be no longer amortized but tested for impairment at least annually. Intangible assets with finite useful lives are required to be amortized over their useful lives, which are no longer limited to the rebuttable presumption of 20 years, and tested for impairment on the occurrence of a triggering event.
- HKAS 39 prescribes the principles for recognition and measurement for all financial instruments, including financial assets, financial liabilities and contracts to buy or sell non-financial items, and also extends fair value principles to the measurement of the financial instruments.
- HKAS 32 prescribes requirements for the presentation of all financial instruments and identifies required information for disclosure in the financial statements.
- HKAS 40 allows investment properties to be accounted for under the cost model, i.e. at cost less depreciation and impairment loss, or the fair value model. However, if the investment properties are carried at fair value, HKAS 40 requires any changes in the fair value of the investment properties to be reported directly in the income statement. In addition, the transitional provisions of HKAS 40 require any investment property revaluation reserve existing at the date of first adoption of HKAS 40 to be eliminated by way of an opening balance adjustment to the retained earnings, and, if an entity has disclosed publicly the fair value of the investment properties in earlier periods, the standard encourages, but does not require, the adjustment of opening balance of retained earnings for the earliest period presented for which such fair value was disclosed publicly and the restatement of the comparative information for those periods.
- HKFRS 2 prescribes the recognition principles and fair value measurement basis for all share-based payment transactions, including (i) equity-settled share-based payment transactions, (ii) cash-settled share-based payment transactions; and (iii) transactions with a choice of whether they are settled in cash or by issuing equity instruments. It requires companies to reflect in their profit or loss and financial position the effects of share-based payment transactions, including expenses associated with transactions in which share options are granted to employees. HKFRS 2 applies to grants of shares, share options or other equity instruments after November 7, 2002 and not yet vested as at January 1, 2005, and it applies retrospectively to liabilities arising from share-based payment transactions existing as at January 1, 2005.
- HKFRS 3 requires all business combinations for which the agreement date is on or after January 1, 2005 to be accounted for using the purchase method. Goodwill acquired in a business combination will no longer be amortized but will be subject to impairment tests at least annually in accordance with HKAS 36. Upon the adoption of HKFRS 3, the net carrying amount of goodwill carried on the balance sheet is frozen and will be tested for impairment. Goodwill previously taken directly to reserves will no longer be subject to impairment testing and will not be recognized in the income statement when all or part of the business to which the goodwill relates is disposed of. Accordingly, goodwill previously taken directly to reserves will not impact the income statement in the future upon the adoption of HKAS 36.
- HKAS-INT 21 requires the deferred tax arising from the revaluation of the property to be recalculated as if the investment property is held through use and charged to the income statement.

In March 2005, the HKICPA issued Interpretation 24 “Revenue – Pre-completion contracts for the sale of development properties.” The Interpretation concludes that property developers shall apply HKAS 18 in recognizing revenue arising from pre-completion contracts for the sale of development properties that do not fall within the

scope of HKAS 11 and accordingly, recognize revenue only when all of the criteria specified in HKAS 18 are met. The Interpretation is first effective for pre-completion contracts for the sale of development properties entered into on or after January 1, 2005 and is therefore required to be adopted by us for the year ending December 31, 2005. We are currently assessing the potential impact on the adoption of this Interpretation on our financial statements presented in accordance with HK GAAP.

Recent US GAAP Accounting Pronouncements

In March 2004, the Emerging Issues Task Force, or EITF, reached a consensus on EITF Issue No. 03-1, or EITF 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." EITF 03-1 addresses the meaning of other-than-temporary impairment and its application to investments in debt and equity securities accounted for under SFAS No. 115 "Accounting for certain Investments in Debt and Equity Securities" and to investments in equity securities accounted for using the cost method, as well as new disclosure requirements for investments that are deemed to be temporarily impaired. EITF 03-1 currently provides a multi-step model for determining whether an impairment of an investment is other-than-temporary, and requires an impairment charge to be recognized in earnings in the period in which an other-than-temporary impairment has occurred based on the difference between the adjusted cost basis of the investment and its fair value at the balance sheet date. EITF 03-1 requires certain quantitative and qualitative disclosures about unrealized losses pertaining to certain investments and beneficial interests, in addition to certain disclosures about cost method investments when the fair value of such investments is not currently estimable. While the disclosure requirements for specified debt and equity securities and cost method investments are effective for annual periods ending after December 15, 2003, the Financial Accounting Standards Board, or FASB, has delayed the effective date for the application of multi-step measurement and recognition guidance until issuance of implementation guidance contained in FASB Staff Position EITF 03-1-1 "Effective Date of Paragraphs 10-20 of EITF Issue No. 03-1 "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments"." We are currently assessing the impact of this statement on our results of operations, financial position and cash flows upon adoption and have not yet completed that assessment.

In November 2004, the FASB issued SFAS No. 151 "Inventory Costs – an amendment of ARB No. 43, Chapter 4." SFAS No. 151 amends Accounting Research Bulletin No. 43, Chapter 4, to clarify that abnormal amounts of idle facility expense, freight, handling costs and wasted materials (spoilage) should be recognized as current-period charges. In addition, SFAS No. 151 requires that the allocation of fixed production overhead costs to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. We do not expect that the adoption of SFAS No. 151 will have a material impact on our results of operations, financial position and cash flows.

In December 2004, the FASB issued SFAS No. 153 "Exchange of Non-monetary Assets – an amendment of APB Opinion No. 29." APB Opinion No. 29 "Accounting for Non-monetary Transactions" requires non-monetary exchanges of assets to be recorded at fair value with an exception for exchanges of similar productive assets, which can be recorded on a carryover basis. SFAS No. 153 amends APB Opinion No. 29 to eliminate the current exception and replaces it with a general exception for exchanges of non-monetary assets that do not have commercial substance. A non-monetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS No. 153 is effective for non-monetary asset exchanges that take place in fiscal periods beginning after June 15, 2005. We are currently assessing the impact of this statement on our results of operations, financial position and cash flows upon adoption and have not yet completed that assessment.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), or SFAS No. 123(R), "Share-Based Payment." SFAS No. 123(R) replaces SFAS No. 123 "Accounting for Stock-Based Compensation", supersedes APB Opinion No. 25 "Accounting for Stock Issued to Employees" and amends SFAS No. 95 "Statement of Cash Flows." SFAS No. 123(R) requires all share-based awards to employees, including grants of employee stock options, to be recognized in the financial statements based on their grant-date fair values. The related compensation costs are to be recognized over the period during which an employee is required to provide service in exchange for the award. Excess tax benefits are to be recognized as an addition to paid-in-capital and reflected as financing cash inflows in the statement of cash flows. For public entities that do not file as small business issuers, SFAS No. 123(R) is effective for all awards granted after June 15, 2005, and to awards modified, repurchased, or cancelled after that date. We will adopt the modified prospective application transition method under the transition provisions

of SFAS No. 123(R) to new and existing plans as of January 1, 2006. The grant-date fair values of unvested awards that are outstanding on the date of adoption will be charged to expense over their remaining vesting periods. We are currently assessing the impact of this statement on our results of operations, financial position and cash flows upon adoption and have not yet completed that assessment.

Appendix A

Reconciliation of Non-GAAP Figures to Equivalent GAAP Figures

For improved clarity, we are providing definitions of non-GAAP measures and reconciliations of non-GAAP measures to the appropriate GAAP measures.

Net Debt

Net debt is a measure commonly used for measuring the exposure to borrowings that a company has after netting off the cash balance. It refers to our long-term liabilities plus short-term borrowings and minus cash and cash equivalents. Reconciliation of net debt as at December 31, 2004 and 2003 to long-term liabilities and short-term borrowings was as follows:

| | 2004 | 2003 |
|--------------------------------|----------------|---------------|
| | (HK\$ million) | |
| Net debt | 26,200 | 29,131 |
| Add: Cash and cash equivalents | 3,494 | 5,535 |
| | <u>29,694</u> | <u>34,666</u> |
| Representing: | | |
| Long-term liabilities | 20,663 | 34,506 |
| Short-term borrowings | 9,031 | 160 |
| | <u>29,694</u> | <u>34,666</u> |

Adjusted EBITDA

Adjusted EBITDA is commonly used in the telecommunications industry as an indicator of operating performance, leverage and liquidity. We also believe that the presentation of adjusted EBITDA provides an additional measure for assessing our performance on these aspects. Our use of adjusted EBITDA is not necessarily comparable with similarly titled measures used by other companies. Adjusted EBITDA margin equals adjusted EBITDA as a percentage of turnover. Reconciliation of adjusted EBITDA figures to net cash inflow from operating activities was as follows:

| | 2004 | 2003 | 2002 |
|--|----------------|---------|---------|
| | (HK\$ million) | | |
| Adjusted EBITDA | 6,552 | 7,372 | 8,120 |
| Restructuring costs | (51) | (38) | (311) |
| Provision for inventory obsolescence | 9 | 70 | 26 |
| Interest capitalized | 20 | 17 | 33 |
| Provision for doubtful debts | 45 | 115 | 148 |
| Dividend income | – | 10 | – |
| Decrease/(Increase) in operating assets: | | | |
| –properties under development for sale | (2,480) | 286 | (2,204) |
| –inventories | 58 | (123) | (135) |
| –accounts receivable | (113) | 54 | (32) |
| –prepayment, deposits and other current assets | 72 | (245) | 69 |
| –sales proceeds held in stakeholders' accounts | (2,016) | (2,402) | – |
| –restricted cash | 1,797 | (2,701) | – |
| –amounts due from related companies | 94 | (25) | 204 |

| | 2004 | 2003 | 2002 |
|---|----------------|---------|---------|
| | (HK\$ million) | | |
| Increase/(Decrease) in operating liabilities: | | | |
| –accounts payable, provisions, accruals, other payables and deferred income | 2,488 | 3,448 | 159 |
| –amount due to minority shareholders of subsidiaries | – | – | 5 |
| –gross amounts due to customers for contract work | 5 | (10) | (38) |
| –amounts due to related companies | (49) | (322) | (446) |
| –advances from customers | (106) | (63) | (277) |
| Interest paid | (338) | (294) | (221) |
| Arrangement fee on bank loans and other borrowings | (30) | (29) | (20) |
| Interest received | 41 | 93 | 82 |
| Tax paid | | | |
| –Hong Kong profits tax paid | (1,233) | (1,371) | (1,243) |
| –Overseas tax paid | – | (26) | (2) |
| Net cash inflow from operating activities | 4,765 | 3,816 | 3,917 |
| Turnover | 22,895 | 22,550 | 20,112 |
| Adjusted EBITDA margin | 29% | 33% | 40% |

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management

The following table sets forth information about the persons who are our Directors as at April 30, 2005:

| Name | Position | Date of Appointment |
|---|--|---------------------------------|
| Li Tzar Kai, Richard | Chairman | August 3, 1999 |
| So Chak Kwong, Jack | Deputy Chairman and Group Managing Director | July 25, 2003 |
| Yuen Tin Fan, Francis | Deputy Chairman and Executive Director | August 3, 1999 |
| Peter Anthony Allen | Executive Director | August 3, 1999 |
| Alexander Anthony Arena | Group Chief Financial Officer, Deputy Chairman of Executive Committee and Executive Director | August 3, 1999 |
| Chung Cho Yee, Mico | Executive Director | November 4, 1996 |
| Lee Chi Hong, Robert | Executive Director | September 5, 2002 |
| Sir David Ford, KBE, LVO | Non-Executive Director | June 1, 2002 |
| Zhang Chunjiang | Non-Executive Director | April 1, 2005 |
| Dr. Tian Suning | Deputy Chairman and Non-Executive Director | April 1, 2005 |
| Dr. Fan Xingcha | Non-Executive Director | April 1, 2005 |
| Prof. Chang Hsin-kang | Independent Non-Executive Director | October 13, 2000 |
| Dr. Fung Kwok King, Victor | Independent Non-Executive Director | October 13, 2000 |
| Dr. The Hon. Li Kwok Po, David, GBS, JP | Independent Non-Executive Director | October 13, 2000 |
| Sir Roger Lobo, CBE, LLD, JP | Independent Non-Executive Director | August 3, 1999 |
| Aman Mehta | Independent Non-Executive Director | February 10, 2004 |
| The Hon. Raymond George Hardenbergh Seitz | Independent Non-Executive Director | October 13, 2000 ⁽¹⁾ |

(1) The Hon. Raymond George Hardenbergh Seitz was redesignated as an Independent Non-Executive Director from Non-Executive Director on February 1, 2005.

Li Tzar Kai, Richard, aged 38, is chairman of PCCW and chairman of PCCW's Executive Committee. He is also chairman and chief executive of the Pacific Century Group, chairman of PCPD, chairman of PCPD's Executive Committee and chairman of Singapore-based PCRD.

Mr. Li is a governor of the World Economic Forum for Information Technologies and Telecommunications and a member of the Center for Strategic and International Studies' International Councillors' Group in Washington, DC.

Mr. Li is also a member of the Global Information Infrastructure Commission and a member of the Panel of Advisors to the United Nations Information and Communication Technologies Task Force.

So Chak Kwong, Jack, aged 60, joined PCCW in 2003 as deputy chairman and group managing director.

After beginning his career with the Hong Kong Government, Mr. So joined the private sector in 1978 and held various posts in the securities, banking and property industries.

Before taking up his post at PCCW, Mr. So was chairman and chief executive of Mass Transit Railway Corporation Limited from 1995 to 2003.

He served as executive director of the Hong Kong Trade Development Council from 1985 to 1992.

Mr. So is a non-executive director of The Hongkong and Shanghai Banking Corporation Limited and Cathay Pacific Airways Limited. He also sits on a number of other committees and organizations, including The University of Hong Kong Council, the Hong Kong General Chamber of Commerce and the Hong Kong—United States Business Council.

Yuen Tin Fan, Francis, aged 52, joined the Pacific Century Group in 1996 as deputy chairman and is currently a deputy chairman of PCCW. He is also a member of PCCW's Executive Committee, chairman of Pacific Century Insurance Holdings Limited and deputy chairman of PCPD. In addition, Mr. Yuen is deputy chairman of PCPD's Executive Committee. He is also an executive director and deputy chairman of PCRD.

From 1988 to 1991, he was chief executive of SEHK. Mr. Yuen was also a founding director of Hong Kong Securities Clearing Company Limited. He served from 1992 to 1994 as a member of the International Markets Advisory Board of NASDAQ in the United States.

He served as managing director of Citicorp Scrimgeour Vickers Hong Kong Limited in October 1986 and was appointed to the firm's main board in London in 1987. Mr. Yuen worked for Wardley, a merchant bank, from 1977 to 1985.

Mr. Yuen is chairman of the Board of Trustees of the Hong Kong Centre for Economic Research, a member of the Shanghai People's Political Consultative Committee and a member of the Board of Trustees of Shanghai's Fudan University.

He received a Bachelor of Arts degree in economics from the University of Chicago and is currently a member of the Board of Trustees of the university.

Peter Anthony Allen, aged 49, is an executive director and Head of Human Resources at PCCW. He is also an executive director and chief financial officer of PCRD and the Pacific Century Group, an executive director of Pacific Century Insurance Holdings Limited and chief executive officer and representative director of JALECO LTD.

He was educated in England and has a degree in Economics from Sussex University. He is a Fellow of both the Institute of Chartered Accountants in England and Wales and the Institute of Certified Public Accountants of Singapore.

Mr. Allen joined KPMG Peat Marwick in 1976 and in 1980 joined Occidental Petroleum Corporation. In 1983, Mr. Allen joined Schlumberger Limited and worked in various countries holding key management positions. In 1989, Mr. Allen moved to Singapore as regional financial director of the Vestey Group.

He joined Bousteadco Singapore Limited as group operations controller in 1992, and Morgan Grenfell Investment Management (Asia) Limited as director and chief operating officer in 1995. He joined the Pacific Century Group in 1997.

Alexander Anthony Arena, aged 54, is an executive director of PCCW, deputy chairman of PCCW's Executive Committee, group chief financial officer of PCCW, a director of PCRD, a director of Pacific Century Insurance Holdings Limited and an executive director and Executive Committee member of PCPD. He joined the Pacific Century Group in 1998.

Prior to joining the Pacific Century Group, Mr. Arena was a Special Policy Adviser to the Hong Kong Government from 1997 to 1998. From 1993 to 1997, he was director-general of telecommunications at the Office of the Telecommunications Authority of Hong Kong, as well as a member of the Broadcasting Authority.

Before his appointment as director-general, Mr. Arena was recruited to plan a reform program for the liberalization of Hong Kong's telecommunications sector. Prior to his appointment to the Hong Kong Government, he was an inaugural member of the Australian Telecommunications Authority, where he served for four years.

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

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

Chung Cho Yee, Mico, aged 44, joined the Pacific Century Group in March 1999 and is an executive director responsible for the Pacific Century Group's merger and acquisition activities, and a member of PCCW's Executive Committee. He is a qualified solicitor by profession.

Mr. Chung graduated from the University College, University of London, England, with a law degree in 1983. He qualified as a solicitor in Hong Kong in 1986, after which he worked in the commercial department of a law firm in Hong Kong for two years. He joined the corporate finance department of Standard Chartered Asia Limited, the investment banking arm of Standard Chartered Bank, in 1988.

He became a director and the general manager of Bond Corporation International Ltd in 1990, leaving to join China Strategic Holdings Ltd in January 1992.

Lee Chi Hong, Robert, aged 53, joined PCCW in August 2002, and is an executive director of PCCW and a member of PCCW's Executive Committee. He is also an executive director and chief executive officer of PCPD and a member of PCPD's Executive Committee.

Mr. Lee was previously an executive director of Sino Land Company Limited, where his responsibilities included sales, finance, acquisitions, investor relations, marketing and property management.

Prior to joining Sino Land, Mr. Lee was a senior partner at Deacons in Hong Kong, where he specialized in banking, property development, corporate finance and dispute resolution in Hong Kong and the PRC. Before that, Mr. Lee was a solicitor with the London firm of Pritchard Englefield & Tobin. He was enrolled as a solicitor in the U.K. 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 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, PRC.

Mr. Lee graduated from Cornell University in 1975 with a bachelor's degree in Political Science.

Sir David Ford, KBE, LVO, aged 70, is a non-executive director of PCCW. He started his working life as an Army officer in the Royal Artillery. He served in five different continents and, during his last five years with the Army, served with the Commando Brigade, seeing 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 in the Northern Ireland Office. He attended the Royal College of Defence Studies in 1982. Most recently, he was Chief Secretary and Deputy Governor in the Hong Kong Government from 1986 to 1993, and then Hong Kong Commissioner in London until the change of sovereignty in June 1997.

Zhang Chunjiang, aged 46, became a non-executive director of PCCW on April 1, 2005 in accordance with the terms of the CNC Subscription Agreement. He is the Executive Chairman and an Executive Director of CNC HK, a company listed on the SEHK. He has also served as President of the CNC Group since May 2003.

Prior to joining the CNC Group, Mr. Zhang served as Vice Minister of the Ministry of Information Industry of the PRC and was one of the most senior regulatory officials in the PRC telecommunications industry from December 1999 to May 2003. From August 1993 to December 1999, Mr. Zhang held a series of senior-level positions at the former Liaoning Provincial Posts and Telecommunications Bureau, the former Ministry of Posts and Telecommunications of the PRC and the Ministry of Information Industry, including serving as the Deputy Director of the former Liaoning Provincial Posts and Telecommunications Administration Bureau, Director of Mobile Communications Administration Bureau of the former Ministry of Posts and Telecommunications and Deputy Director of Telecommunications Administration Bureau of the Ministry of Information Industry.

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

Dr. Tian Suning, aged 41, became deputy chairman and non-executive director of PCCW on April 1, 2005 in accordance with the terms of the CNC Subscription Agreement. He is the Vice Chairman, Executive Director and the Chief Executive Officer of CNC HK. He has also served as Vice President of CNC since April 2002. Since 1999, he has served as Chief Executive Officer of China Netcom (Holdings) Company Limited and CNC HK. Since March 2003, he has also served as the Chief Executive Officer of Asia Netcom Corporation Limited.

Prior to joining China Netcom (Holdings) Company Limited, Dr. Tian was the co-founder and Chief Executive Officer of AsiaInfo Holdings Inc., a NASDAQ-listed company providing software and networking solutions in China. Dr. Tian has extensive experience and knowledge in the telecommunications industry and international financing and acquisitions.

Dr. Tian received a Ph.D. in natural resources management from Texas Tech University in 1992, an M.S. degree in ecology from the Graduate School of the Chinese Academy of Sciences in 1988, and a B.S. degree in environmental biology from Liaoning University in 1985. Dr. Tian is also a director of AsiaInfo Holdings Inc., a NASDAQ-listed company, Trend Micro Inc., a company listed in the Tokyo Stock Exchange and an independent director of TCL Corporation, a company listed on the Shenzhen Stock Exchange.

Dr. Fan Xingcha, aged 40, became a non-executive director of PCCW on April 1, 2005 in accordance with the terms of the CNC Subscription Agreement. He is the Chief Financial Officer of CNC HK. Since April 2000, Dr. Fan has served as Vice President of Strategy and Business Development and Executive Vice President of Operations of China Netcom (Holdings) Company Limited, and Chief Financial Officer of CNC HK.

Dr. Fan has also served as Chief Financial Officer of Asia Netcom Corporation Limited since March 2003. Prior to joining China Netcom (Holdings) Company Limited, Dr. Fan was a senior consultant of McKinsey & Company in its Shanghai office.

Dr. Fan received a Ph.D. degree in computer science from Flinders University in 1996 and a master's degree in electrical engineering from Southeast University in China in 1987.

Professor Chang Hsin-kang, aged 64, is an independent non-executive director of PCCW. Professor Chang serves as an independent non-executive director of Pacific Century Insurance Holdings Limited and Pacific Century Insurance Company Limited, both of which are subsidiaries of PCRD, a substantial shareholder of PCCW.

Professor Chang has been President and University Professor of City University of Hong Kong since 1996. Prior to joining City University, he was Dean of the School of Engineering at the University of Pittsburgh in the U.S. from 1994 to 1996, Founding Dean of the School of Engineering at Hong Kong University of Science and Technology from 1990 to 1994 and Chairperson of the Department of Biomedical Engineering at University of Southern California from 1985 to 1990. He received his B.Sc. in Civil Engineering from National Taiwan University, MS in Structural Engineering from Stanford University and Ph.D. in Fluid Mechanics and Biomedical Engineering from Northwestern University.

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

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

Dr. Fung Kwok King, Victor, aged 59, is an independent non-executive director of PCCW. Dr. Fung served as a non-executive director of the former Cable & Wireless HKT Limited from November 5, 1992 until August 17, 2000.

Dr. Fung is Chairman of the Li & Fung Group of companies (including the publicly listed Li & Fung Limited, Integrated Distribution Services Group Limited and Convenience Retail Asia Limited), the Airport Authority Hong Kong, the Hong Kong University Council, the Greater Pearl River Delta Business Council and the Hong Kong – Japan Business Co-operation Committee.

He is a member of Chinese People's Political Consultative Conference and the Hong Kong Government Judicial Officers Recommendation Committee. He is also an independent non-executive director of Bank of China (Hong Kong) Limited, Orient Overseas (International) Limited and Sun Hung Kai Properties Limited. Dr. Fung holds Bachelor and Master Degrees in Electrical Engineering from the Massachusetts Institute of Technology, and a Doctorate in Business Economics from Harvard University. In 2003, the Government of the Hong Kong Special Administrative Region awarded Dr. Fung the Gold Bauhinia Star for distinguished service to the community.

Dr. The Hon. Li Kwok Po, David, GBS, JP, aged 66, is an independent non-executive director of PCCW. He was previously a non-executive deputy chairman of the former Cable & Wireless HKT Limited and served as a director of that company from November 30, 1987 until August 17, 2000.

He is chairman and chief executive of the Bank of East Asia and represents the Finance Constituency in the Legislative Council of Hong Kong. Dr. Li is a member of the Exchange Fund Advisory Committee, Banking Advisory Committee, Hong Kong Association of Banks, Mandatory Provident Fund Schemes Authority and The Hong Kong Mortgage Corporation Limited.

Sir Roger Lobo, CBE, LLD, JP, aged 81, is an independent non-executive director of PCCW, chairman of the Audit Committee and the Regulatory Compliance Committee of the Board.

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

His extensive record of public service includes serving on the Hong Kong Housing Authority, Urban Council, as a member of the Executive Council, senior member of the Legislative Council, Commissioner of Civil Aid Services, chairman of the Hong Kong Broadcasting Authority and chairman of the Advisory Committee on Post-retirement Employment.

He currently serves as chairman (Board of Trustees) of Vision 2047 Foundation, vice-patron of the Community Chest of Hong Kong and the Society for the Rehabilitation of Offenders, and Advisory Board member of the Hong Kong Aids Foundation.

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

Aman Mehta, aged 58, became an independent non-executive director of PCCW on February 10, 2004.

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

Born in India in 1946, Mr. Mehta joined HSBC group in Bombay in 1967, and after a number of assignments throughout the HSBC group, was appointed Manager-Corporate Planning at group 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. Subsequently, he held senior positions in the United States, overseeing HSBC group companies in the Americas, and later, responsibility for HSBC's operations in the Middle East.

In 1998, Mr. Mehta was re-appointed General Manager-International, after which he became Executive Director International. Then in 1999, he was appointed Chief Executive Officer, the position he held until his retirement. Subsequent to his retirement in December 2003, Mr. Mehta has taken up residence in New Delhi. Mr. Mehta 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 Jet Airways (India) Limited, MAX Healthcare Institute Limited, Raffles Holding Limited, Tata Consultancy Services Limited, Wockhardt Limited and Vedanta Resources PLC.

The Hon. Raymond George Hardenbergh Seitz, aged 64, is an independent non-executive director of PCCW and chairman of the Remuneration Committee of the Board. He was a non-executive director of PCCW from October 2000 and was redesignated an independent non-executive director on February 1, 2005. He is a director and member of the Special Committee of Hollinger International Inc. and a director of Chubb Corporation, both of which are listed on the NYSE.

He was vice-chairman of Lehman Brothers International from April 1995 to April 2003 and was the U.S. Ambassador to Great Britain from 1991 to 1994. Prior to that, he was the U.S. Assistant Secretary of State for Europe from 1989 to 1991 and Minister at the U.S. Embassy in London from 1984 to 1989.

The following persons served as directors during the year ended December 31, 2004 and had resigned or retired from office prior to April 30, 2005:

| Name | Position | Date of Resignation/ Retirement |
|------------------------|--|--|
| Cheung Wing Lam, Linus | Deputy Chairman and Executive Director | February 29, 2004 |
| Michael John Butcher | Chief Operating Officer and Executive Director | August 26, 2004 ⁽¹⁾ |

(1) Date resigned as Executive Director.

B. Compensation

Details of Directors' remuneration are set forth below:

| | Year ended December 31, 2004 |
|--|---|
| | (HK\$ million) |
| Non-executive Directors | |
| Fees | 5 |
| Executive Directors | |
| Fees | – |
| Salaries, allowances and other allowances and benefits in kind | 52 |
| Pension scheme contributions | 4 |
| Bonuses paid and payable | 65 |
| | <hr/> |
| Total | 126 |
| | <hr/> |

Pursuant to an agreement made between the Chairman and a director in 2002, 387,600 shares of the Company were transferred by the Chairman personally to that director in April 2004, being the second of three annual installments of a total of 1,162,800 shares the Chairman agreed to transfer to that director. The transfer of the third (and last) annual installment of 387,600 shares did not proceed as the director concerned resigned from the Company in September 2004. In addition, pursuant to another agreement made between the Chairman and another director in 2003, 2,161,000 shares of the Company were transferred by the Chairman personally to that director in July 2004, being the first of three annual installments of a total of 6,483,000 shares the Chairman agreed to transfer to that director. No new shares were issued by the Company and the Company did not bear any portion of the cost of the shares transferred by the Chairman.

C. Board Practices

General

The Board is responsible for the management of the Company. Key responsibilities include formulation of our group's overall strategies, the setting of management targets and supervision of management performance. The Board confines itself to making broad policy decisions, delegating responsibility for more detailed considerations to the Executive Committee under the leadership of the Chairman.

The role of the Chairman is separate from that of the Group Managing Director. The Chairman is responsible for overseeing the functioning of the Board while the Group Managing Director is responsible for managing our group's business.

Pursuant to our articles of association, one-third of the directors shall retire and be eligible for re-election at each PCCW annual general meeting.

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

Directors' Service Contracts

With one exception, our Non-Executive Directors do not have service contracts with us providing for benefit upon termination of appointment and do not have fixed terms of office. The Non-Executive Director who has a service contract with us will receive payment in lieu of notice in accordance with our statutory obligations if the contract is terminated by us other than for cause. The required notice period is six months. The payment the Director will receive in lieu of notice is his monthly basic salary for each month that notice was not provided.

With the exception of one Executive Director, our Executive Directors do not have fixed terms of office. Except as described below, the service contracts that we have with our Executive Directors do not provide for any benefits upon termination of employment, save to the extent that we would be required to make compensation payments in lieu of notice in accordance with our statutory obligations if the contract is terminated by us other than for cause. Notice periods range from six months to twelve months.

So Chak Kwong, Jack entered into a service contract with the Company for a period of three years commencing on July 25, 2003. Mr. So's service contract provides for a compensation payment from the Company for early

termination by the Company during the term of the contract. In addition, Mr. So's service contract provides for early transfer of PCCW shares from PCD in the event of early termination by the Company during the term of the contract. The number of PCCW shares he receives would be based on when he is terminated under the contract.

Michael John Butcher entered into a renewed service contract with the Company for a period of two years commencing on April 10, 2004. Apart from statutory compensation, Mr. Butcher's service contract provided for the early vesting of PCCW options and the early transfer of PCCW shares by the Chairman that are due to vest within the contract period in the event of early termination by the Company during the term of the contract. Apart from statutory salary payment, he did not receive any extra compensation in connection with his resignation from the Company in September 2004. Following his departure, the transfer of the last installment of PCCW shares by the Chairman did not proceed and all his vested and unvested share options lapsed.

Executive Committee and sub-committees

The Executive Committee of the Board meets regularly and operates as a general management committee with overall delegated authority from the Board. The Executive Committee determines group strategy, reviews trading performance, ensures adequate funding, examines major investments and monitors management performance. The Executive Committee reports through the Chairman to the Board. The current members of the Executive Committee are: Li Tzar Kai, Richard (Chairman); Alexander Anthony Arena (Deputy Chairman); So Chak Kwong, Jack; Yuen Tin Fan, Francis; Chung Cho Yee, Mico; Lee Chi Hong, Robert; and Dr. Tian Suning.

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

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

The *Operational Committee* directs all the core communications and business solutions operations.

A *Disclosure Committee* has also been established, comprising senior members of PCCW's Group Finance, Group Legal, Corporate Secretariat and Group Internal Audit departments. The Committee meets to review the procedures for the preparation and content of PCCW's annual reports on Form 20-F to the SEC to ensure compliance with the U.S. Securities Exchange Act and the U.S. Sarbanes-Oxley Act and reports to the Finance and Management Committee on an ad hoc basis.

A *PRC Business Development Committee* was established on April 1, 2005 to advise on possible opportunities for expanding our operations in the PRC and monitoring the use of funds allocated and approved by the Board or relevant committee for PRC opportunities as are approved by the Board or relevant committee.

Audit Committee

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

Under the terms of reference, the Audit Committee's responsibilities include the appointment, compensation and supervision of the external auditors. To ensure auditor independence, procedures have been adopted by the Audit Committee for the pre-approval of all audit and permitted non-audit services to be undertaken by the external auditors. The breakdown of fees paid to the external auditors for such services is set out in "Item 16.C. Principal Accountant Fees and Services." The Audit Committee meets regularly with management, internal auditors and external auditors and reviews their reports. The current members of the Audit Committee are: Sir Roger Lobo (Chairman); Prof. Chang Hsin-kang; Dr. The Hon. Li Kwok Po, David; and Aman Mehta.

Each member of the Audit Committee is an independent non-executive director.

The Audit Committee met four times in 2004 to review our financial statements and internal financial reporting, compliance processes and internal controls, as well as the work program and activities of our Group Internal Audit unit.

Nomination Committee

The Nomination Committee was formed in May 2003 to ensure fair and transparent procedures for the appointment of directors to the Board. The committee's authority and duties are set out in written terms of reference, which specify that it must comprise at least three members, the majority of whom are independent non-executive directors. The current members of the Nomination Committee are: Aman Mehta (Chairman); Li Tzar Kai, Richard; Sir Roger Lobo; Dr. The Hon. Li Kwok Po, David; The Hon. Raymond George Hardenbergh Seitz; and Zhang Chunjiang.

Remuneration Committee

The Remuneration Committee was formed in May 2003. One of its primary objectives is to ensure formal and transparent procedures for overseeing and developing policies on the remuneration packages of directors. In addition, the committee provides effective supervision and administration of the Company's share option schemes, as well as other share incentive schemes. The committee's authority and duties are set out in written terms of reference, which specify that it must comprise at least three members, the majority of whom are independent non-executive directors. Under the terms of reference, the Remuneration Committee's responsibilities include reviewing remuneration and other benefits arrangements to executive directors and administering the Company's share option schemes. The current members of the Remuneration Committee are: The Hon. Raymond George Hardenbergh Seitz (Chairman); Sir Roger Lobo; Dr. The Hon. Li Kwok Po, David; Yuen Tin Fan, Francis; and Dr. Tian Suning.

Regulatory Compliance Committee

A Regulatory Compliance Committee comprising executive and non-executive directors, but excluding Chairman Li Tzar Kai, Richard, has been established to review and monitor dealings with the Hutchison Whampoa Group and Cheung Kong Holdings Group. This is to ensure all dealings between these entities are conducted on arm's-length terms. The current members of the Regulatory Compliance Committee are Sir Roger Lobo (Chairman); Alexander Anthony Arena; Dr. The Hon. Li Kwok Po, David; Prof. Chang Hsin-kang; Dr. Fung Kwok King, Victor; and Zhang Chunjiang.

Significant Differences from Corporate Governance Practices for U.S. Companies

PCCW believes the following to be the significant differences between its corporate governance practices and the practices followed by U.S. companies under the NYSE listing standards.

U.S. companies listed on the NYSE are required to adopt and disclose corporate governance guidelines. Prior to January 1, 2005, the SEHK Listing Rules required each listed company to include in its annual report to shareholders a statement as to whether or not it has complied with the Code of Best Practice appended to the SEHK Listing Rules, or the Code, throughout the accounting period covered by the annual report. A company that has not complied with the Code provisions, or complied with only some of the Code provisions or (in the case of provisions whose requirements are of a continuing nature) complied for only part of an accounting period covered by the report, was required to specify the Code provisions with which it has not complied, and (where relevant) for what part of the reporting period such non-compliance continued, and give reasons for any non-compliance. Throughout the year ended December 31, 2004, we complied fully with the Code save that our non-executive directors are not appointed for a specific term of office. Following the amendments to our Articles of Association with effect from January 7, 2003, our directors (including non-executive directors) are subject to retirement by rotation and shall be eligible for re-election at each annual general meeting. The Code of Best Practice has been replaced by the Code on Corporate Governance Practices, or the New Code, in its entirety as of January 1, 2005. Each listed company in Hong Kong is currently required to include in its annual report to shareholders a narrative statement of how it has applied the principles under the New Code, a statement as to whether or not it has complied with the code provisions of the New Code, and details of any deviation from the code provisions of the New Code during the financial year

including considered reasons for such deviations.

Pursuant to NYSE rules applicable to U.S. companies, independent directors must comprise a majority of the board of directors while the SEHK Listing Rules require companies to have at least three independent non-executive directors. As at April 30, 2005, our Board of Directors had six independent non-executive directors, which represents one-third of its total members. We determine the independence of our independent non-executive directors based on similar criteria provided under the NYSE rules.

Pursuant to NYSE rules applicable to U.S. companies, non-management directors must meet on a regular basis without management present and independent directors must meet separately at least once per year. During 2004, our independent non-executive directors met three times as a group with external auditors, but without the Chairman or management present. However, neither the Code nor the New Code has provisions on this U.S. practice.

Pursuant to NYSE rules applicable to U.S. companies, companies are required to have a nominating/corporate governance committee, composed entirely of independent directors. In addition to identifying individuals qualified to become board members, this committee must develop and recommend to the board a set of corporate governance principles. Our Nomination Committee includes a majority of members who are independent non-executive directors and the Chairman of this Committee is an independent non-executive director. The Nomination Committee's terms of reference do not require the Committee to develop and recommend corporate governance principles for PCCW. As stated above, PCCW is subject to the corporate governance principles of the New Code.

Pursuant to NYSE rules applicable to U.S. companies, companies are required to have a compensation committee, composed entirely of independent directors. Our Remuneration Committee, which is of similar nature, includes a majority of members who are independent non-executive directors and the Chairman of this Committee is an independent non-executive director.

Pursuant to NYSE rules applicable to U.S. companies, companies must have an audit committee that satisfies the requirements of Rule 10A-3 of the U.S. Securities Exchange Act of 1934, as amended. Listed foreign private issuers, such as us, must comply with this NYSE rule by July 31, 2005. Currently, all our Audit Committee members are independent non-executive directors, whose independence have been determined based on the SEHK Listing Rules.

Pursuant to NYSE rules applicable to U.S. companies, shareholders must be given the opportunity to vote on all equity-compensation plans and material revisions thereto, with certain limited exemptions. Our share option schemes have been approved by the shareholders, but our share award schemes have been approved by our Board of Directors or the Executive Committee of our Board as shareholders' approval for such schemes is not required under the SEHK Listing Rules.

A chief executive officer of a U.S. company listed on the NYSE must annually certify that he or she is not aware of any violation by the company of NYSE corporate governance listing standards. In accordance with NYSE listing rules applicable to foreign private issuers, our Group Managing Director is not required to provide the NYSE with this annual compliance certification.

D. Employees

As at April 30, 2005, we had approximately 12,450 employees. About 75% of our current employees work in Hong Kong. For the number of employees in each of our principal business segments as at December 31, 2002, 2003 and 2004, see "Item 5. Operating and Financial Review and Prospects—Results of Operations."

A Joint Staff Council meets regularly to consult with employee representatives on various matters, including the affairs of our Company.

Our employees are not represented by any collective bargaining unit and we have never experienced a work stoppage. We do not recognize any labor unions, although we believe that some of our employees are members of unions. We believe that our relations with our employees are good.

E. Share Ownership

Directors' Interests in Shares of PCCW

The following table sets forth information regarding the share ownership of our Directors as at April 30, 2005 in PCCW.

Disclosure of interests in securities in Hong Kong is governed by the HKSF. The definition of "interests" under the HKSF is broader in scope than (i) the determination of beneficial ownership based on Rule 13d-3 of the Exchange Act and related rules and regulations or (ii) the definition of "beneficial owner" as defined in the General Instructions of Form 20-F. Therefore interests disclosed under the HKSF are not equivalent to beneficial ownership as determined by Rule 13d-3 or the definition of "beneficial ownership" under the General Instructions of Form 20-F.

Interests in PCCW

| Name of Director | Number of Ordinary Shares | | | | Underlying Shares Held under Equity Derivatives | Aggregate interests as percentage of PCCW total issued shares |
|--------------------------------|---------------------------|--------------------|---------------------------|------------------------------|---|---|
| | Personal Interests | Family Interests | Corporate Interests | Other Interests | | |
| Li Tzar Kai, Richard | – | – | 18,962,600 (Note 1(a)) | 1,746,122,668 (Note 1(b)) | 3,490,018 (Note 1(c)) | 26.33% |
| So Chak Kwong, Jack | 2,161,000 | – | – | – | 19,822,000 (Note 3) | 0.33% |
| Yuen Tin Fan, Francis | – | – | – | – | 20,068,000 (Note 2) | 0.30% |
| Peter Anthony Allen | 253,200 | – | – | – | 4,629,200 (Note 2) | 0.07% |
| Alexander Anthony Arena | 760,000 | – | – | – | 15,800,200 (Note 4) | 0.25% |
| Chung Cho Yee, Mico | 1,176,260 | 18,455 (Note 5) | – | – | 14,390,400 (Note 2) | 0.23% |
| Lee Chi Hong, Robert | 992,600 (Note 6(a)) | 511 (Note 6(b)) | – | – | 6,000,000 (Note 2) | 0.10% |
| Sir David Ford | – | – | – | – | 4,000,000 (Note 2) | 0.06% |
| Prof. Chang Hsin-kang | 64,000 | – | – | – | – | 0.001% |
| Dr. The Hon. Li Kwok Po, David | 600,000 | – | – | – | – | 0.01% |

Notes:

1. (a) Of these shares, Pacific Century Diversified Limited, or PCD, a wholly owned subsidiary of Chiltonlink Limited, held 4,709,600 shares and Eisner Investments Limited held 14,253,000 shares. Li Tzar Kai, Richard owns 100% of Chiltonlink Limited and Eisner Investments Limited.
- (b) These shares represented:
 - (i) a deemed interest in 36,726,857 shares held by Yue Shun Limited, a subsidiary of Hutchison Whampoa Limited, or HWL. Cheung Kong (Holdings) Limited, or Cheung Kong, through certain subsidiaries held more than one-third of the issued share capital of HWL. Li Tzar Kai, Richard was a beneficiary of certain discretionary trusts which held interests in Cheung Kong and HWL. Li Tzar Kai, Richard was also interested in one-third of the issued share capital of two companies, which owned all the shares in the trustee companies which acted as trustees of such discretionary trusts. Accordingly, Li Tzar Kai, Richard was deemed, under the HKSF, to have an interest in the 36,726,857 shares held by Yue Shun Limited;
 - (ii) a deemed interest in 20,354,286 shares held by Pacific Century Group Holdings Limited, or PCGH.

Li Tzar Kai, Richard was the founder of certain trusts which held 100% interests in PCGH. Accordingly, Li Tzar Kai, Richard was deemed, under the HKSFO, to have an interest in the 20,354,286 shares held by PCGH;

- (iii) a deemed interest in 1,526,094,301 shares held by Pacific Century Regional Developments Limited, or PCRD, a company in which PCGH had, through certain wholly owned subsidiaries including Anglang Investments Limited, Pacific Century Group (Cayman Islands) Limited, Pacific Century International Limited and Borsington Limited, an aggregate 75.33% interest. Li Tzar Kai, Richard was the founder of certain trusts which held 100% interests in PCGH. Accordingly, Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 1,526,094,301 shares held by PCRD; and
 - (iv) a deemed interest in 162,947,224 shares held by a collective investment scheme in which PCD (a corporation 100% controlled by Li Tzar Kai, Richard – see above) was a holder.
- (c) This number represents interests under listed equity derivatives arising through corporations controlled by PCGH in which Li Tzar Kai, Richard was deemed interested as the founder of certain trusts which held 100% of PCGH and comprises:
- (i) an interest in 679,000 underlying shares held by PCRD in the form of 67,900 ADSs; and
 - (ii) an interest in respect of 2,811,018 underlying shares arising as a result of the holding of an aggregate of US\$14,000,000 of convertible bonds issued by a wholly owned subsidiary of the Company which were held by PCGH and a wholly owned subsidiary of Pacific Century Insurance Holdings Limited (a company in which PCRD had a 46.69% interest) and were convertible into 2,811,018 shares.
2. These shares represented the interests in underlying shares in respect of share options granted by the Company to these directors as beneficial owners, the details of which are set out in the section headed “Interests in Share Options” below.
3. These shares represented So Chak Kwong, Jack’s beneficial interest in: (i) 4,322,000 underlying shares which will be transferred to him in two equal annual installments commencing from the second anniversary of his employment with the Company pursuant to an agreement made with PCD which constituted unlisted physically settled equity derivatives; and (ii) 15,500,000 underlying shares in respect of share options granted by us to So Chak Kwong, Jack as beneficial owner, the details of which are set out in the section headed “Interests in Share Options” below.
4. These interests represented Alexander Anthony Arena’s beneficial interest in: (i) 200 underlying shares held in the form of 20 ADSs which constituted listed equity derivatives; and (ii) 15,800,000 underlying shares in respect of share options granted by us to Alexander Anthony Arena as beneficial owner, the details of which are set out in the section headed “Interests in Share Options” below.
5. These shares were held by the spouse of Chung Cho Yee, Mico.
6. (a) These shares were held jointly by Lee Chi Hong, Robert and his spouse.
- (b) These shares were held by the spouse of Lee Chi Hong, Robert.

Interests in Share Options

The share option scheme adopted by us on September 20, 1994, amended and restated on May 23, 2002, was terminated by our shareholders at the annual general meeting held on May 19, 2004. A new share option scheme was approved by our shareholders at the same general meeting, which will remain in effect for ten years from the date of its adoption unless otherwise cancelled or amended. Both share option schemes provide that our Board of Directors may, at its discretion, grant share options to any eligible person, including our Directors and employees to subscribe for our shares subject to the terms and conditions stipulated therein. No further grants will be made under the previous share option scheme, but, in all other respects, the terms of that scheme will remain in full force and effect. 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 new share option scheme and other share option scheme(s) must not exceed 30% of our shares in issue from time to time. In addition, the maximum number of shares in respect of which options may be granted under the new share option scheme must not in aggregate exceed 10% of our shares in issue

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 share option schemes shall be determined by our Board of Directors in its absolute discretion but in any event shall not be less than the highest of (i) the closing price of the shares as stated in the daily quotations sheet of SEHK on the date of grant, (ii) the average closing price of the shares as stated in the daily quotations sheets of SEHK for the five trading days immediately preceding the date of grant, and (iii) the nominal value of a share on the date of grant. The vesting period and exercisable period of the options are determined by our Board of Directors, 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 sheets of SEHK. 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 share option schemes. The share option schemes do 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.

Pursuant to the previous share option scheme, we granted options to our employees and Directors to subscribe for our ordinary shares. Details of the outstanding options granted to our Directors as at April 30, 2005 under the previous share option scheme are as follows:

| Name of Director | Exercisable period (mm/dd/yy) | Weighted Average Exercise Price HK\$ | Outstanding number of share options |
|-------------------------|---|---|--|
| So Chak Kwong, Jack | 07.25.2004 to 07.23.2013 | 4.35 | 12,000,000 |
| Yuen Tin Fan, Francis | 08.26.2001 to 07.23.2013 ⁽¹⁾ | 18.077 | 17,068,000 |
| Peter Anthony Allen | 08.17.2000 to 07.23.2013 ⁽¹⁾ | 9.756 | 2,629,200 |
| Alexander Anthony Arena | 08.17.2000 to 07.23.2013 ⁽¹⁾ | 14.74 | 12,800,000 |
| Chung Cho Yee, Mico | 08.17.2001 to 07.23.2013 ⁽¹⁾ | 13.034 | 11,390,400 |
| Lee Chi Hong, Robert | 07.25.2004 to 07.23.2013 | 4.35 | 5,000,000 |
| Sir David Ford | 07.25.2004 to 07.23.2013 | 4.35 | 2,000,000 |

(1) These dates reflect the composite exercisable period for all option grants to such person.

Pursuant to the new share option scheme, we granted options to our employees and Directors to subscribe for our ordinary shares. Details of the outstanding options granted to our Directors as at April 30, 2005 under the new share option scheme are as follows:

| Name of Director | Exercisable period (mm/dd/yy) | Weighted Average Exercise Price HK\$ | Outstanding number of share options |
|-------------------------|--------------------------------------|---|--|
| So Chak Kwong, Jack | 02.08.2006 to 02.07. 2009 | 4.475 | 3,500,000 |
| Yuen Tin Fan, Francis | 02.08.2006 to 02.07. 2009 | 4.475 | 3,000,000 |
| Peter Anthony Allen | 02.08.2006 to 02.07. 2009 | 4.475 | 2,000,000 |
| Alexander Anthony Arena | 02.08.2006 to 02.07. 2009 | 4.475 | 3,000,000 |
| Chung Cho Yee, Mico | 02.08.2006 to 02.07. 2009 | 4.475 | 3,000,000 |
| Lee Chi Hong, Robert | 02.08.2006 to 02.07. 2009 | 4.475 | 1,000,000 |
| Sir David Ford | 02.08.2006 to 02.07. 2009 | 4.475 | 2,000,000 |

Details of the outstanding options granted to our Directors by Pacific Century Premium Developments Limited, our indirect non wholly owned subsidiary, under its share option scheme as at April 30, 2005 are as follows:

| Name of Director | Exercisable period (mm/dd/yy) | Weighted Average Exercise Price HK\$ | Outstanding number of share options |
|-------------------------|--------------------------------------|---|--|
| So Chak Kwong, Jack | 12.20.2004 to 12.19.2014 | 2.375 | 5,000,000 |
| Chung Cho Yee, Mico | 12.20.2004 to 12.19.2014 | 2.375 | 5,000,000 |

Other than as disclosed above, at no time during the year and for the period up to April 30, 2005 was PCCW Limited or any of its subsidiaries a party to any arrangements to enable the Directors of PCCW Limited to acquire benefits by means of the acquisition of shares in PCCW or any of its subsidiaries and none of the Directors, their spouses or children under the age of 18 had any right to subscribe for the securities of PCCW or any of its subsidiaries.

Share Award Schemes

In 2002, we established two employee share incentive award schemes under which awards of our shares may be granted to employees of participating subsidiaries. Directors of PCCW Limited are not eligible to participate in either scheme. On June 10, 2002, we approved the establishment of a scheme under which selected employees are awarded shares purchased in the market. On November 12, 2002, we approved the establishment of a scheme under which selected employees are awarded newly issued shares. The purpose of both schemes is to recognize the contributions of certain employees of our group, to retain these employees for the continued operations and development of our group, and to attract suitable personnel for the further development of our group. Under both schemes, following making an award to an employee, the relevant shares are held in trust for that employee and then vest over a period of time provided that the employee remains our employee at the relevant time and satisfies any other conditions specified at the time the award is made. The maximum aggregate number of shares that can be awarded under the two schemes is limited to 1% of our issued share capital (excluding shares that have already been transferred to employees upon vesting).

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

The following table below sets forth information with respect to persons who were beneficial owners of 5% or more of our outstanding ordinary shares as at April 30, 2005 to the extent that such information is available to us or can be ascertained from public filings.

Disclosure of interests in securities in Hong Kong is governed by the HKSF. Under the HKSF, any person who is interested in 5% or more of the voting shares in a listed company is required to give notice to SEHK and the listed company concerned. The definition of "interests" under the HKSF is broader in scope than (i) the determination of beneficial ownership based on Rule 13d-3 of the Exchange Act and related rules and regulations or (ii) the definition of "beneficial owner" as defined in the General Instructions of Form 20-F. Therefore interests disclosed under the HKSF are not equivalent to beneficial ownership as determined by Rule 13d-3 or the definition of "beneficial ownership" under the General Instructions of Form 20-F.

| Name of shareholder | Notes | Number of shares | % |
|--|-------|------------------|-------|
| OS Holdings Limited | 1 | 1,549,938,605 | 23.07 |
| The Starlite Unit Trust | 1 | 1,549,938,605 | 23.07 |
| The Ocean Unit Trust | 1 | 1,549,938,605 | 23.07 |
| Ocean Star Management Limited | 1 | 1,549,938,605 | 23.07 |
| Ocean Star Investment Management Limited | 1 | 1,549,938,605 | 23.07 |
| Pacific Century Group Holdings Limited | 1 | 1,549,938,605 | 23.07 |
| Pacific Century Regional Developments Limited | 2 | 1,528,781,171 | 22.76 |
| Pacific Century International Limited | 3 | 1,528,781,171 | 22.76 |
| Pacific Century Group (Cayman Islands) Limited | 4 | 1,528,781,171 | 22.76 |
| Anglang Investments Limited | 5 | 1,528,781,171 | 22.76 |
| China Network Communications Group Corporation | 6 | 1,343,571,766 | 20.00 |

Notes:

- (1) Pacific Century Group Holdings Limited, or PCGH, directly owns 20,354,286 shares. PCGH may be deemed to beneficially own the 1,526,773,301 shares directly owned by PCRD, the 803,148 shares that the PCCW Capital Limited's 3.5% guaranteed convertible bonds due 2005 held by PCGH are convertible into and the 2,007,870 shares that Pacific Century Insurance Company Limited, or PCI, may be deemed to beneficially own due to PCGH's indirect interest in PCI. As a result, PCGH may be deemed to beneficially own a total of 1,549,938,605 shares.

On April 18, 2004, Li Tzar Kai, Richard transferred all of the issued share capital of PCGH to Ocean Star Management Limited as trustee of The Ocean Unit Trust and The Starlite Unit Trust. Under the relevant unit trust deeds, the voting and dispositive power of PCGH shares held by the unit trusts are bifurcated such that Ocean Star Management Limited has the sole power to vote the PCGH shares and Ocean Star Investment

Management Limited, the management company of the unit trusts, has the sole power to dispose of the PCGH shares. All of Ocean Star Management Limited's issued share capital is held by OS Holdings Limited. The significant shareholders of Ocean Star Investment Management Limited are Jenny WL Fung, Jason Fedder and Lester G. Huang and each owns a beneficial interest of 32%, 32% and 31%, respectively. The significant shareholders of OS Holdings Limited are Jason Fedder, Lester G. Huang and Jenny WL Fung and each owns a beneficial interest of 29%, 28% and 28%, respectively.

- (2) PCRD directly owns 1,526,094,301 shares and 679,000 shares in the form of 67,900 ADSs. PCRD may be deemed to beneficially own the 2,007,870 shares that PCI may be deemed to beneficially own due to PCRD's indirect interest in PCI. As a result, PCRD may be deemed to beneficially own a total of 1,528,781,171 shares.
- (3) Pacific Century International Limited, or PCIL, does not directly own any shares. PCIL may be deemed to beneficially own the 1,526,773,301 shares directly owned by PCRD and the 2,007,870 shares that PCI may be deemed to beneficially own due to PCIL's indirect interest in PCRD and PCI. As a result, PCIL may be deemed to beneficially own a total of 1,528,781,171 shares.
- (4) Pacific Century Group (Cayman Islands) Limited, or PCGCI, does not directly own any shares. PCGCI may be deemed to beneficially own the 1,526,773,301 shares directly owned by PCRD and the 2,007,870 shares that PCI may be deemed to beneficially own due to PCGCI's interest in PCRD and PCGCI's indirect interest in PCI. As a result, PCGCI may be deemed to beneficially own a total of 1,528,781,171 shares.
- (5) Anglang Investments Limited, or Anglang, does not directly own any shares. Anglang may be deemed to beneficially own the 1,526,773,301 shares directly owned by PCRD and the 2,007,870 shares that PCI may be deemed to beneficially own due to Anglang's interest in PCRD and Anglang's indirect interest in PCI. As a result, Anglang may be deemed to beneficially own a total of 1,528,781,171 shares.
- (6) China Network Communications Group Corporation indirectly holds these shares through its indirect wholly owned subsidiary, China Netcom Corporation (BVI) Limited. These shares were acquired pursuant to the CNC Subscription Agreement. China Network Communications Group Corporation is a state-owned enterprise established under the laws of the PRC.

Save as disclosed above, we are not aware of any other beneficial owners of 5% or more of our outstanding ordinary shares. Our major shareholders have voting rights that are identical to all the other shareholders.

Based on a filing made by Lehman Brothers Holdings Inc. in February 2005, Lehman Brothers' beneficial ownership of our shares was under 5%.

As at April 30, 2005, a total of 6,718,128,159 of our ordinary shares were outstanding. As at April 30, 2005, 305,206,565 of our ordinary shares were registered in the name of a nominee of Citibank N.A., the depository under our ADS deposit agreement. We believe that, of such shares, approximately 34.8 million were held in the form of ADSs by approximately 563 holders in the United States.

B. Related Party Transactions

This section describes certain transactions between other parties with whom we have a relationship and us. This section should be read in conjunction with the description of significant transactions with related parties under "Item 5. Operating and Financial Review and Prospects—Transactions with Related Parties." During 2004, the largest aggregate amount of outstanding loans made by us to related parties was HK\$1,214 million and the total amount of these outstanding loans was HK\$1,214 million as of December 31, 2004.

Some of the transactions listed below do not constitute related party transactions for purposes of Form 20-F, but they were required to be disclosed by us as "connected person" transactions under the SEHK Listing Rules and, consequently, are listed below for reasons of completeness.

1. Our Chairman, Li Tzar Kai, Richard, is the son of Li Ka-shing who is the chairman and an executive director of Hutchison Whampoa Limited, or HWL, and its associated company, Cheung Kong (Holdings) Limited (together with their subsidiaries and affiliates, or the Hutchison Whampoa Group). Li Tzar Kai, Richard has a personal interest in 110,000 shares in the Hutchison Whampoa Group (representing less than 0.01% of the outstanding shares of HWL) and he is also one of the discretionary beneficiaries of certain discretionary trusts

which hold units in unit trusts which in turn are interested in certain shares of HWL. Since April 1, 2003, Li Tzar Kai, Richard has held one-third of the issued share capitals of two companies, which own all the shares in the trustee companies which act as trustees of such discretionary trusts and unit trusts. These trustee companies perform their functions as trustees independently without any reference to Li Tzar Kai, Richard. Notwithstanding the above, and in view of his small personal shareholding, his being a discretionary beneficiary and that the trustee companies act independently of him, we consider that Li Tzar Kai, Richard is not able to exert control or influence over the Hutchison Whampoa Group.

Additionally, the Hutchison Whampoa Group holds 36,726,857 of our ordinary shares.

Li Tzar Kai, Richard was a director of HWL and certain of its subsidiaries until August 16, 2000, the day before the acquisition of HKT became effective. His resignation was effected in order to avoid the potential for conflicts of interest between HKT's and Hutchison Whampoa Group's competing businesses in Hong Kong.

Certain businesses of the Hutchison Whampoa Group compete with certain aspects of our telecommunications businesses. In particular, HKTC and Reach each compete with, and interconnect their networks with, certain HWL subsidiaries, including Hutchison Global Communications Limited and Hutchison Telephone Company Limited, which are fixed network and mobile communications operators, respectively, in Hong Kong. Such interconnection arrangements are established in the ordinary course of our businesses, on the basis of arm's-length commercial agreements and in accordance with applicable telecommunications regulations in Hong Kong, as determined by Hong Kong's Telecommunications Authority. HKTC is required under the terms of its FTNS license to interconnect its network with other licensees on a non-discriminatory basis.

We established a Regulatory Compliance Committee in consultation with the Telecommunications Authority and the Broadcasting Authority comprising Executive and Non-executive Directors, but excluding Li Tzar Kai, Richard, to review and monitor dealings with the Hutchison Whampoa Group to ensure that all dealings between us and the Hutchison Whampoa Group are on arm's-length terms.

In light of the foregoing, we do not consider Li Ka-shing and the companies he controls, including the Hutchison Whampoa Group, to be related parties of ours, and any transactions with the Hutchison Whampoa Group are not being reported as related party transactions.

2. On November 19, 2001, PCCW Communications (Japan) K.K., or PCCW Communications Japan, our indirect wholly owned subsidiary, entered into a five-year lease agreement, or the Lease, with Pacific Century Group Japan Y.K. (formerly known as Pacific Century Group Japan Co., Ltd.), or PCGJ, regarding the lease of certain office space in Pacific Century Place Marunouchi, Tokyo, Japan, or Tokyo Building, owned by PCGJ at a monthly rent of approximately Yen 7.4 million (approximately HK\$0.5 million) plus other monthly management expenses and a sub-lease agreement, or Sub-Lease, regarding the sub-lease of office space in the Tokyo Building to PCGJ at a monthly rent of approximately Yen 3.1 million (approximately HK\$0.2 million) plus other monthly management expenses and renovation costs. The Sub-Lease has a term of approximately four years and ten months. PCCW Communications Japan also entered into a five-year lease agreement, or Display Lease, with The Pacific Century Place Marunouchi Owners Union, or PCPMOU, regarding the lease of space for display of our logo outside the Tokyo Building at a monthly rent of Yen 0.95 million (approximately HK\$0.07 million). A change was made to the arrangements described above when, on December 2, 2002, PCCW Communications Japan entered into an agreement, or Novation, with PCGJ and New PCGJ Co., Ltd. The Novation was required in connection with certain financing arrangements PCGJ entered into with a third party and does not impact the substance of the arrangements. The effect of the Novation was to transfer PCGJ's rights and obligations under the Sub-Lease to New PCGJ Co., Ltd. In 2004, PCCW Communications Japan paid approximately HK\$8 million and HK\$0.9 million under the Lease and Display Lease, respectively, and received approximately HK\$3.7 million under the Sub-Lease.

Li Tzar Kai, Richard indirectly holds a 55% interest in the issued share capital of PCGJ and New PCGJ Co., Ltd. PCGJ is able to exercise 94% of the voting rights of PCPMOU. As PCGJ, New PCGJ Co., Ltd. and PCPMOU are each associates of Li Tzar Kai, Richard, they are related parties of the Company.

3. During the year ended December 31, 2004, PCCW Services Limited, or PCCW Services, provided certain staff,

administrative and support services to Pacific Century Matrix (HK) Limited, or PC Matrix HK. The services were provided on normal commercial terms and were in the ordinary course of business. For the year ended December 31, 2004, the total charges for such services was approximately HK\$6.3 million. Li Tzar Kai, Richard owns 100% of the issued share capital of PC Matrix HK. As PC Matrix HK is an associate of Li Tzar Kai, Richard, it is a related party of the Company.

4. During the year ended December 31, 2004, we paid to Pacific Century Insurance Company Limited, or PCI, insurance premiums amounting to approximately HK\$4.4 million with respect to group life and medical insurance (including clinical and hospitalization) coverage for our employees. PCI continues to provide group life and medical insurance to us. The policies are on normal commercial terms and in the ordinary course of business. PCI is an indirect wholly owned subsidiary of Pacific Century Insurance Holdings Limited, of which PCRD held approximately 45.11% as at December 31, 2004. PCRD is a substantial shareholder of the Company.
5. PCRD, a substantial shareholder of the Company, has provided a rental guarantee on each of Towers A and B and the 6-story commercial podium of Pacific Century Place, Beijing, the PRC. The two-year rental guarantees on Tower A and Tower B expired in 2001 and 2002, respectively. The two-year rental guarantee of not less than US\$12,028,526 (approximately HK\$93 million) for the podium commenced in July 2002.
6. On completion of the CNC Subscription Agreement, China Netcom (BVI), an indirectly wholly owned subsidiary of CNC, became a substantial shareholder and connected person of the Company. Accordingly, members of the CNC Group are connected persons (as defined in the SEHK Listing Rules) of the Company and transactions between us and the CNC Group will constitute connected transactions for the Company under the SEHK Listing Rules. On September 12, 1995, HKT (then known as Hong Kong Telecommunications Limited) entered into a Memorandum of Agreement on the financial arrangement for the purchase of equipment, or the Memorandum, with the Ministry of Posts & Telecommunications, or MPT, of the PRC in support of the Beijing-Jiujiang-Guangzhou Optical Fibre Cable System Project, or Project. Under the Memorandum, HKT agreed to provide financing of up to US\$70 million to MPT, or the Loan. CNC later assumed the rights and obligations under the Loan. The final repayment of the Loan is due on May 31, 2010. The current outstanding principal amount of the Loan is US\$18.06 million.
7. We enter into transactions in the ordinary course of business with China Telecom and its subsidiaries, or the China Telecom Group. Under the SEHK Listing Rules, China Telecom and its subsidiaries are considered a connected person of the Company. Therefore, any transactions between the Company or its subsidiaries with any member of the China Telecom Group is a connected transaction. On February 10, 2004, we obtained a conditional waiver from strict compliance with certain disclosure requirements under the SEHK Listing Rules regarding transactions with the China Telecom Group. Under this waiver, we were only required to disclose transactions with the China Telecom Group entered into in the ordinary course of business in 2004 in our annual report for 2004 as long as the aggregate transaction value did not exceed HK\$412 million. Following the amendment of the SEHK Listing Rules effective March 31, 2004, transactions with China Telecom would only be subject to the reporting and announcement requirements set out in the SEHK Listing Rules and no shareholders' approval would be required if the aggregate value of these transactions on an annual basis does not exceed HK\$563 million. The aggregate value for transactions between us and China Telecom Group for the period from February 10, 2004 to December 31, 2004 was approximately HK\$559 million.

C. Interest of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information

Consolidated Statements and Other Financial Information

See Item 18 for PCCW's financial statements.

Legal Proceedings

Except as described below, neither we nor any of our subsidiaries are a defendant in any material litigation or arbitration of material importance and no material litigation or claim is known by our Board of Directors to be pending or threatened against us or any of our subsidiaries.

Reach Networks has instituted legal proceedings against certain operators of telecommunications networks to recover lost revenue resulting from the activities of those operators whom we believe were involved in diversion of international telecommunications traffic in breach of our legal rights. With respect to these legal proceedings, we consider the following to be material:

| Plaintiff | Defendant | Date commenced | Court | Description of Proceedings | Relief Sought |
|------------------|--|-----------------------|-----------------------------------|--|-------------------------------|
| Reach Networks | New World Telecommunications Limited (named in the proceedings as New World Telephone Limited) | February 3, 1999 | High Court (HCCL No. 229 of 2000) | Improper diversion of delivery fees on inbound international traffic | HK\$400 million plus interest |
| Reach Networks | Wharf T&T Limited | February 3, 1999 | High Court (HCCL No. 8 of 2000) | Improper diversion of delivery fees on inbound international traffic | HK\$157 million plus interest |

In connection with the legal proceedings instituted against it by Reach Networks, New World Telecommunications Limited filed a counterclaim against Reach Networks of HK\$94 million. Reach and New World Telecommunications Limited settled these proceedings in July 2004. In connection with the legal proceedings instituted against it by Reach Networks, Wharf T&T Limited has filed a counterclaim against Reach Networks for HK\$78.5 million. The proceedings are in a preliminary discovery phase. All or any of our actions may be successful or unsuccessful and no assurance can be given that any recovery will be possible. Pursuant to the agreements for the transfer of our Internet protocol backbone operations to Reach, as part of our joint venture with Telstra, we retain the right to any proceeds if these proceedings are successful and we will be solely responsible for the conduct of these proceedings and all costs and expenses incurred in connection with these proceedings.

On April 23, 2002, a writ of summons was issued against HKT, our indirect wholly owned subsidiary, by New Century Infocomm Tech Co., Ltd. for its failure to purchase 6,522,000 shares of TTNS, our indirect subsidiary, pursuant to an option agreement entered into on July 24, 2000. The total claim against HKT amounted to HK\$103 million (NT\$418 million), being the purchase price of shares in TTNS, contractual interest for the period January 1, 2001 to January 2, 2002 at 6.725% per annum and interest on the due amount pursuant to Sections 48 and 49 of the High Court Ordinance. However, this figure should be reduced by the current market value of shares in TTNS, which would be transferred to HKT in the event that the claimants were successful in their claim. A defense was filed on May 29, 2002. Based on legal advice received, the Directors believe that HKT has valid defenses, and therefore no provision has been made.

On August 23, 2003, a summons was issued against us in connection with the application of Wharf T&T Limited's rights under Section 14(1) of the Telecommunications Ordinance to install telephone lines and other rights. The proceedings were withdrawn on March 8, 2004.

PCCL has filed a winding up petition before the Delhi High Court in relation to Data Access on the basis that PCCL had lent Data Access a total amount of US\$10 million under two loan agreements dated May 24, 2000 and July 24, 2000. In the winding up petition, PCCL claimed that according to the terms and conditions of the two loan agreements, the entire amounts lent to Data Access along with interest thereon was and is repayable within three years from the dates of drawing such amounts. PCCL further claimed that Data Access has admitted in its statutory filings that the amounts are overdue for repayment and Data Access has repeatedly defaulted in its repayment obligations. On October 26, 2004, at the first hearing on the winding up petition, the Delhi High Court passed ex-parte ad-interim directions restraining Data Access from alienating its assets and receivables except in the normal course of its business. The Delhi High Court also appointed the Official Liquidator attached to the Court as the Provisional Liquidator to supervise the enforcement of this order. The counsels for the parties involved in the

petition continue to make submissions to the court on whether the winding up petition should be admitted and citation be issued based on the written reply filed by Data Access and other relevant issues. Proceedings are ongoing.

We have recently been notified of a criminal complaint filed by the Income Tax Department in India against past and present directors of Data Access in relation to an alleged failure by Data Access to pay tax since 2003. Certain of our directors and employees were previously directors of Data Access, but they all resigned on April 23, 2004. The hearing is tentatively scheduled for July 7, 2005.

As we operate in a regulated industry, we routinely are involved in legal proceedings, including, in particular, judicial review proceedings of TA decisions and appeals to the Competition Board relating to regulatory matters. See “4.B. Business Overview–Regulation.”

Dividend Policy

On April 22, 2004, we announced our intention to effect a capital reduction by eliminating the entire sum standing to the credit of the share premium account of PCCW Limited. The proposal was approved by shareholders at our extraordinary general meeting held on May 19, 2004 and confirmed by the High Court of Hong Kong on August 3, 2004. The capital reduction gave rise to a credit of approximately HK\$173,465 million, based on the share premium account of PCCW Limited, on an unconsolidated basis as at June 30, 2004. Such credit was applied in writing off the accumulated losses of PCCW Limited of approximately HK\$152,932 million, and the remaining balance of approximately HK\$20,532 million was transferred to a special capital reserve created by us, the application of which is subject to the conditions imposed by the High Court. The capital reduction represented the completion of a necessary technical formality in order to permit the payment of dividends, as and when our Board of Directors considers it appropriate.

We declared and paid an interim dividend in an amount of HK\$0.055 to our shareholders in November 2004, and our Board of Directors has recommended, subject to the approval of our shareholders at the forthcoming annual general meeting, the payment of a final dividend of HK\$0.096 for the year ended December 31, 2004.

PCCW may pay dividends when our Board of Directors considers it appropriate in the future. The declaration or payment of dividends will depend on various factors, including:

- attaining positive retained earnings;
- our future operations, capital requirements and surplus;
- general economic, political and financial conditions;
- contractual restrictions;
- investment and acquisition policy; and
- other factors our Board of Directors may deem relevant.

B. Significant Changes

See Item 18.

ITEM 9. THE OFFER AND LISTING

A. Offer and Listing Details

Market Price Information

The following tables set forth the high and low sales prices per share of our ordinary shares listed on SEHK and the high and low prices per share of our American Depositary Shares (each representing 10 of our ordinary shares) listed on the NYSE, for the fiscal year ended December 31 of each year indicated below, as at the end of each fiscal

quarter indicated below, and for each month of the six-month period ended April 30, 2005:

| | HIGH | | LOW | |
|--------------------|------------------------|-----------------|------------------------|-----------------|
| | Ordinary Shares (HK\$) | ADSs (US\$) | Ordinary Shares (HK\$) | ADSs (US\$) |
| 2004 | 6.60 | 8.50 | 4.55 | 5.85 |
| 2003 | 7.05 | 8.98 | 4.125 | 5.18 |
| 2002 | 11.875 | 15.40 | 4.55 | 5.60 |
| | <i>(Note 2)</i> | <i>(Note 2)</i> | <i>(Note 2)</i> | <i>(Note 2)</i> |
| 2001 | 25.75 | 33.125 | 8.15 | 10.35 |
| | <i>(Note 2)</i> | <i>(Note 2)</i> | <i>(Note 2)</i> | <i>(Note 2)</i> |
| 2000 | 131.75 | 100.00 | 24.25 | 28.75 |
| | <i>(Note 1)</i> | <i>(Note 1)</i> | <i>(Note 1)</i> | <i>(Note 1)</i> |
| 2005 | | | | |
| First Quarter 2004 | 5.00 | 6.35 | 4.075 | 5.22 |
| 2004 | | | | |
| First Quarter | 6.60 | 8.50 | 5.00 | 6.20 |
| Second Quarter | 6.15 | 7.68 | 4.825 | 5.96 |
| Third Quarter | 5.70 | 7.38 | 4.925 | 6.30 |
| Fourth Quarter | 5.25 | 6.85 | 4.550 | 5.85 |
| 2003 | | | | |
| First Quarter | 7.05 | 8.98 | 4.40 | 5.55 |
| Second Quarter | 5.40 | 7.10 | 4.45 | 5.60 |
| Third Quarter | 5.25 | 6.80 | 4.125 | 5.18 |
| Fourth Quarter | 5.95 | 7.68 | 4.875 | 6.23 |
| November 2004 | 4.95 | 6.30 | 4.70 | 5.85 |
| December 2004 | 5.15 | 6.85 | 4.55 | 5.90 |
| January 2005 | 5.00 | 6.35 | 4.325 | 5.51 |
| February 2005 | 4.675 | 5.92 | 4.275 | 5.41 |
| March 2005 | 4.625 | 5.90 | 4.075 | 5.22 |
| April 2005 | 4.625 | 5.91 | 4.375 | 5.50 |

Notes:

- (1) Adjusted for rights issue of 30 shares for every 1000 shares at HK\$6.500 effective November 6, 2000 and share consolidation 5 into 1 effective January 8, 2003.
- (2) Adjusted for share consolidation 5 into 1 effective January 8, 2003.

B. Plan of Distribution

Not applicable.

C. Markets***Markets on which Our Ordinary Shares Trade***

Our ordinary shares are listed on SEHK under the code number “008”. ADSs, each representing 10 of our ordinary shares, have been listed on the NYSE under the symbol “PCW” since August 22, 2000.

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION**A. Share Capital**

Not applicable.

B. Memorandum and Articles of Association

Our company is registered in Hong Kong and has been assigned company number 69030. Set forth below is a brief summary of certain provisions of our Memorandum and Articles of Association amended on May 19, 2004. This summary does not purport to be complete and is qualified in its entirety by reference to our Memorandum and Articles of Association, which is filed as Exhibit 1 to this annual report.

Purpose

As it is typical of companies registered in Hong Kong, our objects, which are detailed in the Memorandum of Association, are broad and wide-ranging and include carrying on the business of integrated telecommunications; broadband solutions; connectivity; narrowband and interactive broadband (Internet services); business e-solutions; data centers and related infrastructure. Our objects can be found in the third clause of the Memorandum of Association.

Directors

Subject to certain exceptions, Directors do not have power to vote at Board meetings on matters in which they or any of their associates have a material interest. Directors do not have power to vote at Board meetings on matters concerning their own appointment or remuneration or the terms thereof (including a variation of the terms thereof). Where arrangements are under consideration concerning the appointment (including the terms thereof) of two or more Directors, a separate resolution may be put before the Board in relation to each Director, and each of the interested Directors shall be entitled to vote (and be counted in the quorum) in respect of each resolution except that concerning his own appointment (including the terms thereof).

Our Board of Directors may exercise all the powers of PCCW to borrow money. Variation of these borrowing powers would require the passing of a special resolution of our shareholders.

Our Board of Directors has the power at any time to appoint any person as a Director either to fill a casual vacancy or as an addition to the Board subject to the approval of the Executive Chairman. Any Director so appointed shall hold office only until our next following annual general meeting and shall then be eligible for re-election. Pursuant to section 157A of the Companies Ordinance, Hong Kong, resolutions proposing the re-election of Directors at a general meeting of a company must be proposed for each individual Director seeking re-election,

unless it has been agreed by a unanimous vote at that meeting that a single resolution may be proposed for the re-election of two or more Directors. One-third (or the number nearest to but not greater than one-third) of the Directors shall retire and offer themselves for re-election at each annual general meeting of the Company.

Directors are not required to retire at a particular age. Directors are not required to beneficially own our shares.

Rights, Preferences, Restrictions Attaching to Shares and Changing the Rights of Shareholders

Following the consolidation of every five issued and unissued shares of HK\$0.05 into one new share of HK\$0.25 on January 8, 2003, our share capital was divided into 6,400,000,000 ordinary shares with a nominal value of HK\$0.25 each. We increased our share capital to 10,000,000,000 ordinary shares with a nominal value of \$0.25 each pursuant to a shareholders' resolution passed on March 16, 2005. Currently, we have only one class of ordinary shares outstanding. In order to vary the rights attached to any class of shares, the consent in writing of the holders of three-fourths in nominal value of the issued shares of that class or the sanction of a special resolution passed at a general meeting of such holders is required.

Our Board of Directors may recommend the payment of dividends to shareholders out of our profits. Dividends shall not exceed the amount recommended by our Board of Directors and will not carry interest. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by our Board of Directors and revert to us. We may cease sending checks for dividend entitlements or dividend warrants by post if such checks or warrants have been left uncashed on two consecutive occasions or after the first occasion on which such a check is returned undelivered.

At any general meeting, on a show of hands, shareholders present in person or by duly authorized representatives shall have one vote, and on a poll every shareholder present in person or by proxy or by duly authorized representative shall have one vote for every fully paid ordinary share held. On a poll, a shareholder entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

In the event that we are to be wound up (whether the liquidation is voluntary, under supervision or by the court) the liquidator may, with the authority of a special resolution, divide among the shareholders *in specie* or in kind all or any part of our assets and whether or not the assets consist of properties of different kinds, and may for such purpose set such value as he deems fair upon any one or more class or classes of property and may determine how such division shall be carried out as between the shareholders or different classes of shareholders.

Alteration of Capital

We may from time to time by ordinary resolution increase the capital by such sum, to be divided into ordinary shares of such amount, as the resolution shall prescribe.

Except so far as otherwise provided by the conditions of issue or by our Articles of Association, any capital raised by the creation of new shares shall be subject to the same provisions with reference to payment of calls and installments, transfer and transmission, forfeiture, lien, cancellation, surrender, voting and otherwise as the ordinary shares in the original capital.

We may, by ordinary resolution, (a) consolidate and divide all or any of our capital into ordinary shares of larger, or smaller amount than our existing ordinary shares; (b) cancel any ordinary shares that, at the date of passing of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of our share capital by the amount of the ordinary shares so cancelled; and (c) subdivide our existing ordinary shares or any of them into ordinary shares of smaller amount than is fixed by our Memorandum of Association, subject nevertheless to the provisions of the Companies Ordinance, Hong Kong.

We may by special resolution reduce our share capital, any capital redemption reserve fund or any share premium account in any manner authorized, and subject to any conditions prescribed by law.

Shareholder Meetings

Each year we must hold a general meeting as our annual general meeting in addition to any other meeting in that year and must specify the meeting as such in the notices calling it.

Not more than fifteen months may elapse between one annual general meeting and the next. All general meetings other than annual general meeting are called extraordinary general meetings.

Our Directors may, at their discretion, convene an extraordinary general meeting and an extraordinary general meeting shall also be convened by our shareholders as provided in the Companies Ordinance, Hong Kong. All of our shareholders are entitled to attend and vote at the annual general meeting and at extraordinary general meetings.

An annual general shareholders' meeting and an extraordinary general shareholders' meeting called for the passing of a special resolution (as defined in the Companies Ordinance, Hong Kong) must be called by at least 21 days' notice in writing. All other shareholders' meetings must be called by at least 14 days' notice in writing. The notice period is to be exclusive of the day of posting or the day on which it is served, which is deemed to be the next day following posting, and of the day for which notice is given.

The notice is to specify the place, the day and the hour of meeting and, in the case of special business, the general nature of that business. Special business is any matter which is other than to sanction dividends, the reading, considering and adopting of the accounts, the reports of the Directors and auditors and other documents required to be annexed to the accounts, the election of Directors and appointment of auditors and other officers in the place of those retiring, the fixing of the remuneration of the auditors and the voting of remuneration or extra remuneration to the Directors.

The quorum for any general meeting is two members present in person or by proxy and entitled to vote. Any shareholder entitled to attend and vote at a meeting of PCCW or a meeting of any class of shares in PCCW is entitled to appoint another person as his proxy to attend and vote instead of him. On a poll votes may be given either personally or by proxy. A proxy need not be a shareholder. A shareholder may appoint more than one proxy to attend on the same occasion. Documents appointing a proxy must be deposited at our registered office or at such other specified place not less than forty-eight hours before the time for holding the meeting. The appointment of a proxy does not preclude a shareholder from attending and voting in person at the meeting and, in such case, the document appointing a proxy is deemed to be revoked.

Where any shareholder is required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

Rights of Non-resident or Foreign Shareholders

Under Hong Kong law, shareholders who are not residents of Hong Kong may hold, vote and transfer their shares in the same manner as Hong Kong residents.

Transfer of Ordinary Shares

All transfers of ordinary shares may be effected by transfer in writing in the usual common form or in such other form as our Board of Directors may accept. All instruments of transfer must be left at the registered office or at such other place as our Board of Directors may appoint.

The instrument of transfer of any share must be executed by or on behalf of the transferor and by or on behalf of the transferee, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register in respect thereof. Nothing in our Articles of Association precludes our Board of Directors from recognizing a renunciation of the allotment or provisional allotment of any share by the allottee in favor of some other person.

Our Board of Directors may, in its absolute discretion and without assigning any reason, refuse to register a transfer of any share, not being a fully paid up share, to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share, not being a fully paid up share, on which we have a lien. No transfer shall be made to an infant or to a person of unsound mind or under other legal disability.

Our Board of Directors may also decline to recognize any instrument of transfer unless (a) a fee of such amount as shall for the time being be prescribed by SEHK, or such lesser sum as our Board of Directors shall from time to time require is paid to us for registering any transfer or other document relating to or affecting the title to the ordinary shares involved or for otherwise making an entry in the register relating to such ordinary shares; (b) the instrument of transfer is accompanied by the certificate of the ordinary shares to which it relates and such other evidence as our Board of Directors may reasonably require to show the right of the transferor to make the transfer; (c) the instrument of transfer is in respect to only one class of shares; (d) the ordinary shares concerned are free of any lien in favor of us; and (e) the instrument of transfer is properly stamped.

If our Board of Directors shall refuse to register a transfer of any share, it must, within two months after the date on which the transfer was lodged with us, send notice of such refusal as required by Section 69 of the Companies Ordinance, Hong Kong.

Upon every transfer of ordinary shares the certificate held by the transferor must be given up to be cancelled and must forthwith be cancelled accordingly and a new certificate must be issued to the transferee in respect of the ordinary shares transferred to him and if any of the ordinary shares included in the certificate so given up shall be retained by the transferor a new certificate in respect thereof must be issued to him. We must also retain the transfer.

The registration of transfers may be suspended and the register closed at such times and for such periods as our Board of Directors may from time to time determine and either generally or in respect of any class of shares, provided always that such registration shall not be suspended or the register closed for more than 30 days in any year or, if the shareholders in general meeting approve, 60 days in any year.

Repurchase of Ordinary Shares

So far as it is permitted by the Companies Ordinance, Hong Kong or any other ordinance and is made in accordance with any relevant rules or regulations issued by SEHK or the Hong Kong Securities and Futures Commission from time to time, we are authorized by our Articles of Association to repurchase our ordinary shares.

C. Material Contracts

The following contracts (being contracts not entered into in the ordinary course of business) have been entered into by us and our subsidiaries within the two years preceding the filing date of this annual report and are or may be material:

1. US\$54,377,474.94 5% Mandatory Convertible Note due 2005 issued by us on June 28, 2002, as amended and restated effective April 25, 2003.
2. An agency agreement dated January 24, 2003 entered into by PCCW Capital No. 3 Limited, Deutsche Bank AG, Hong Kong Branch and us relating to the issue by PCCW Capital No. 3 Limited of US\$456 million 7.88% Guaranteed Notes due 2013, as amended and restated by a supplemental agency agreement dated May 12, 2004.
3. An agreement entered into by Telstra, Telstra Holdings Pty Limited, Telstra Holdings (Bermuda) No. 1 Limited, Pacific Century Cable Holdings Limited, Reach and us on October 13, 2000 relating to the business and operations of Reach, as amended and restated by a supplemental agreement dated January 31, 2001, further amended and restated by a supplemental agreement dated March 8, 2001, further amended and restated by a supplemental agreement dated, June 28, 2002, further amended and restated by a supplemental agreement dated July 22, 2002, further amended and restated by a supplemental agreement dated April 15, 2003 and further amended and restated by a supplemental agreement dated April 16, 2005.
4. An agreement dated October 13, 2000 between HKTC and Reach Networks relating to the supply of domestic connectivity services between Hong Kong and other countries by HKTC to Reach Networks as amended by an amendment agreement dated January 31, 2001, further amended by an amendment agreement dated April 15, 2003 and further amended by an amendment agreement dated April 16, 2005; and an agreement dated October 13, 2000 between HKTC and Reach Networks relating to supply of international connectivity services between Hong Kong and other countries by Reach Networks to HKTC as amended by an amendment agreement dated

January 31, 2001, further amended by an amendment agreement dated April 15, 2003, and terminated as of March 1, 2005 by the Reach Network Services Agreement (see item 29).

5. PCCW Mandatory Convertible Note First Supplemental Deed dated April 15, 2003 between Telstra, Pacific Century Cable Holdings Limited and us.
6. Capacity Prepayment Agreement dated April 15, 2003 between Reach Networks, Reach Global Services Limited, HKTC, Telstra, Reach, Reach Finance Limited and us, as amended and restated on June 17, 2004.
7. Subordination Deed dated April 15, 2003 between JPMorgan Chase Bank, Reach Networks and us, relating to the subordination of certain of our payment rights under the Capacity Prepayment Agreement mentioned above.
8. Purchase Agreement dated July 10, 2003 between PCCW-HKT Capital No.2 Limited (as issuer), The Hongkong and Shanghai Banking Corporation Limited (as manager) and HKTC (as guarantor) relating to the issue by PCCW-HKT Capital No.2 Limited of US\$500,000,000 6% Guaranteed Notes due 2013, or US\$500 Million Notes.
9. Indenture dated July 17, 2003 between PCCW-HKT Capital No.2 Limited (as issuer), HKTC (as guarantor) and HSBC Bank USA (as trustee) relating to the US\$500 Million Notes mentioned above.
10. Placing Agreement dated July 17, 2003 between PCRD (as vendor), Citigroup Global Markets Asia Limited (as placing agent) and us regarding the placing of 715,000,000 ordinary shares in us owned by PCRD at a price of HK\$4.40 per share.
11. Subscription Agreement dated July 17, 2003 between PCRD and us regarding the subscription of 715,000,000 new ordinary shares in us by PCRD at HK\$4.40 per share.
12. Facility Agreement dated August 8, 2003 between HKTC (as borrower) and a syndicate of financial institutions represented by The Hongkong and Shanghai Banking Corporation Limited (as agent and security trustee) relating to HK\$2,800,000,000 revolving credit and term loan facilities, as amended by an amendment agreement dated October 29, 2003 between HKTC and The Hongkong and Shanghai Banking Corporation Limited.
13. Facility Agreement dated December 12, 2003 between HKTC (as borrower) and a syndicate of financial institutions represented by Bayerische Landesbank, Hong Kong Branch (as agent) relating to HK\$6,000,000,000 revolving loan facility.
14. Facility Agreement dated December 22, 2003 between HKTC (as borrower) and Industrial and Commercial Bank of China (Asia) Limited (as co-ordinating arranger, original lender and agent) relating to HK\$2,000,000,000 revolving loan facility.
15. Sale and Purchase Agreement dated March 5, 2004 between DFG and us relating to the disposal of the whole of the issued share capital of Ipswich Holdings Limited and other assets to DFG.
16. Placing Agreement dated April 30, 2004 between Asian Motion Limited (as vendor), Citigroup Global Markets Hong Kong Futures and Securities Limited (as placing agent and underwriter) and us (as guarantor) relating to the placing of 237,000,000 ordinary shares of DFG at HK\$2.65 per DFG share.
17. LMA Trade Confirmation dated June 17, 2004 between JPMorgan Chase (as agent for Seller), Telstra and us relating to the purchase of US\$1,200 million of debt, the outstanding amount of debt under the Reach Term Facility for approximately US\$311 million.
18. Shareholder Term Loan Facility Agreement dated January 12, 2001 between Reach Finance Limited, Reach, the initial guarantors, Telstra and us relating to the Reach Term Facility, effective June 18, 2004.
19. Facility Agreement dated June 17, 2004 between Reach (as borrower) and Telstra and us (as lenders) relating to a US\$50 million working capital revolving loan facility.

20. Facility Letter dated July 13, 2004 between Standard Chartered Bank (HK) Ltd (as issuing bank), HKTC (as applicant) and us (as beneficiary) relating to a guarantee facility of up to HK\$780 million.
21. Deed of Charge Over Deposit Account dated July 13, 2004 between HKTC (as chargor), Standard Chartered Bank (HK) Ltd (as issuing bank and account bank) and us (as beneficiary) relating to a guarantee facility of up to HK\$780 million.
22. Placing Agreement dated October 28, 2004 between Asia Motion Limited (as vendor) and Lehman Brothers Asia Limited (as placing agent) relating to the placing of 118,000,000 ordinary shares of PCPD at HK\$2.18 per PCPD share.
23. Subscription Agreement dated October 28, 2004 between Asian Motion Limited and PCPD relating to the subscription of 118,000,000 new ordinary shares of PCPD at HK\$2.18 per PCPD share.
24. Block Trade Agreement dated November 30, 2004 between Asia Motion Limited (as seller) and Deutsche Bank AG, Hong Kong Branch (as contracting principal) relating to the placing of 450,000,000 ordinary shares of PCPD at HK\$2.48 per PCPD share.
25. Agreement for Sale and Purchase dated December 21, 2004 between Partner Link Investments Limited (as vendor) and Richly Leader Limited (as purchaser) relating to the sale of PCCW Tower.
26. Subscription Agreement dated January 19, 2005 between China Netcom Group Corporation (BVI) Limited, China Network Communications Group Corporation and us relating to the subscription of 1,343,571,766 new ordinary shares in us at HK\$5.90 per share, as amended by a supplemental agreement dated February 7, 2005.
27. Deed of Rental Guarantee dated February 7, 2005 between Partner Link Investments Limited (as vendor), Ipswich Holdings Limited (as guarantor) and Richly Leader Limited (as purchaser) relating to the guarantee of a minimum monthly rental of HK\$13,338,000 per month to the purchaser for five years.
28. Deed of Assignment dated March 14, 2005 among China Netcom Group Corporation (BVI) Limited, China Netcom Corporation (BVI) Limited, China Network Communications Group Corporation and us pursuant to which China Netcom Group Corporation (BVI) Limited assigned its rights under the Subscription Agreement (referred to in item 26) to China Netcom Corporation (BVI) Limited.
29. Reach Network Services Agreement dated April 16, 2005 among Reach, Reach Global, Reach Networks, Telstra, Hong Kong CSL Limited, PCCW Communications, HKTC and us relating to the supply by Reach of international connectivity services.
30. Capacity Allocation Agreement dated April 16, 2005 among Reach Global, Telstra, PCCW Communications and us relating to the granting by Reach Global of indefeasible rights to use Reach's undersea cable capacity.
31. Reach Debt and Asset Restructure Deed dated April 16, 2005 among Telstra, Telstra Holdings Pty Limited, Telstra Holdings (Bermuda) No. 1 Limited, PCCHL, HKTC, PCCW Communications, various members of the Reach Group and us relating to the restructuring of debt owed by Reach to its shareholders.
32. Equitable Mortgage Amendment Deed dated April 16, 2005 between PCCHL, Telstra and us relating to the extension of PCCW's security obligation with respect to the US\$54,337,474.94 5% Mandatory Convertible Note (referred to in item 1).

D. Exchange Controls

No foreign exchange controls exist in Hong Kong and there is a free flow of capital into and out of Hong Kong. There are no restrictions on remittances of Hong Kong dollars or any other currency from Hong Kong to persons not resident in Hong Kong for the purpose of paying dividends or otherwise.

E. Taxation

The following summary contains a description of the principal U.S. federal income and Hong Kong tax consequences of the purchase, ownership and disposition of ordinary shares or ADSs by a U.S. Holder (as defined below). This summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase or hold ordinary shares or ADSs. In particular, this summary does not address considerations relevant to all categories of potential investors, some of which may be subject to special rules (including, but not limited to, financial institutions, insurance companies, tax-exempt organizations, certain U.S. expatriates, broker-dealers, traders in securities, persons that hold ordinary shares or ADSs as part of a straddle, hedge, conversion or other integrated transaction for tax purposes, persons who acquired ordinary shares or ADSs pursuant to the exercise of any employee stock option or otherwise as compensation, persons that own, directly or constructively, 10% or more of our ordinary shares and persons whose "functional currency" for U.S. federal income tax purposes is not the US dollar), nor does it address U.S. state or local or other tax consequences. In addition, this summary deals only with U.S. Holders that will hold ordinary shares or ADSs as capital assets for U.S. federal income tax purposes. This summary is based upon the tax laws of the United States and Hong Kong as in effect on the date hereof, all of which are subject to change or differing interpretations, possibly with retroactive effect. In addition, this summary assumes that all of the obligations and agreements set forth in the Deposit Agreement and any related agreements will be performed in accordance with their terms. U.S. Holders of ordinary shares or ADSs are advised to consult their own tax advisers as to the United States, Hong Kong or other tax consequences of the ownership and disposition of ordinary shares or ADSs in light of their particular circumstances, including the effect of any national, state or local tax laws of the jurisdiction or jurisdictions in which they are resident or domiciled for tax purposes.

For U.S. federal income tax purposes, a U.S. Holder of ADSs generally should be treated as the holder of the ordinary shares represented by the ADSs. Accordingly, a U.S. Holder should not recognize gain or loss on an exchange of ADSs for the ordinary shares represented by those ADSs.

The U.S. Treasury has expressed concerns that parties to whom ADSs are pre-released may be taking actions that are inconsistent with the claiming of foreign tax credits by U.S. Holders of ADSs. Such actions would also be inconsistent with the claiming of the reduced rate of tax applicable to dividends received by certain noncorporate U.S. Holders, as described below. Accordingly, the analysis of the availability of the reduced tax rate for dividends received by certain noncorporate U.S. Holders could be affected by actions that may be taken by parties to whom ADSs are pre-released.

For purposes of this discussion, a "U.S. Holder" is a beneficial owner of ordinary shares or ADSs that is, for U.S. federal income tax purposes, (i) a citizen or individual resident of the U.S., (ii) a corporation, or other entity taxable as a corporation, created or organized under the laws of the U.S. or any political subdivision thereof, or (iii) an estate or trust the income of which is subject to U.S. federal income tax without regard to its source.

This summary assumes there we were not a passive foreign investment company for the 2004 taxable year (as discussed below).

No reciprocal tax treaty exists between Hong Kong and the United States.

Hong Kong Taxation

Dividends

Under existing Hong Kong profits tax law and practice, no tax is payable in Hong Kong by withholding or otherwise with respect to dividends paid by us.

Gains or Loss on Sale

No tax is payable in Hong Kong with respect to any gain arising on the sale or disposal of ordinary shares or ADSs if the gain is capital in nature. Any capital loss is not deductible nor can it be carried forward.

Hong Kong profits tax may be charged on any gain arising on the sale or disposal of ordinary shares or ADSs if

the gain is revenue in nature, is sourced in Hong Kong, and if such gain forms part of a trade, profession or business carried on in Hong Kong. Gains from the sale of ADSs effected on the NYSE would be regarded as sourced outside Hong Kong and would therefore not be subject to Hong Kong profits tax.

Stamp Duty

The ordinary shares constitute Hong Kong stock for purposes of Hong Kong stamp duty. Therefore, any person who effects a sale or purchase of ordinary shares, or where the sale is effected by an agent, is required, or such agent is required, to execute a contract note evidencing such sale or purchase and to have that note stamped. Contract notes for the sale and purchase of Hong Kong stock are required to be stamped at the rate of HK\$1.00 for every HK\$1,000 or part thereof (resulting in an aggregate stamp duty of HK\$2.00 per HK\$1,000) based on the value of the consideration or market value, whichever is greater (in the case of a sale or purchase of ordinary shares by a person who is not resident in Hong Kong and the stamp duty on either or both of the contract notes is not paid, the transferee will be liable to pay stamp duty on the instrument of transfer in an amount equal to the unpaid duty). In addition, if the stamp duty is not paid on or before the due date, a penalty of up to 10 times the duty payable may be imposed.

Upon the exchange of any ADSs for certificates representing ordinary shares or vice versa, stamp duty at the rate of HK\$1.00 per HK\$1,000 or part thereof is payable by the holder surrendering the ADSs or ordinary share certificates, as the case may be. In practice, stamp duty may not be payable if there is no change of beneficial ownership of the ADSs. Transfers of ADSs in jurisdictions outside of Hong Kong are not subject to Hong Kong stamp duty.

Estate Duty

The ordinary shares are Hong Kong property for the purposes of the Estate Duty Ordinance and accordingly Hong Kong estate duty may be payable in respect thereof on the death of the owner of such ordinary shares. ADSs that are not physically located in Hong Kong are not, according to existing practice, regarded as Hong Kong property for such purposes and on that basis Hong Kong estate duty is not payable with respect to such ADSs.

Holders of ADSs are advised to consult their professional advisers with respect to their individual circumstances.

In the recent Hong Kong 2005-2006 Budget announced on March 16, 2005, the Financial Secretary has proposed to abolish the estate duty and will introduce the relevant bill into the Legislative Council shortly. There is no certainty that this bill will be passed and enacted. If enacted, it is intended that the abolishment will take effect from a future date and will not be retroactive.

U.S. Federal Income Taxation

Dividends

For U.S. federal income tax purposes, U.S. Holders will include in gross income as foreign source dividend income the gross amount of any distribution paid, other than certain pro rata distributions of ordinary shares, by us out of our current or accumulated earnings and profits (as determined under U.S. federal income tax principles). Subject to applicable limitations and the discussion above regarding concerns expressed by the U.S. Treasury, dividends paid to certain noncorporate U.S. Holders in taxable years beginning before January 1, 2009 will be taxable at a maximum tax rate of 15%. Noncorporate U.S. Holders should consult their own tax advisers to determine whether they are subject to any special rules that limit their ability to be taxed at this favorable rate. Dividends will not be eligible for the dividends-received deduction generally allowed to corporate U.S. Holders with respect to dividends received from other U.S. corporations. The amount of the dividend distribution paid in Hong Kong dollars includible in income of a U.S. Holder will be the US dollar value of the payment made, calculated by reference to the exchange rate on the date the payment is received by the U.S. Holder in the case of ordinary shares, or by the Depositary in the case of ADSs, regardless of whether the payment is in fact converted into US dollars. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date the payment is includible in income to the date such payment is converted into US dollars will be treated as ordinary

income or loss. Such gain or loss will generally be treated as U.S. source gain or loss for foreign tax credit limitation purposes.

Gains or Loss on Sale

Upon the sale, exchange or other disposition of ordinary shares or ADSs, a U.S. Holder will recognize gain or loss for U.S. federal income tax purposes in an amount equal to the difference between the US dollar value of the amount realized and the U.S. Holder's tax basis (determined in US dollars) in such ordinary shares or ADSs. Generally, such gain or loss will be capital gain or loss and will be long-term capital gain or loss if the U.S. Holder's holding period for such ordinary shares or ADSs exceeds one year at the time of the disposition. In general, such gain or loss will be U.S. source gain or loss for foreign tax credit limitation purposes. The deductibility of capital losses is subject to limitations.

U.S. Backup Withholding and Information Reporting

Information reporting requirements will apply to the payment of dividends with respect to the ordinary shares or ADSs and proceeds on the sale or disposition of ordinary shares or ADSs paid within the United States and in some cases outside of the United States, to a U.S. Holder unless the U.S. Holder is an exempt recipient, such as a corporation, and backup withholding may apply to such amounts if the U.S. Holder fails to provide an accurate taxpayer identification number or to report interest and dividends required to be shown on its U.S. federal income tax returns. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the U.S. Holder's U.S. federal income tax liability and may entitle the U.S. Holder to a refund, provided the required information is furnished to the Internal Revenue Service.

Passive Foreign Investment Company Rules

We believe that we were not a "passive foreign investment company", or PFIC, for U.S. federal income tax purposes for the 2004 taxable year. However, since PFIC status depends upon the composition of a company's income and assets and the market value of its assets (including, among others, less than 25% owned equity investments) from time to time, there can be no assurance that we will not be considered a PFIC for any taxable year. If we were treated as a PFIC for any taxable year during which a U.S. Holder held an ADS or ordinary share, certain adverse tax consequences could apply to the U.S. Holder.

If we were treated as a PFIC for any taxable year during which a U.S. Holder held ordinary shares or ADSs, gain recognized by such U.S. Holder on a sale or other disposition of an ADS or ordinary share would be allocated ratably over the U.S. Holder's holding period for the ADS or ordinary share. The amounts allocated to the taxable year of the sale or other exchange and to any year before we became a PFIC would be taxed as ordinary income. The amount allocated to each other taxable year would be subject to tax at the highest rate in effect for individuals or corporations, as appropriate, and an interest charge would be imposed on the amount allocated to each such taxable year. Further, any distribution with respect to ADSs or ordinary shares in excess of 125% of the average of the annual distributions on ADSs or ordinary shares received by the U.S. Holder during the preceding three years or the U.S. Holder's holding period, whichever is shorter, would be subject to taxation as described above. Certain elections may be available (including a mark-to-market election) to U.S. Holders that may mitigate the adverse tax consequences resulting from PFIC status.

In addition, if we were to be treated as a PFIC in a taxable year in which we pay a dividend or the prior taxable year, the 15% dividend rate discussed above with respect to dividends paid to certain noncorporate U.S. Holders would not apply.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

We are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended. In accordance with these requirements, we file annual reports on Form 20-F and furnish periodic reports on Form 6-K with the SEC. These materials, including this annual report and the exhibits thereto, may be inspected and copied at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. The public may obtain information on the operation of the SEC's Public Reference Room by calling the SEC in the United States at 1-800-SEC-0330. The Commission also maintains a website at <http://www.sec.gov> that contains reports and proxy information regarding issuers that file electronically with the SEC. In addition, you can inspect reports and other information concerning us at the offices of the NYSE at 20 Broad Street, New York, New York 10005 and at our registered office.

I. Subsidiary Information

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a result of our borrowings, international operations, funding and investment activities, we are exposed to market risk resulting from changes in interest rates and changes in foreign exchange rates relative to the Hong Kong dollar. From time to time, we enter into currency forwards, interest rate and currency swaps, forward rate agreements, options and other financial instruments to manage our exposures and reduce the market risk. We do not undertake any speculative trading activities in connection with these financial instruments. We also do not enter into or acquire market risk sensitive instruments for trading purposes. These off-balance sheet transactions are not used to create liquidity, capital resources or other benefits. Therefore, in general, expenses or revenues from these transactions will only arise when we terminate these transactions early or we amend the terms of the transactions. 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 our risk management strategy. Our accounting policies on derivative financial instruments are set out in notes 2(z) and 43(n) of our consolidated financial statements.

This section contains "forward-looking statements" as described in "Forward-Looking Statements".

Market risk composed of foreign currency exposure and interest rate exposure deriving from our operation and funding activities. As a matter of policy, we continue to manage market risk that are directly related to our operations and financing, and we do not undertake any speculative trading activities that involve currency forwards, interest rate and currency swaps, forward rate agreements, options and other financial instruments. The Finance and Management Committee, a subcommittee of the Executive Committee of our Board of Directors, 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 our business. All treasury risk management activities are carried out in accordance with policies and guidelines approved by the Finance and Management Committee and the Executive Committee, which are reviewed on a regular basis.

In the normal course of business, we used the above-mentioned financial instruments to limit our 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. Gains and losses on these contracts offset the losses and gains of the underlying assets and liabilities that would otherwise impact our financial results. Costs associated with entering into such contracts are not material to our financial results.

A. Interest Rate Risk

Based on our expectation of interest rate movements, we enter into forward rate agreements and other interest rate contracts to lock in interest rates considered favorable to our future cash flow.

In 2004, we shifted a majority of our debt from floating to fixed interest rates in order to keep our funding cost at a steady level in view of rising market interest rates.

The table below summarizes the nominal and fair value, maturity and contract terms of the interest rate sensitive financial instruments that we held as at December 31, 2004 and at December 31, 2003, respectively, in Hong Kong dollars.

In addition, in January 2005, HKTC drew down HK\$6,000 million under a five year revolving loan facility for general corporate funding requirements. The drawn portion of the revolving loan facility was subsequently repaid in February and March 2005. These facilities are denominated in Hong Kong dollars and are floating rate in nature, and therefore exposes us to interest rate risk.

A significant percentage of our liabilities are based on HIBOR, and any substantial increase in HIBOR will adversely affect our results of operation.

Assets/Liabilities and Relative Instruments Subject to Interest Rate Risk, at December 31, 2004

| | Maturities | | | | | | Total | Fair Value | |
|---|-----------------------------|-------|---------|------|------|------------|----------|------------|--|
| | 2005 | 2006 | 2007 | 2008 | 2009 | Thereafter | | | |
| | (in HK\$ million, except %) | | | | | | | | |
| Assets: | | | | | | | | | |
| Fixed Rate, HK\$ | 2,769 | - | - | - | - | - | 2,769 | 2,769 | |
| Average Interest Rate (%) | 0.17% | | | | | | 0.17% | | |
| Fixed Rate, US\$ | 441 | - | - | - | - | - | 441 | 441 | |
| Average Interest Rate (%) | 2.17% | | | | | | 2.17% | | |
| Fixed Rate, Yen | 284 | - | - | - | - | - | 284 | 284 | |
| Average Interest Rate (%) | 0.88% | | | | | | 0.88% | | |
| Liabilities: | | | | | | | | | |
| Fixed Rate, US\$ | (9,017) | - | (3,500) | - | - | (15,213) | (27,730) | (31,582) | |
| Average Interest Rate (%) | 3.58% | | 1.00% | | | 7.46% | 5.38% | | |
| Fixed Rate, Yen | - | - | - | - | - | (1,950) | (1,950) | (2,336) | |
| Average Interest Rate (%) | | | | | | 3.65% | 3.65% | | |
| Others | (14) | - | - | - | - | - | (14) | (14) | |
| Average Interest Rate (%) | 2.95% | | | | | | 2.95% | | |
| Relative Instruments: | | | | | | | | | |
| Interest Rate Cap | | | | | | | | | |
| Notional Amount | 53 | - | - | - | - | - | 53 | 0 | |
| Average Strike Rate | 8.00% | | | | | | 8.00% | | |
| Cross Currency Swap | | | | | | | | | |
| Receive fix US\$, pay floating HK\$ | | | | | | | | | |
| Notional Amount | - | - | 7,457 | - | - | - | 7,457 | 71 | |
| Average Receive Rate | | | 6.90% | | | | 6.90% | | |
| Average Pay Rate | | | 4.12% | | | | 4.12% | | |
| Cross Currency Swap | | | | | | | | | |
| Receive fix Yen, pay floating US\$ | | | | | | | | | |
| Notional Amount | - | 1,950 | - | - | - | - | 1,950 | 391 | |
| Average Receive Rate | | 3.65% | | | | | 3.65% | | |
| Average Pay Rate | | 5.27% | | | | | 5.27% | | |
| Cross Currency Swap | | | | | | | | | |
| Receive floating US\$, pay floating HK\$ | | | | | | | | | |
| Notional Amount | 1,950 | 1,950 | - | - | - | - | 3,900 | (13) | |
| Average Receive Rate | 5.27% | 5.27% | | | | | 5.27% | | |
| Average Pay Rate | 2.97% | 3.44% | | | | | 3.21% | | |
| Cross Currency Swap | | | | | | | | | |
| Receive fix US\$, pay fix HK\$ | | | | | | | | | |
| Notional Amount | 12,090 | 7,767 | - | - | - | 11,665 | 31,522 | (587) | |
| Average Receive Rate | 2.77% | 8.00% | | | | 7.33% | 5.75% | | |
| Average Pay Rate | 2.77% | 7.53% | | | | 6.46% | 5.31% | | |

Maturities

| | 2005 | 2006 | 2007 | 2008 | 2009 | Thereafter | Total | Fair Value |
|---|-----------------------------|------|-------|------|------|------------|-------|------------|
| | (in HK\$ million, except %) | | | | | | | |
| Receive fix US\$, receive fix HK\$ | - | - | 3,501 | - | - | - | 3,501 | (50) |
| Notional Amount | | | 1.00% | | | | 1.00% | |
| Average Rec. USD Rate | | | 0.50% | | | | 0.50% | |
| Average Rec. HKD Rate | | | | | | | | |

Assets/Liabilities and Relative Instruments Subject to Interest Rate Risk, at December 31, 2003

Maturities

| | 2004 | 2005 | 2006 | 2007 | 2008 | Thereafter | Total | Fair Value |
|---|-----------------------------|---------|-------|---------|---------|------------|----------|------------|
| | (in HK\$ million, except %) | | | | | | | |
| Assets: | | | | | | | | |
| Fixed Rate, HK\$ | 2,884 | — | — | — | — | — | 2,884 | 2,884 |
| Average Interest Rate (%) | 0.03% | — | — | — | — | — | 0.03% | |
| Fixed Rate, US\$ | 2,252 | — | — | — | — | — | 2,252 | 2,252 |
| Average Interest Rate (%) | 1.06% | — | — | — | — | — | 1.06% | |
| Fixed Rate, Yen | 396 | — | — | — | — | — | 396 | 396 |
| Average Interest Rate (%) | 0.85% | — | — | — | — | — | 0.85% | |
| Liabilities: | | | | | | | | |
| Fixed Rate, US\$ | — | (8,983) | | (3,494) | | (15,242) | (27,719) | (31,239) |
| Average Interest Rate (%) | — | 3.57% | | 1% | | 7.46% | 5.39% | |
| Variable Rate, HK\$ | — | — | — | — | (3,753) | | (3,753) | (3,753) |
| Average Interest Rate (%) | — | — | — | — | 1.17% | | 1.17% | |
| Fixed Rate, Yen | (54) | (8) | (4) | (2) | (1) | (1,950) | (2,019) | (2,458) |
| Average Interest Rate (%) | 1.66% | 2.80% | 2.80% | 2.80% | 2.80% | 3.65% | 3.59% | |
| Others | (106) | (125) | (132) | (151) | (661) | | (1,175) | (1,175) |
| Average Interest Rate (%) | 5.18% | 5.29% | 5.47% | 5.47% | 5.47% | | 5.42% | |
| Relative Instruments: | | | | | | | | |
| Interest Rate Cap | | | | | | | | |
| Notional Amount | 68 | — | — | — | — | — | 68 | 0 |
| Average Strike Rate | 8% | — | — | — | — | — | 8% | |
| Cross Currency Swap | | | | | | | | |
| Receive fix US\$, pay floating HK\$ | | | | | | | | |
| Notional Amount | — | — | | 7,457 | — | — | 7,457 | 118 |
| Average Receive Rate | — | — | | 6.90% | — | — | 6.90% | |
| Average Pay Rate | — | — | | 4.01% | — | — | 4.01% | |
| Cross Currency Swap | | | | | | | | |
| Receive fix Yen, pay floating US\$ | | | | | | | | |
| Notional Amount | — | — | 1,950 | — | — | | 1,950 | 299 |
| Average Receive Rate | — | — | 3.65% | — | — | | 3.65% | |
| Average Pay Rate | — | — | 3.71% | — | — | | 3.71% | |
| Cross Currency Swap | | | | | | | | |
| Receive floating US\$, pay floating HK\$ | | | | | | | | |
| Notional Amount | — | 1,950 | | — | — | — | 1,950 | (24) |

| | Maturities | | | | | | Fair Value | |
|----------------------------|-----------------------------|--------|------|------|------|------------|------------|-------|
| | 2004 | 2005 | 2006 | 2007 | 2008 | Thereafter | | Total |
| | (in HK\$ million, except %) | | | | | | | |
| Average Receive Rate | — | 3.71% | | — | — | — | 3.71% | |
| Average Pay Rate | — | 2.74% | | — | — | — | 2.74% | |
| Cross Currency Swap | | | | | | | | |
| Receive fix US\$, | | | | | | | | |
| pay fix HK\$ | | | | | | | | |
| Notional Amount | — | 12,090 | | — | — | — | 12,090 | (180) |
| Average Receive Rate | — | 2.77% | | — | — | — | 2.77% | |
| Average Pay Rate | — | 2.77% | | — | — | — | 2.77% | |

B. Foreign Exchange Risk

Based on our expectation of foreign exchange rate movements, we enter into foreign exchange transactions and currency swaps to reduce our exposure to exchange rate fluctuations that may impact actual payments in foreign currencies. In structuring such transactions, we take into account that since date October 17, 1983, the Hong Kong dollar has been officially linked to the US dollar at a rate of HK\$7.80 to US\$1.00. There is no guarantee that this pegged rate will continue in the future. If the Hong Kong dollar were to depreciate substantially against the U.S. dollar, it will adversely affect our results of operation.

In 2004, we entered into forward-start currency swaps so that most of our USD liabilities are hedged till their final maturity into HKD. These hedges are executed to capture the excessive market liquidity in the Hong Kong dollar market and protect us from future fluctuation of the foreign exchange rate.

The tables below summarize the nominal and fair value, maturity and contract terms of the foreign exchange sensitive financial instruments that were held as at December 31, 2004 and at December 31, 2003, respectively, in Hong Kong dollars.

Assets/Liabilities and Relative Instruments Subject to Foreign Exchange Risk, at December 31, 2004

| | Maturities | | | | | | Total | Fair Value |
|-----------------------------------|-----------------------------|------|---------|------|------|------------|----------|------------|
| | 2005 | 2006 | 2007 | 2008 | 2009 | Thereafter | | |
| | (in HK\$ million, except %) | | | | | | | |
| Assets: | | | | | | | | |
| Fixed Rate, US\$ | 441 | - | - | - | - | - | 441 | 441 |
| Average Interest Rate (%) | 2.17% | | | | | | 2.17% | |
| Fixed Rate, Yen | 284 | - | - | - | - | - | 284 | 284 |
| Average Interest Rate (%) | 0.88% | | | | | | 0.88% | |
| Liabilities: | | | | | | | | |
| Fixed Rate, US\$ | (9,017) | - | (3,500) | - | - | (15,213) | (27,730) | (31,582) |
| Average Interest Rate (%) | 3.58% | | 1.00% | | | 7.46% | 5.38% | |
| Fixed Rate, Yen | - | - | - | - | - | (1,950) | (1,950) | (2,336) |
| Average Interest Rate (%) | | | | | | 3.65% | 3.65% | |
| Relative Instruments: | | | | | | | | |
| Forward Exchange Contracts | | | | | | | | |
| Pay HK\$/Receive US\$ | | | | | | | | |
| Notional Amount | 1,090 | - | - | - | - | - | 1,090 | (5) |
| Average Contractual Rate | 7.71 | | | | | | 7.71 | |
| Cross Currency Swap | | | | | | | | |
| Pay HK\$ floating, | | | | | | | | |
| Receive US\$ fixed | | | | | | | | |
| Notional Amount | - | - | 7,457 | - | - | - | 7,457 | 71 |
| Average Contract Rate | | | 7.80 | | | | 7.80 | |
| Cross Currency Swap | | | | | | | | |
| Pay US\$ floating, | | | | | | | | |

Maturities

| | 2005 | 2006 | 2007 | 2008 | 2009 | Thereafter | Total | Fair Value |
|------------------------------|-------------|-------------|-------------|-------------|-------------|-------------------|--------------|-------------------|
| (in HK\$ million, except %) | | | | | | | | |
| Receive Yen fixed | | | | | | | | |
| Notional Amount | - | 1,950 | - | - | - | -- | 1,950 | 391 |
| Average Contract Rate | | 120.0 | | | | | 120.0 | |
| Cross Currency Swap | | | | | | | | |
| Pay HK\$ floating, | | | | | | | | |
| Receive US\$ floating | | | | | | | | |
| Notional Amount | 1,950 | 1,950 | - | - | - | - | 3,900 | (13) |
| Average Contract Rate | 7.80 | 7.80 | | | | | 7.80 | |
| Cross Currency Swap | | | | | | | | |
| Pay HK\$ fixed, | | | | | | | | |
| Receive US\$ fixed | | | | | | | | |
| Notional Amount | 12,090 | 7,767 | - | - | - | 11,665 | 31,522 | (587) |
| Average Contract Rate | 7.80 | 7.77 | | | | 7.78 | 7.78 | |
| Cross Currency Swap | | | | | | | | |
| Receive HK\$ fixed | | | | | | | | |
| Receive US\$ fixed | | | | | | | | |
| Notional Amount | - | - | 3,501 | - | - | - | 3,501 | (50) |
| Average Contract Rate | | | 7.78 | | | | 7.78 | |

Assets/Liabilities and Relative Instruments Subject to Foreign Exchange Risk, at December 31, 2003

| | Maturities | | | | | | | Fair Value |
|------------------------------|-------------------|-------------|-------------|-------------|-------------|-------------------|--------------|-------------------|
| | 2004 | 2005 | 2006 | 2007 | 2008 | Thereafter | Total | |
| (in HK\$ million, except %) | | | | | | | | |
| Assets: | | | | | | | | |
| Fixed Rate, US\$ | 2,252 | — | — | — | — | — | 2,252 | 2,252 |
| Average Interest Rate (%) | 1.06% | — | — | — | — | — | 1.06% | |
| Fixed Rate, Yen | 396 | — | — | — | — | — | 396 | 396 |
| Average Interest Rate (%) | 0.85% | — | — | — | — | — | 0.85% | |
| Liabilities: | | | | | | | | |
| Fixed Rate, US\$ | — | (8,983) | | (3,494) | | (15,242) | (27,719) | (31,239) |
| Average Interest Rate (%) | — | 3.57% | | 1.00% | | 7.46% | 5.39% | |
| Fixed Rate, Yen | (54) | (8) | (4) | (2) | (1) | (1,950) | (2,019) | (2,458) |
| Average Interest Rate (%) | 1.66% | 2.80% | 2.80% | 2.80% | 2.80% | 3.65% | 3.59% | |
| Others | (106) | (125) | (132) | (151) | (661) | | (1,175) | (1,175) |
| Average Interest Rate (%) | 5.18% | 5.29% | 5.47% | 5.47% | 5.47% | | 5.42% | |
| Relative Instruments: | | | | | | | | |
| Forward Exchange | | | | | | | | |
| Contracts | | | | | | | | |
| Pay HK\$/Receive US\$ | | | | | | | | |
| Notional Amount | 6,476 | 624 | — | — | — | — | 7,100 | (72) |
| Average Contractual Rate | 7.8150 | 7.7239 | — | — | — | — | 7.8070 | |
| Cross Currency Swap | | | | | | | | |
| Pay HK\$ floating, | | | | | | | | |
| Receive US\$ fixed | | | | | | | | |
| Notional Amount | — | — | | 7,457 | — | — | 7,457 | 118 |
| Average Contract Rate | — | — | | 7.80 | — | — | 7.80 | |
| Cross Currency Swap | | | | | | | | |
| Pay US\$ floating, | | | | | | | | |
| Receive Yen fixed | | | | | | | | |

Maturities

| | 2004 | 2005 | 2006 | 2007 | 2008 | Thereafter | Total | Fair Value |
|------------------------------|-----------------------------|-------------|-------------|-------------|-------------|-------------------|--------------|-------------------|
| | (in HK\$ million, except %) | | | | | | | |
| Notional Amount | — | — | 1,950 | — | — | | 1,950 | 299 |
| Average Contract Rate | — | — | 120.0 | — | — | | 120.0 | |
| Cross Currency Swap | | | | | | | | |
| Pay HK\$ floating, | | | | | | | | |
| Receive US\$ floating | | | | | | | | |
| Notional Amount | — | 1,950 | | — | — | — | 1,950 | (24) |
| Average Contract Rate | — | 7.80 | | — | — | — | 7.80 | |
| Cross Currency Swap | | | | | | | | |
| Pay HK\$ fixed, | | | | | | | | |
| Receive US\$ fixed | | | | | | | | |
| Notional Amount | — | 12,090 | | — | — | — | 12,090 | (180) |
| Average Contract Rate | — | 7.80 | | — | — | — | 7.80 | |

C. Equity Options

In 2002, we entered into certain derivative contracts, in the form of equity swap and equity option contracts, with a third party with the effect of entering into forward sales of a portion of certain quoted other investments plus written call options held by the counterparty for the remaining portion of those quoted other investments. The deemed forward sales effectively eliminated our exposure to market price fluctuation and accordingly, the underlying quoted other investments were carried at the deemed forward price as at December 31, 2002. An advance receipt of approximately HK\$187 million for the deemed forward sales was received in 2002. The amount was included in "Other long-term liabilities" in the consolidated balance sheet and is interest bearing at commercial rate. We recognized a gain of approximately HK\$10 million for marking the quoted other investments to the deemed forward price and the gain was reflected in "Net gains on investments" in the consolidated income statement for the year ended December 31, 2002. We also received premiums of approximately HK\$25 million for the written call options with notional amount of approximately HK\$71 million. The premiums received were recorded as deferred income and are being amortized into income on a straight-line basis over the life of the call options. The underlying quoted other investments are carried at market value at each balance sheet date and any unrealized holding gains or losses are recognized in the consolidated income statement in the period as it arises. The underlying quoted other investments for both the deemed forward sales and written call options have been placed as collateral for the above equity swap and equity option transactions. We did not enter into any new derivative contracts of this nature in 2004 and 2003.

Apart from the above, as at December 31, 2004 and 2003, we had no other outstanding written equity call options, as compared with a total notional amount of approximately HK\$157 million as at December 31, 2002. Other than the equity options as mentioned in previous paragraph, we did not receive premiums on writing new equity options in 2004, 2003 and 2002.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

ITEM 14. MATERIAL MODIFICATION TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

None.

ITEM 15. CONTROLS AND PROCEDURES

As at December 31, 2004, PCCW, under the supervision and with the participation of PCCW's management, including the Chairman, the Deputy Chairman and Group Managing Director and the Group Chief Financial Officer, performed an evaluation of the effectiveness of PCCW's disclosure controls and procedures. PCCW's management necessarily applied its judgment in assessing the costs and benefits of such controls and procedures, which by their nature can provide only reasonable assurance regarding management's control objectives. Based on this evaluation, PCCW's Chairman, Deputy Chairman and Group Managing Director and Group Chief Financial Officer concluded that PCCW's disclosure controls and procedures are effective at the reasonable assurance level for gathering, analyzing and disclosing the information PCCW is required to disclose in the reports it files under the Securities Exchange Act of 1934, within the time periods specified in the SEC's rules and forms. However, in connection with the foregoing evaluation, we identified deficiencies in the internal controls of one of our smaller subsidiaries, and we have taken corrective actions and allocated additional resources to improve the disclosure controls and procedures of this subsidiary. We do not believe this subsidiary is material to our group, and we do not believe the deficiencies in the disclosure controls and procedures of this subsidiary had any significant impact on our consolidated financial statements for the year ended December 31, 2004.

There has been no change in PCCW's internal control over financial reporting that occurred during the period covered by this annual report that has materially affected, or is reasonably likely to materially affect, PCCW's internal control over financial reporting.

Internal Control

The directors are responsible for internal control at the Company and for reviewing its effectiveness. Procedures have been designed for safeguarding assets against unauthorized use or disposition, for maintaining proper accounting records and for ensuring the reliability of financial information used within the business or for publication. Such procedures are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material errors, losses or fraud.

The key internal controls established within the PCCW group include the following:

- *Expenditure Authorization and Control.* Authority to operate the various business units and subsidiaries within our group is delegated to their respective business unit heads/managing directors within limits set by the Board of Directors of the Company or by the Executive Committee of the Board under powers delegated by the Board. Authorities are delegated downwards within our group to the point where decisions can be taken most efficiently, with the aim of balancing effective oversight with operational flexibility.
- *Business Planning and Performance Monitoring.* The Group Finance department has established comprehensive management control systems incorporating planning, budgeting and monitoring arrangements for each business unit or subsidiary. The Group Finance department tracks key performance indicators on a monthly basis and regular reviews and assessments of progress against agreed targets are carried out by the Operational Committee in conjunction with operational management.
- *Integrity of Records and Accounting Procedures.* Detailed operational, financial and management reporting procedures and guidelines are established by the Group Finance department for application across the Group. These are designed to ensure that proper controls are in place for the recording of complete, accurate and timely accounting and management information. Regular reviews and audits are carried out to ensure that the preparation of financial statements is carried out in accordance with generally accepted accounting principles, the Group's accounting policies and the laws and regulations applicable in each country of operations.
- *Corporate Functions.* Centralized corporate functions have been given responsibility to set policies, procedures and standards in the areas of finance, treasury and debt execution, taxation, legal and regulatory affairs, company secretarial, human resources, mergers and acquisitions, corporate communications, purchasing and supply, property management and environmental protection.

Group Internal Audit

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

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

ITEM 16. RESERVED

A. Audit Committee Financial Expert

Each member of our Audit Committee is financially literate. Our Board of Directors has determined that Aman Mehta is an "Audit Committee financial expert" as defined by SEC rules.

B. Code of Ethics

Our Board of Directors has adopted a Corporate Responsibility Policy that applies to all our employees, including the principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions.

This policy is intended to be a clear and simple guide to the standards for the way we go about our business and the corporate responsibilities of employees of PCCW. This includes guidance on obligations towards the Company; civic responsibilities; equal opportunities; safeguarding communications; company information and property; privacy of personal data; prevention of bribery and conflicts of interest; competition; and health and safety at work and the environment. This policy also describes procedures to enable employees to raise concerns with management and directors on a confidential basis. A copy of the policy is attached as Exhibit 11 to this annual report and is available from the Investors section of our website at: <http://www.pccw.com>.

C. Principal Accountant Fees and Services

PricewaterhouseCoopers, or PwC, is our principal accountant.

The "Audit and Non-Audit Services Pre-Approval Policy" was approved by the Audit Committee on November 11, 2003. This requires each known or anticipated audit and non-audit service that the independent auditors may provide to us or our subsidiaries for a period of 12 months, together with the expected range of fees, to be submitted under a "General Pre-Approval Request" for consideration and approval by the Audit Committee. If any proposed service exceeds the pre-approved level in the request, or if management requires any services from the independent auditors that are not covered by the approved request during the 12-month period, these services are subject to a "Specific Pre-Approval Request" for consideration by a designated Audit Committee member. The Audit Committee is provided with quarterly reports concerning audit and non-audit services actually engaged and performed for the purpose of monitoring the independence of the auditors.

PwC billed us for the following services in 2004 and 2003:

| Nature of the service | 2004 | 2003 |
|-----------------------|----------------|----------------|
| | (HK\$ million) | (HK\$ million) |
| Audit fees | 9 | 10 |
| Audit-related fees | 9 | 2 |
| Tax fees | 1 | 3 |
| All other fees | — | — |
| Total | 19 | 15 |

Audit Fees

Audit fees are the aggregate fees billed by PCCW's independent auditors for the annual financial statement audit, subsidiary audits and other procedures required to be performed for the auditors to form an opinion on PCCW's consolidated financial statements. Other procedures include information systems and procedural reviews and testing performed in order to understand and rely on the internal control systems and consultations relating to the audit and interim review. Audit services will also include the attestation engagement for the independent auditor's report on management's report on internal controls for financial reporting.

Audit-Related Fees

Audit-related fees are the aggregate fees billed by PCCW's independent auditors for accounting and advisory services fees and generally include support for the interpretation and implementation of new accounting and reporting standards and acquisition accounting. It also includes the audit of pension plans and the audit and review reports for compliance with telecommunications regulations and debt obligations.

Tax Fees

Tax Fees are the aggregate fees billed by PCCW's independent auditors for tax compliance, tax planning and tax consultation services on domestic and international taxation matters.

All Other Fees

All other fees are the aggregate fees billed by PCCW's independent auditors for financial due diligence services relating to potential business acquisitions and dispositions.

D. Exemptions from the Listing Standards for Audit Committees

Not applicable.

E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers

No purchases of our equity securities were made by or on behalf of us or any "affiliated purchaser," as defined in Rule 10b-18(a)(3), of us in 2004.

PART III

ITEM 17. FINANCIAL STATEMENTS

Not applicable.

ITEM 18. FINANCIAL STATEMENTS

See pages F-1 through F-153.

ITEM 19. EXHIBITS

1. Memorandum and Articles of Association of PCCW, as amended.
4. (a) Purchase Agreement dated October 18, 2001 entered into between Profit Century Finance Limited, or Profit Century, and Merrill Lynch International relating to the issue by Profit Century of the Japanese Yen 30,000 million 3.65% Guaranteed Notes due 2031, or the Yen Notes, (incorporated by reference to Exhibit 4(gg) of PCCW's Form 20-F filed for the fiscal year ended December 31, 2001, or 2001 Form 20-F).
- (b) Deed of Guarantee by HKTC dated October 26, 2001 with respect to the issue of the Yen Notes referred to paragraph (a) above (incorporated by reference to Exhibit 4(hh) of the 2001 Form 20-F).

- (c) Agency Agreement dated October 26, 2001 entered into by Profit Century, HKTC and The Hongkong and Shanghai Banking Corporation Limited, as fiscal agent and principal paying agent, with respect to the issue of the Yen Notes referred to paragraph (a) above (incorporated by reference to Exhibit 4(ii) of the 2001 Form 20-F).
- (d) Purchase Agreement dated November 7, 2001 entered into between PCCW-HKT Capital Limited, or PCCW-HKT Capital, and J.P. Morgan Securities Inc. relating to the issue by PCCW-HKT Capital of US\$750 million 7¾% Guaranteed Notes due 2011, or the US\$750 million Notes (incorporated by reference to Exhibit 4(jj) of the 2001 Form 20-F).
- (e) Indenture dated November 15, 2001 entered into between PCCW-HKT Capital, HKTC and JPMorgan Chase Bank with respect to the US\$750 million Notes referred to paragraph (d) above (incorporated by reference to Exhibit 4(kk) of the 2001 Form 20-F).
- (f) Purchase Agreement dated November 19, 2001 entered into between PCCW-HKT Capital and J.P. Morgan Securities Inc. relating to the issue by PCCW-HKT Capital of US\$250 million 7¾% Guaranteed Notes due 2011, or the US\$250 million Notes (incorporated by reference to Exhibit 4(ll) of the 2001 Form 20-F).
- (g) First Supplemental Indenture dated November 26, 2001 entered into between PCCW-HKT Capital, HKTC and JPMorgan Chase Bank with respect to the US\$250 million Notes referred to paragraph (f) above (incorporated by reference to Exhibit 4(mm) of the 2001 Form 20-F).
- (h) Content License agreement dated December 31, 2001 entered into between PCCW and Trans World International, Inc., or TWI (incorporated by reference to Exhibit 4(nn) of the 2001 Form 20-F).
- (i) Programme License agreement dated December 31, 2001 entered into between PCCW and TWI (incorporated by reference to Exhibit 4(oo) of the 2001 Form 20-F)
- (j) Subscription Agreement dated December 31, 2001 entered into between PCCW and World Productions Establishment, or WPE, pursuant to which the consideration for the acquisition of the licenses referred to paragraphs (h) and (i) of approximately US\$48 million (approximately HK\$375 million) shall be satisfied by the allotment of 175 million new PCCW shares at a price of HK\$2.15 per share on January 24, 2002 issued to WPE (incorporated by reference to Exhibit 4(pp) of the 2001 Form 20-F).
- (k) Subscription Agreement dated January 17, 2002 entered into between PCCW Capital No. 2 Limited, or PCCW Capital No. 2, PCCW, HKTC and Morgan Stanley & Co. International Limited relating to the issue by PCCW Capital No. 2 of US\$450 million 1% Guaranteed Convertible Bonds due 2007, or the Convertible Bonds due 2007 (incorporated by reference to Exhibit 4(qq) of the 2001 Form 20-F).
- (l) Trust Deed dated January 29, 2002, between PCCW Capital No. 2, HKTC, PCCW and The Law Debenture Trust Corporation p.l.c., as trustee, relating to the Convertible Bonds due 2007 (incorporated by reference to Exhibit 4(rr) of the 2001 Form 20-F).
- (m) Agreement dated June 28, 2002 between PCCW and Telstra relating to, among other things, the disposal of 40% equity interest in the Regional Wireless Company to Telstra by PCCW (incorporated by reference to Exhibit No.1 to PCCW's Form 6-K filed on July 29, 2002, or Form 6-K).
- (n) Deed of Release dated June 28, 2002 executed by Telstra relating to the redemption of the US\$750 million convertible bonds due 2007 (incorporated by reference to Exhibit No. 2 of the Form 6-K).
- (o) US\$190 million 5% Mandatory Convertible Note due 2005 issued by PCCW to Telstra on June 28, 2002, or US\$190 million Note (incorporated by reference to Exhibit No. 3 of the Form 6-K).
- (p) Equitable Mortgage Amendment Deed dated June 28, 2002 between PCCHL, PCCW and Telstra relating to the extension of PCCW's security obligation with respect to the US\$190 million Note (incorporated by reference to Exhibit No. 4 of the Form 6-K), further amended by the Equitable Mortgage Amendment Deed dated April 16, 2005.

- (q) Security Trust Deed dated January 15, 2001, with respect to the issue of convertible bonds (incorporated by reference to Exhibit 38 to PCCW's Form 20-F filed for the fiscal year ended December 31, 2000, or 2000 Form 20-F), further supplemented by the Supplemental Security Trust Deed dated June 28, 2002 with respect to the US\$190 million Note (incorporated by reference to Exhibit No. 5 of the Form 6-K).
- (r) US\$54,377,474.94 5% Mandatory Convertible Note due 2005 issued by PCCW on June 28, 2002, as amended and restated effective April 25, 2003 (incorporated by reference to Exhibit 4(u) of PCCW's Form 20-F filed for the fiscal year ended December 31, 2002, or 2002 Form 20-F).
- (s) Agency Agreement dated January 24, 2003 entered into by PCCW Capital No. 3 Limited, PCCW and Deutsche Bank AG, Hong Kong Branch relating to the issue by PCCW Capital No. 3 Limited of US\$456 million 7.88% Guaranteed Notes due 2013 (incorporated by reference to Exhibit 4(v) of the 2002 Form 20-F).
- (t) Domestic Connectivity Agreement dated October 13, 2000 (as amended on January 31, 2001) between HKTC and Reach Networks relating to the supply of domestic connectivity services (incorporated by reference to Exhibit 41 of the 2000 Form 20-F) as further amended by an amendment agreement dated April 15, 2003 (incorporated by reference to Exhibit 4(y) of the 2002 Form 20-F) and further amended by an amendment agreement dated April 16, 2005.
- (u) PCCW Mandatory Convertible Note First Supplemental Deed dated April 15, 2003 between Telstra, PCCW and Pacific Century Cable Holdings Limited (incorporated by reference to Exhibit 4(z) of the 2002 Form 20-F).
- (v) Capacity Prepayment Agreement dated April 15, 2003 between Reach Networks, Reach Global Services Limited, HKTC, Telstra, Reach, Reach Finance Limited and PCCW (incorporated by reference to Exhibit 4(aa) of the 2002 Form 20-F).
- (w) Subordination Deed dated April 15, 2003 between JPMorgan Chase Bank, Reach Networks and PCCW relating to the subordination of certain of PCCW's payment rights under the Capacity Prepayment Agreement mentioned above (incorporated by reference to Exhibit 4(bb) of the 2002 Form 20-F).
- (x) Purchase Agreement dated July 10, 2003 between PCCW-HKT Capital No.2 Limited (as issuer), The Hongkong and Shanghai Banking Corporation Limited (as manager) and HKTC (as guarantor) relating to the issue by PCCW-HKT Capital No.2 Limited of US\$500,000,000 6% Guaranteed Notes due 2013, or US\$500 Million Notes (incorporated by reference to Exhibit 4(cc) of PCCW's Form 20-F filed for the fiscal year ended December 31, 2003, or 2003 Form 20-F).
- (y) Indenture dated July 17, 2003 between PCCW-HKT Capital No.2 Limited (as issuer), HKTC (as guarantor) and HSBC Bank USA (as trustee) relating to the US\$500 Million Notes mentioned above (incorporated by reference to Exhibit 4(dd) of the 2003 Form 20-F).
- (z) Placing Agreement dated July 17, 2003 between PCRD (as vendor), PCCW and Citigroup Global Markets Asia Limited (as placing agent) relating to the placing of 715,000,000 ordinary shares of PCCW owned by PCRD at a price of HK\$4.40 per share (incorporated by reference to Exhibit 4(ee) of the 2003 Form 20-F).
- (aa) Subscription Agreement dated July 17, 2003 between PCCW and PCRD relating to the subscription of 715,000,000 new ordinary shares of PCCW by PCRD at HK\$4.40 per share (incorporated by reference to Exhibit 4(ff) of the 2003 Form 20-F).
- (bb) Facility Agreement dated August 8, 2003 between HKTC (as borrower) and a syndicate of financial institutions represented by The Hongkong and Shanghai Banking Corporation Limited (as agent and security trustee) relating to HK\$2,800,000,000 revolving credit and term loan facilities (incorporated by reference to Exhibit 4(gg) of the 2003 Form 20-F).
- (cc) Amendment Agreement dated October 29, 2003 between HKTC and The Hongkong and Shanghai Banking Corporation Limited (as agent), amending the Facility Agreement dated August 8, 2003 between HKTC (as borrower) and a syndicate of financial institutions represented by The Hongkong and Shanghai Banking Corporation Limited (as agent and security trustee) relating to HK\$2,800,000,000 revolving credit and term loan facilities (incorporated by reference to Exhibit 4(hh) of the 2003 Form 20-F).

- (dd) Facility Agreement dated December 12, 2003 between HKTC (as borrower) and a syndicate of financial institutions represented by Bayerische Landesbank, Hong Kong Branch (as agent) relating to HK\$6,000,000,000 revolving loan facility (incorporated by reference to Exhibit 4(ii) of the 2003 Form 20-F).
- (ee) Facility Agreement dated December 22, 2003 between HKTC (as borrower) and Industrial and Commercial Bank of China (Asia) Limited (as co-ordinating arranger, original lender and agent) relating to HK\$2,000,000,000 revolving loan facility (incorporated by reference to Exhibit 4 (jj) of the 2003 Form 20-F).
- (ff) Sale and Purchase Agreement dated March 5, 2004 between PCCW and DFG relating to the disposal of the whole of the issued share capital of Ipswich Holdings Limited and other assets to DFG (incorporated by reference to Exhibit 4(kk) of the 2003 Form 20-F).
- (gg) Placing Agreement dated April 30, 2004 between Asian Motion Limited as vendor, PCCW as guarantor and Citigroup Global Markets Hong Kong Futures and Securities Limited as placing agent and underwriter relating to the placing of 237,000,000 ordinary shares of DFG at HK\$2.65 per DFG share (incorporated by reference to Exhibit 4(ll) of the 2003 Form 20-F).
- (hh) Supplemental agency agreement dated May 12, 2004 relating to an agency agreement dated January 24, 2003 entered into by PCCW Capital No. 3 Limited, PCCW and Deutsche Bank AG, Hong Kong Branch relating to the issue by PCCW Capital No. 3 Limited of US\$456 million 7.88% Guaranteed Notes due 2013 (incorporated by reference to Exhibit 4(mm) of the 2003 Form 20-F).
- (ii) LMA trade confirmation dated June 17, 2004 between JPMorgan Chase (as agent for seller), Telstra and PCCW relating to the purchase of US\$1,200 million of debt, the outstanding amount of debt under the Reach Term Facility for approximately US\$311 million (incorporated by reference to Exhibit 4(nn) of the 2003 Form 20-F).
- (jj) Shareholder term loan facility agreement dated January 12, 2001 between Reach Finance Limited, Reach, the initial guarantors, Telstra and PCCW relating to the Reach Term Facility, effective June 18, 2004 (incorporated by reference to Exhibit 4(oo) of the 2003 Form 20-F).
- (kk) Facility Agreement dated June 17, 2004 between Reach (as borrower) and Telstra and PCCW (as lenders) relating to a US\$50 million working capital revolving loan facility (incorporated by reference to Exhibit 4(pp) of the 2003 Form 20-F).
- (ll) Amendment and restatement agreement – Capacity Prepayment Agreement dated June 17, 2004 amending and restating the Capacity Prepayment Agreement dated April 15, 2003 between Reach Networks, Reach Global Services Limited, HKTC, Telstra, Reach, Reach Finance Limited and PCCW (incorporated by reference to Exhibit 4(qq) of the 2003 Form 20-F).
- (mm) Facility Letter dated July 13, 2004 between Standard Chartered Bank (HK) Ltd (as issuing bank), HKTC (as applicant) and PCCW (as beneficiary) relating to a guarantee facility of up to HK\$780 million.
- (nn) Deed of Charge Over Deposit Account dated July 13, 2004 between HKTC (as chargor), Standard Chartered Bank (HK) Ltd (as issuing bank and account bank) and PCCW (as beneficiary) relating to a guarantee facility of up to HK\$780 million.
- (oo) Placing Agreement dated October 28, 2004 between Asia Motion Limited (as vendor) and Lehman Brothers Asia Limited (as placing agent) relating to the placing of 118,000,000 ordinary shares of PCPD at HK\$2.18 per PCPD share.

- (pp) Subscription Agreement dated October 28, 2004 between Asian Motion Limited and PCPD relating to the subscription of 118,000,000 new ordinary shares of PCPD at HK\$2.18 per PCPD share.
 - (qq) Block Trade Agreement dated November 30, 2004 between Asia Motion Limited (as seller) and Deutsche Bank AG, Hong Kong Branch (as contracting principal) relating to the placing of 450,000,000 ordinary shares of PCPD at HK\$2.48 per PCPD share.
 - (rr) Agreement for Sale and Purchase dated December 21, 2004 between Partner Link Investments Limited (as vendor) and Richly Leader Limited (as purchaser) relating to the sale of PCCW Tower.
 - (ss) Subscription Agreement dated January 19, 2005 between China Netcom Group Corporation (BVI) Limited, China Network Communications Group Corporation and PCCW relating to the subscription of 1,343,571,766 new ordinary shares in PCCW at HK\$5.90 per share.
 - (tt) Supplemental Agreement dated February 7, 2005 among the parties to the Subscription Agreement (referred to in Exhibit (ss)).
 - (uu) Deed of Rental Guarantee dated February 7, 2005 between Partner Link Investments Limited (as vendor), Ipswich Holdings Limited (as guarantor) and Richly Leader Limited (as purchaser) relating to the guarantee of a minimum monthly rental of HK\$13,338,000 per month to the purchaser for five years.
 - (vv) Deed of Assignment dated March 14, 2005 among China Netcom Group Corporation (BVI) Limited, China Netcom Corporation (BVI) Limited, China Network Communications Group Corporation and PCCW pursuant to which China Netcom Group Corporation (BVI) Limited assigned its rights under the Subscription Agreement (referred to in Exhibit (ss)) to China Netcom Corporation (BVI) Limited.
 - (ww) Reach Network Services Agreement dated April 16, 2005 among Reach, Reach Global, Reach Networks, Telstra, Hong Kong CSL Limited, PCCW Communications, HKTC and PCCW relating to the supply by Reach of international connectivity services.
 - (xx) Capacity Allocation Agreement dated April 16, 2005 among Reach Global, Telstra, PCCW Communications and PCCW relating to the granting by Reach Global of indefeasible rights to use Reach's undersea cable capacity.
 - (yy) Reach Debt and Asset Restructure Deed dated April 16, 2005 among Telstra, Telstra Holdings Pty Limited, Telstra Holdings (Bermuda) No. 1 Limited, PCCHL, HKTC, PCCW Communications, various members of the Reach Group and PCCW relating to the restructuring of debt owed by Reach to its shareholders.
 - (zz) Reach Shareholders (Variation) Agreement No. 6 dated April 16, 2005 entered into by Telstra, Telstra Holdings Pty Limited, Telstra Holdings (Bermuda) No. 1 Limited, PCCW, PCCHL and Reach relating to Reach Shareholders Agreement dated October 13, 2000.
8. List of Subsidiaries.
 11. PCCW Corporate Responsibility Policy (incorporated by reference to Exhibit 11 of the 2003 Form 20-F).
 12. Certifications required by Rule 13a-14(a) (17 CFR 240.13a-14(a)) or Rule 15d-14(a) (17 CFR 240.15d-14(a)).

13. Certifications required by Rule 13a-14(b) (17 CFR 240.13a-14(b)) or Rule 15d-14(b) (17 CFR 240.15d-14(b)) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350).

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Date: May 12, 2005

PCCW Limited

By: /s/ Alexander Anthony Arena

Name: Alexander Anthony Arena
Title: Group Chief Financial Officer

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A. REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of PCCW Limited
(Incorporated in Hong Kong with limited liability)

In our opinion, the accompanying consolidated balance sheets and the related consolidated income statements, statement of changes in equity and cash flow statements present fairly, in all material respects, the financial position of PCCW Limited and its subsidiaries at December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004 in conformity with accounting principles generally accepted in Hong Kong. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Accounting principles generally accepted in Hong Kong vary in certain important respects from accounting principles generally accepted in the United States of America. The application of the latter would have affected the determination of consolidated net profit/(loss) for each of the three years in the period ended December 31, 2004 and the determination of consolidated shareholders' equity/(deficit) at December 31, 2004 and 2003 to the extent summarized in Note 43 to the consolidated financial statements.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong,
March 30, 2005
(except for the matter disclosed in Notes 42, 43, 44 & 45, as to which the date is May 5, 2005)

B. CONSOLIDATED INCOME STATEMENTS

For each of the years in the three-year period ended December 31, 2004
(Amounts expressed in millions of Hong Kong dollars except for earnings/(loss) per share)

(in accordance with HK GAAP)

| | Note(s) | 2004 | 2003 | 2002 |
|---|---------|-------------|----------------|----------------|
| Turnover | 4 & 5 | 22,895 | 22,550 | 20,112 |
| Operating profit before net gains on investments, provisions for impairment losses and restructuring costs | 6 | 4,066 | 4,339 | 5,212 |
| Gains on investments, net | 7 | 461 | 407 | 13 |
| Provisions for impairment losses | 8 | (40) | (2,452) | (534) |
| Restructuring costs | 9 | (51) | (38) | (311) |
| Profit from operations | 5 | 4,436 | 2,256 | 4,380 |
| Finance costs, net | 11 | (1,929) | (2,117) | (1,997) |
| Share of results of jointly controlled companies | | (4) | (891) | 550 |
| Share of results of associates | | 152 | 65 | 281 |
| Impairment losses on interests in jointly controlled companies and associates | 12 | (16) | (4,464) | (8,263) |
| Losses on disposal of interests in Joint Venture (Bermuda) No. 2 Limited ("RWC") and MobileOne Ltd ("MobileOne"), net | 13 | – | – | (1,433) |
| Profit/(Loss) before taxation | 10 | 2,639 | (5,151) | (6,482) |
| Taxation | 15 | (981) | (1,165) | (1,406) |
| Profit/(Loss) after taxation | | 1,658 | (6,316) | (7,888) |
| Minority interests | | (20) | 216 | 126 |
| Profit/(Loss) for the year attributable to shareholders | 5 | 1,638 | (6,100) | (7,762) |
| Dividends attributable to the year | 17 | | | |
| Interim dividend declared and paid during the year | | 295 | – | – |
| Final dividend proposed after the balance sheet date | | 645 | – | – |
| | | 940 | – | – |
| Earnings/(Loss) per share | 18 | | | |
| – Basic | | 30.50 cents | (122.81 cents) | (168.53 cents) |
| – Diluted | | 30.26 cents | (122.81 cents) | (168.53 cents) |

The accompanying notes are an integral part of the financial statements.

C. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For each of the years in the three-year period ended December 31, 2004
(Amounts expressed in millions of Hong Kong dollars)

(in accordance with HK GAAP)

| | Note(s) | 2004 | 2003 | 2002 |
|---|---------|---------|---------|----------|
| Total shareholders' deficit at January 1 | | (7,839) | (5,916) | (11,041) |
| Adjustment in relation to the recognition of transitional liability of defined benefit retirement schemes arising from adoption of new accounting standard for employee benefits at January 1, 2002 | | – | – | (723) |
| | | (7,839) | (5,916) | (11,764) |
| (Deficit)/Surplus on revaluation of investment properties, net of deferred taxation | 33 | (26) | 305 | – |
| Valuation adjustment | 33 | (254) | – | – |
| Translation exchange differences | 33 | 53 | 20 | 107 |
| Net (losses)/gains not recognized in the consolidated income statement | | (227) | 325 | 107 |
| Net profit/(loss) for the year | 33 | 1,638 | (6,100) | (7,762) |
| Dividend declared and paid in respect of the current year | 17 & 33 | (295) | – | – |
| Exercise of staff share options | | 23 | – | – |
| Issue of ordinary shares and exercise of options, net of issuing expenses | | – | 3,068 | 965 |
| Realization of goodwill on disposal of RWC | | – | – | 4,081 |
| Provision for impairment of goodwill attributable to Reach Ltd. ("REACH") | 33 | – | 315 | 8,263 |
| Provision for impairment of goodwill attributable to subsidiaries | 33 | – | 469 | 194 |
| Realization of negative goodwill on disposal of interest in subsidiaries | 33 | (16) | – | – |
| (Realization of negative goodwill)/Impairment of goodwill previously eliminated against reserves | | (16) | 784 | 12,538 |
| Total shareholders' deficit at December 31 | | (6,716) | (7,839) | (5,916) |

The accompanying notes are an integral part of the financial statements.

D. CONSOLIDATED BALANCE SHEETS

As at December 31, 2004 and 2003

*(Amounts expressed in millions of Hong Kong dollars)**(in accordance with HK GAAP)*

| | Note(s) | 2004 | 2003 |
|--|-----------------------|----------------|----------------|
| ASSETS AND LIABILITIES | | | |
| Non-current assets | | | |
| Fixed assets | 19 | 20,246 | 21,540 |
| Properties held for/under development | 20 | 6,082 | 3,774 |
| Goodwill | 21 | 960 | 933 |
| Intangible assets | 22 | 1,266 | 1,350 |
| Interest in jointly controlled companies | 24 | 1,227 | 33 |
| Interest in associates | 25 | 647 | 488 |
| Investments | 26 | 419 | 638 |
| Net lease payments receivable | 36 | 287 | 377 |
| Deferred tax assets | 34 (a) | 38 | – |
| Other non-current assets | | 272 | 390 |
| | | <hr/> 31,444 | <hr/> 29,523 |
| Current assets | | | |
| Properties under development | 20 | 469 | 297 |
| Sales proceeds held in stakeholders' accounts | 27 (a) | 4,418 | 2,402 |
| Restricted cash | 27 (b) | 904 | 2,701 |
| Prepayments, deposits and other current assets | | 1,762 | 1,653 |
| Inventories | 27 (c) | 470 | 537 |
| Amounts due from related companies | 3 (d) | 4 | 105 |
| Other investments | 27 (d) | 313 | 323 |
| Investment in unconsolidated subsidiaries | 27 (e) | 51 | – |
| Accounts receivable, net | 27 (f) | 1,639 | 1,571 |
| Cash and cash equivalents | 35 (c) | 3,494 | 5,535 |
| | | <hr/> 13,524 | <hr/> 15,124 |
| Current liabilities | | | |
| Short-term borrowings | 27 (g) | (9,031) | (160) |
| Accounts payable | 27 (h) | (932) | (1,377) |
| Accruals, other payables and deferred income | 27(j), 28 (b) & 37(a) | (6,617) | (4,645) |
| Provisions | 29 | (1,584) | (1,870) |
| Amounts due to related companies | 3 (d) | (366) | (415) |
| Gross amounts due to customers for contract work | 27(i) | (5) | – |
| Advances from customers | 3 (b) | (1,052) | (1,158) |
| Taxation | | (1,080) | (1,074) |
| | | <hr/> (20,667) | <hr/> (10,699) |
| Net current (liabilities)/assets | | <hr/> (7,143) | <hr/> 4,425 |
| Total assets less current liabilities | | <hr/> 24,301 | <hr/> 33,948 |

The accompanying notes are an integral part of the financial statements.

D. CONSOLIDATED BALANCE SHEETS (continued)

As at December 31, 2004 and 2003

*(Amounts expressed in millions of Hong Kong dollars)**(in accordance with HK GAAP)*

| | Note(s) | 2004 | 2003 |
|--|---------|----------|----------|
| Non-current liabilities | | | |
| Long-term liabilities | 28 | (20,663) | (34,506) |
| Amounts due to minority shareholders of subsidiaries | | (11) | (11) |
| Deferred tax liabilities | 34(a) | (2,613) | (3,026) |
| Deferred income | 37(a) | (9) | (14) |
| Defined benefit liability | 31(a) | (317) | (446) |
| Provisions | 29 | (4,884) | (1,941) |
| Other long-term liabilities | 28(b) | (704) | (1,540) |
| | | <hr/> | <hr/> |
| | | (29,201) | (41,484) |
| | | <hr/> | <hr/> |
| Commitments and contingencies | 38 & 39 | - | - |
| | | <hr/> | <hr/> |
| Net liabilities | | (4,900) | (7,536) |
| | | <hr/> | <hr/> |
| REPRESENTING: | | | |
| Share capital | 30 | 1,344 | 1,343 |
| Deficit | 33 | (8,060) | (9,182) |
| | | <hr/> | <hr/> |
| Shareholders' deficit | | (6,716) | (7,839) |
| Minority interests | | 1,816 | 303 |
| | | <hr/> | <hr/> |
| | | (4,900) | (7,536) |
| | | <hr/> | <hr/> |

The accompanying notes are an integral part of the financial statements.

E. CONSOLIDATED CASH FLOW STATEMENTS

For each of the years in the three-year period ended December 31, 2004
(Amounts expressed in millions of Hong Kong dollars)

(in accordance with HK GAAP)

| | Note | 2004 | 2003 | 2002 |
|--|-------|--------------|----------------|--------------|
| NET CASH INFLOW FROM OPERATING ACTIVITIES | 35(a) | 4,765 | 3,816 | 3,917 |
| INVESTING ACTIVITIES | | | | |
| Proceeds from disposals of fixed assets and other investments | | 346 | 203 | 20 |
| Purchases of fixed assets | | (1,972) | (1,958) | (1,611) |
| Prepayment for purchase of other assets | | (43) | – | – |
| Deposit received on fixed asset disposal | | 281 | – | – |
| Purchases of intangible assets | | – | (146) | (114) |
| (Increase)/Decrease in other non-current assets | | (1) | 32 | (13) |
| Acquisition of subsidiaries (net of cash and cash equivalents acquired) | 35(b) | (10) | 152 | – |
| Collection of cash in respect of other receivables acquired in the reverse acquisition as set out in note 1(c) | | 50 | – | – |
| Decrease/(Increase) in properties held for sale | | – | 2 | (2) |
| Purchases of investments, investments in jointly controlled companies and associates | | (34) | (179) | (144) |
| Proceeds from disposals of investments, investments in jointly controlled companies and associates | | 76 | 161 | 474 |
| Proceeds from partial disposal of interest in subsidiaries | | 1,728 | – | – |
| Proceeds from termination and amendment of the terms of cross currency swap contracts | | – | 532 | 332 |
| Amounts (paid to)/received from jointly controlled companies and associates, net | | (20) | (316) | 283 |
| Purchases of other investments | | – | (11) | (37) |
| Dividend received from associates | | 6 | 664 | – |
| Dividend received from investments | | 11 | 10 | – |
| Proceeds from termination of finance leases | | 77 | – | – |
| Purchase of syndicated term loan facility to a wholly-owned subsidiary of a jointly controlled company | 3(c) | (1,213) | – | – |
| Capacity prepayment to a jointly controlled company | 3(c) | – | (1,115) | – |
| NET CASH OUTFLOW FROM INVESTING ACTIVITIES | | (718) | (1,969) | (812) |

The accompanying notes are an integral part of the financial statements.

E. CONSOLIDATED CASH FLOW STATEMENTS (continued)

For each of the years in the three-year period ended December 31, 2004
(Amounts expressed in millions of Hong Kong dollars)

(in accordance with HK GAAP)

| | Note | 2004 | 2003 | 2002 |
|---|-------|---------|----------|----------|
| FINANCING ACTIVITIES | | | | |
| Proceeds from issuance of shares, net of issuing expenses | | – | 3,068 | – |
| Proceeds from exercise of staff share options | | 23 | – | – |
| Partial redemption of mandatory convertible note | | – | (1,115) | – |
| Proceeds from issuance of convertible bonds | | – | – | 3,510 |
| Finance fees incurred for raising debts | | (27) | (174) | (173) |
| New loans raised | | – | 10,508 | 12,052 |
| Interest paid | | (1,073) | (1,084) | (1,159) |
| Decrease in other long-term liabilities | | – | (4) | – |
| Repayment of loans | | (4,983) | (16,215) | (17,632) |
| Increase/(Decrease) in contributions from minority shareholders of subsidiaries | | 248 | 94 | (2) |
| Dividend paid to shareholders | | (295) | – | – |
| Decrease in restricted cash | | – | 720 | 685 |
| | | <hr/> | <hr/> | <hr/> |
| NET CASH OUTFLOW FROM FINANCING ACTIVITIES | | (6,107) | (4,202) | (2,719) |
| | | <hr/> | <hr/> | <hr/> |
| (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS | | (2,060) | (2,355) | 386 |
| Exchange realignment | | 19 | 9 | 52 |
| CASH AND CASH EQUIVALENTS | | | | |
| Beginning of year | | 5,535 | 7,881 | 7,443 |
| | | <hr/> | <hr/> | <hr/> |
| End of year | 35(c) | 3,494 | 5,535 | 7,881 |
| | | <hr/> | <hr/> | <hr/> |

The accompanying notes are an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2004

(Amount expressed in Hong Kong dollars unless otherwise stated)

1 GROUP ORGANIZATION

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 principal activities of the Company and its subsidiaries (the "Group") are the provision of local and international telecommunications services, Internet and interactive multimedia services, the sale and rental of telecommunications equipment, and the provision of computer, engineering and other technical services, mainly in Hong Kong; investment in, and development of, systems integration and technology-related businesses; and investment in, and development of, infrastructure and properties in Hong Kong and elsewhere in mainland China.

a. Telstra Alliance

In February 2001, the Group formed a strategic alliance with Telstra Corporation Limited ("Telstra") of Australia ("Telstra Alliance") which provided for, amongst others, (i) the merger of certain of the businesses and assets of certain subsidiaries of the Company and Telstra, including the Internet Protocol ("IP") Backbone business, to create a 50:50 joint venture to operate an IP Backbone business, named REACH, for which the Group received cash from REACH of US\$1,125 million (approximately HK\$8,775 million), (ii) the purchase by Telstra of a 60 percent interest in a newly formed company, RWC, for a cash consideration of US\$1,680 million (approximately HK\$13,100 million) that owns the Hong Kong wireless communications business contributed by the Company and (iii) the issuance of a variable coupon subordinated convertible bond due 2007 with a principal amount of US\$750 million (approximately HK\$5,850 million) to Telstra ("Telstra Bond due 2007").

On June 28, 2002, the Company and Telstra entered into, and completed, an agreement relating to the following:

- i. the sale by the Company of its entire 40 percent equity interest in RWC to Telstra for a consideration of approximately US\$614 million (approximately HK\$4,792 million);
- ii. the redemption by the Company of the outstanding principal amount of the US\$750 million (approximately HK\$5,850 million) Telstra Bond due 2007 together with accrued interest of approximately US\$54.38 million (approximately HK\$424 million); and
- iii. the issue by the Company of a US\$190 million (approximately HK\$1,482 million) 5 percent mandatory convertible note due 2005 ("Telstra Note due 2005") to Telstra.

Please refer to note 13(a) for details of the loss on disposal of the 40 percent equity interest in RWC.

b. Ultimate holding company

On June 12, 2003, the Company announced that it had been informed that Pacific Century Regional Developments Limited ("PCRD"), a substantial shareholder of the Company, had ceased to account for the Company as a subsidiary and would treat the Company as an associate. Following this development, Pacific Century Group Holdings Limited, which is a company incorporated in the British Virgin Islands and the ultimate holding company of PCRD, is no longer considered as the ultimate holding company of the Company.

c. Reverse acquisition of Dong Fang Gas Holdings Limited

On March 5, 2004, the Company and Dong Fang Gas Holdings Limited ("DFG"), a company incorporated in Bermuda and whose shares are listed on the Stock Exchange, entered into an agreement (the "Sale and Purchase Agreement"). Pursuant to the Sale and Purchase Agreement, DFG conditionally agreed to purchase the Company's interest in certain investment properties, the Cyberport project and related property and facilities management companies for an aggregate consideration of HK\$6,557 million. Approximately HK\$2,967 million of the aggregate consideration was satisfied by the allotment and issue of new shares of DFG, representing approximately 93.42 percent of the then increased share capital of DFG following such share issue to Asian Motion Limited ("Asian Motion"), a wholly-owned subsidiary of the Company. The remaining HK\$3,590 million was satisfied by the issuance of convertible notes by DFG to the Company entitling the holder to convert the principal amount into new shares of DFG. The Sale and Purchase Agreement became unconditional on May 10, 2004 and DFG was subsequently renamed Pacific Century Premium Developments Limited ("PCPD"). As the Company became the controlling shareholder (as defined under the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules")) of DFG on completion of the transaction, the transaction has been accounted for as a reverse acquisition and the Company is treated as acquiring a 93.42 percent interest in DFG. In addition, goodwill arising on the acquisition of DFG of approximately HK\$84 million was recorded, being the excess of the cost of acquisition over the sum of the fair values of the identifiable assets acquired less liabilities assumed of DFG. As at December 31, 2004, the Company had sold down its interest in PCPD to approximately 51.07 percent through various transactions, details of which are set out in notes 7(a) and 7(b). As set out in note 41(b), on March 1, 2005, the Company exercised some of the conversion rights and increased its interest in PCPD to approximately 61.66 percent.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

a. Statement of compliance

The financial statements have been prepared in accordance with applicable Statements of Standard Accounting Practice (“SSAP”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong (“HK GAAP”) and the disclosure requirements of the Hong Kong Companies Ordinance. In particular, SSAP 36 “Agriculture”, which became effective for periods commencing on or after January 1, 2004, does not have a material financial impact on the preparation of these financial statements.

b. Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is historical cost modified by the revaluation of investment properties and the marking to market of certain investments in securities as explained in the accounting policies set out below.

c. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to December 31 each year, except for certain subsidiaries of PCPD, the accounting for which is set out in note 2(q). Intra-group balances and transactions, and any unrealized profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements.

Unless otherwise indicated, the results of subsidiaries acquired or disposed of during the year are dealt with in the consolidated income statement from the effective dates of acquisition or to the effective dates of disposal, as appropriate.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group’s share of its net assets together with any unamortized goodwill or goodwill taken to reserves and which was not previously charged to the consolidated income statement.

The equity and net income attributable to minority shareholders’ interests are shown separately in the balance sheet and income statement.

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

d. 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 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 respective period.

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

ii. Sales of goods

Revenue is recognized when goods are delivered at the customers’ premises which is taken to be the point in 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 income arising from sales of completed properties is recognized upon completion of the sale when title passes to the purchaser.

Revenue and income arising from the pre-sale of properties under development is recognized on the percentage of construction completion basis when legally binding unconditional sales contracts are signed and exchanged, provided that the construction work has progressed to a stage where the ultimate realization of profit can be reasonably determined and on the basis that the total estimated profit is apportioned over the entire period of construction to reflect the progress of the development.

2 **BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)**

d. Revenue recognition (continued)

- iv. **Rental income from operating leases**
Rental income receivable from investment properties under operating leases is recognized in the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives granted are recognized in the income statement as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognized as income in the accounting period in which they are earned.
- v. **Contract revenue**
Revenue from a fixed price contract is recognized using the percentage of completion method, measured by reference to the percentage of estimated value of work done to date to total contract revenue.
- vi. **Interest income**
Interest income from bank deposits is accrued on a time-apportioned basis by reference to the principal outstanding and the rate applicable.
- 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.

e. Operating leases

Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

- i. **Assets held for use in operating leases**
Where the Group leases out assets under operating leases, the assets are included in the balance sheet according to their nature and, where applicable, are depreciated in accordance with the Group's depreciation policies, as set out in note 2(f). Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(h). Revenue arising from operating leases is recognized in accordance with the Group's revenue recognition policies, as set out in note 2(d)(iv).
- ii. **Operating lease charges**
Where the Group has the use of assets 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.

f. Fixed assets and depreciation

Fixed assets, excluding investment properties, are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 2 (h)). The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Subsequent expenditure relating to a fixed asset that has already been recognized is added to the carrying amount of the asset and is depreciated over the original remaining useful life of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group. All other subsequent expenditure, such as repairs and maintenance and overhaul costs, is recognized as an expense in the period in which it is incurred.

Depreciation is calculated to write off the cost on a straight-line basis over their estimated useful lives as follows:

| | |
|---------------------------|---|
| Land and buildings | Over the shorter of the lease term and the estimated useful lives |
| Exchange equipment | 5 to 15 years |
| Transmission plant | 5 to 25 years |
| Other plant and equipment | Over the shorter of 2 to 16 years and the term of lease |

Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognized in the income statement on the date of retirement or disposal.

2 **BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)**

g. Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential and for the long term.

Investment properties with an unexpired lease term of more than 20 years are stated in the balance sheet at their open market value, on the basis of an annual valuation by professionally qualified executives of the Group and by independent valuers at intervals of not more than three years. Changes arising on the revaluation of investment properties are generally dealt with in the property revaluation reserve unless the following circumstances arise:

- when a deficit arises on revaluation, it will be charged to the income statement, if and to the extent that it exceeds the amount held in the reserve in respect of the portfolio of investment properties, immediately prior to the revaluation; and
- when a surplus arises on revaluation, it will be credited to the income statement, if and to the extent that a deficit on revaluation in respect of the portfolio of investment properties, had previously been charged to the income statement.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realized in respect of previous valuations is released from the property revaluation reserve to the income statement as part of the gain or loss on disposal of the investment property.

No depreciation is provided on investment properties unless the unexpired lease term is 20 years or less, in which case depreciation is provided on their carrying value over the unexpired leases term.

h. Impairment of assets

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

- fixed assets;
- investments in subsidiaries, associates and jointly controlled companies;
- intangible assets; and
- goodwill (whether taken initially to reserves or recognized as an asset).

If any such indication exists, the asset's recoverable amount is estimated. For intangible assets that are not yet available for use, or are amortized over more than 20 years from the date when the asset is available for use or goodwill that is taken initially to reserves or amortized over more than 20 years from initial recognition, the recoverable amount is estimated at each balance sheet date. An impairment loss is recognized in the income statement whenever the carrying amount of an asset exceeds its recoverable amount.

i. Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and its value in use. Net selling price 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 cash-generating unit).

ii. Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

A reversal of impairment losses 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 year in which the reversals are recognized.

2 **BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)**

i. Properties held for development

Properties held for development represent interests in land where construction has not yet commenced. Properties held for development are stated at cost less any provision for impairment in value. Costs include original land acquisition costs, costs of land use rights, and any direct development costs incurred attributable to such properties.

j. Properties under development

Properties under development represent interests in land and buildings under construction. Properties under development for long-term purposes are stated at cost less any provision for impairment in value. Properties under development for sale, pre-sales of which have not yet commenced are carried at the lower of cost and the estimated net realizable value. Properties under development for sale for which pre-sales have commenced are stated at cost plus attributable profits less sale deposits, instalments received and receivable and any foreseeable losses.

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.

Properties under development for long-term retention, on completion, are transferred to fixed assets or investment properties.

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

k. Goodwill

Goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired. In respect of controlled subsidiaries:

- for acquisitions before January 1, 2001, goodwill is eliminated against reserves and is reduced by impairment losses (see note 2(h)); and
- for acquisitions on or after January 1, 2001, goodwill is amortized to the consolidated income statement on a straight-line basis over its estimated useful life ranging from 10 to 20 years. Goodwill is stated in the consolidated balance sheet at cost less any accumulated amortization and any impairment losses (see note 2(h)).

In respect of acquisitions of jointly controlled companies and associates, goodwill is amortized to the consolidated income statement on a straight-line basis over its estimated useful life ranging from 10 to 20 years. The cost of goodwill less any accumulated amortization and any impairment losses (see note 2(h)) is included in the carrying amount of the interest in jointly controlled companies or associates.

On disposal of a controlled subsidiary, a jointly controlled company or an associate during the year, any attributable amount of purchased goodwill not previously amortized or impaired through the consolidated income statement or which has previously been dealt with as a movement on group reserves and which has not been impaired is included in the calculation of the gain or loss on disposal.

l. Intangible assets (other than goodwill)

Intangible assets that are acquired by the Group are stated in the balance sheet at cost less accumulated amortization and impairment losses (see note 2 (h)). Expenditure on internally generated goodwill and brands is recognized as an expense in the period in which it is incurred.

Subsequent expenditure on an intangible asset after its purchase or its completion is recognized as an expense when it is incurred unless it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and this expenditure can be measured and attributed to the asset reliably. If these conditions are met, the subsequent expenditure is added to the cost of the intangible assets.

Amortization of intangible assets is charged to the income statement on a straight-line basis over the assets' estimated useful lives as follows:

| | |
|----------------------------|--------------------------|
| Trademarks | 20 years |
| Content license | 10 years |
| Wireless broadband license | Over the term of license |

2 **BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)**

m. Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, holds more than half of the issued share capital, or controls more than half the voting power, or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern its financial and operating policies, so as to obtain benefits from their activities.

n. 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.

In the consolidated financial statements, investments in associates are accounted for under the equity method and are initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group's share of the associates' net assets. The consolidated income statement reflects the Group's share of post-acquisition results of the associates for the year, including any amortization of goodwill charged during the year in accordance with note 2(k).

o. Joint ventures and jointly controlled companies

A jointly controlled company or a joint venture 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 joint ventures 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 joint ventures are accounted for as subsidiaries.

Investments in jointly controlled companies or joint ventures are accounted for under the equity method, as described in note 2(n) above, in the Group's consolidated financial statements.

p. Investments in securities

The Group's policy for investments in securities other than investments in subsidiaries, associates, joint ventures and jointly controlled companies is as follows:

- i. Held-to-maturity securities are investments which the Group has the ability and intention to hold to maturity. Held-to-maturity securities are stated in the balance sheet at amortized cost less any provisions for diminution in value. Any discount or premium is amortized over the period to maturity and is included in the income statement.

The carrying amounts of held-to-maturity securities are reviewed at the balance sheet date in order to assess the credit risk and whether the carrying amounts are expected to be fully recovered. Provisions are made when the carrying amounts are not expected to be fully recovered and are recognized as an expense in the income statement, such provisions being determined for each investment individually.

- ii. Investments, which include both debt and equity securities, held on a continuing basis for an identified long-term purpose are classified as investment securities. Investment securities are stated in the balance sheet at cost less any provisions for diminution in value.

The carrying amounts of investment securities are reviewed at the balance sheet date in order to assess whether fair values have declined below the carrying amounts. Provisions are made when the fair values have declined below the carrying amounts, unless there is evidence that the decline is temporary, and are recognized as an expense in the income statement, such provisions being determined for each investment individually.

- iii. Provisions against the carrying values of held-to-maturity securities and investment securities are written back when the circumstances and events that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

2 **BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)**

p. Investments in securities (continued)

- iv. Investments other than held-to-maturity securities and investment securities are classified as other investments and are stated in the balance sheet at fair value. Any unrealized holding gains or losses on other investments arising from the changes in fair value are recognized in the income statement as they arise.
- v. The transfer of investments between categories is accounted for at fair value. For an investment transferred into the other investment category, the unrealized holding gain or loss at the date of transfer is recognized in the income statement immediately. Previously recognized unrealized holding gains or losses on investments transferred from other investment category are not reversed.
- vi. Profits or losses on disposal of investments in securities are determined as the difference between the estimated net disposal proceeds and the carrying amount of the investments and are accounted for in the income statement as they arise.

q. Unconsolidated subsidiaries

An unconsolidated subsidiary is a subsidiary that is excluded from consolidation. This arises when control is intended to be temporary because the subsidiary is acquired and held exclusively with a view to the subsequent disposal in the near future. To the extent the investments in unconsolidated subsidiaries are intended to be temporary, they are accounted for as other investments and stated at fair value, as described in note 2(p)(iv) above, and are recorded as current assets in the consolidated balance sheet.

r. Inventories

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

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

Work-in-progress is stated at cost, which comprises labor, materials and overheads where appropriate.

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 inventories to their present location and condition.

s. Construction contracts

The accounting policy for contract revenues is set out in note 2(d)(v) above. When the outcome of a construction contract can be estimated reliably, contract costs are recognized as expenses by reference to the stage of completion of the contract activity 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, revenue is recognized only to the extent that it is probable that the contract costs incurred will be recoverable and 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, 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 "Accounts receivable".

t. Cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, 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, and also advances from banks repayable within three months from the dates of advances.

2 **BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)**

u. Provisions and contingent liabilities

Provisions are recognized for liabilities of uncertain timing or amount when the Company or Group has a present obligation (legal or constructive) as a result of a past event, it is probable (i.e. more likely than not) that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate of amount required. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

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

v. 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 expenditures for the asset are 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 completed.

Discounts or premiums relating to borrowings, ancillary costs incurred in connection with arranging borrowings and exchange differences arising from foreign currency borrowings, to the extent that they are regarded as adjustments to interest costs, are recognized as expenses over the period of the borrowing.

w. Income tax

i. Income tax for the year comprises current and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

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

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

All deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognized.

The amount of deferred tax provided is 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. Deferred tax assets and liabilities are not discounted.

x. Employee benefits

i. Salaries, annual bonuses, annual leave entitlements, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, provisions are made for the estimated liability as a result of services rendered by employees up to the balance sheet date.

2 **BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)**

x. **Employee benefits (continued)**

- ii. 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.

Retirement costs under defined benefit retirement schemes are assessed 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 who carry out a full valuation of the schemes on an annual basis. The defined benefit obligation is measured as the present value of the estimated future cash outflows using interest rates determined by 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. Scheme assets are measured at fair value. Actuarial gains and losses, to the extent that the amount is in excess of 10 percent of the greater of the present value of the defined benefit obligations and the fair value of the scheme assets, are recognized in the income statement over the expected average remaining service lives of the participating employees. Past service costs are recognized as an expense on a straight-line basis over the average period until the benefits become vested.

In prior years, long service payments under the Hong Kong Employment Ordinance were accounted for as "other long-term employee benefits" that expenses were recognized when payments were made to the employees. In May 2003, paragraph 162 of SSAP 34 "Employee benefits" was revised that long service payments are accounted for as post employment benefits with effect from January 1, 2003. The adoption of the revised SSAP 34 in 2003 does not have a significant effect on the Group's financial statements as at January 1, 2003 and December 31, 2003. Accordingly, comparative financial statements have not been restated.

- iii. The Group grants employees shares of the Company under its share award schemes at nil consideration. The cost of shares is recognized in the balance sheet as prepaid expenses at the date of grant and amortized over the respective vesting period and recognized in the income statement as staff costs.

The Group also operates share option schemes where directors or employees are granted options to acquire shares of the Company at specified exercise prices. No compensation costs are recognized in the income statement in respect of such options.

- iv. Employee 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.

y. **Foreign currencies**

Companies comprising the Group maintain their books and records in the primary currencies of their operations (the "respective reporting currencies").

In the financial statements of individual companies, transactions in other currencies during the year are translated into the respective reporting currencies at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in other currencies are translated into the respective reporting currencies at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the income statement.

For the purpose of preparing consolidated financial statements, the financial statements of the individual companies with reporting currencies other than Hong Kong dollars are translated into Hong Kong dollars using the net investment method. Under this method, assets and liabilities of these individual companies are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. Income and expenses are translated at the average exchange rates for the year. Share capital and other reserves are translated into Hong Kong dollars at historical rates. Exchange differences arising on translation are dealt with as movements in reserves.

2 **BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)**

z. Off balance sheet financial instruments and derivatives

Gains and losses on the revaluation and maturity of spot and forward foreign exchange contracts used for hedging purposes are recorded in the income statement and are offset against gains and losses arising from the foreign exchange transactions and revaluation of foreign currency denominated assets and liabilities which these contracts are hedging. Forward contracts undertaken for trading purposes are marked to market and the gain or loss arising is recognized in the income statement.

Interest rate or currency swaps, forward interest rate agreements and interest rate options are used to manage exposure to interest rate and foreign currency exchange rate fluctuations. The notional amounts are recorded off balance sheet. Interest flows are accounted for on an accrual basis. Interest income or expense arising from the interest rate or currency swap contracts are netted off against the related interest income or expense applicable to the on-balance sheet items, which these financial instruments are hedging.

The notional amounts of equity and currency options are not reflected in the balance sheet.

Premiums received or paid on the respective written or purchased equity and currency options are amortized over the terms of these options (see note 37(a)). Premium received or paid or unamortized balance of premium received or paid resulting from early termination of the financial instruments and derivatives are recognized in the income statement in the year of termination.

aa. Management estimates

The presentation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts and disclosures reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

bb. Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing particular products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), and which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

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

Segment capital expenditure is the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets and liabilities, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

3 RELATED PARTY TRANSACTIONS

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

- a. During the years, the Group had the following significant transactions with related companies:

| | 2004 HK\$ million | 2003 HK\$ million | 2002 HK\$ million |
|---|----------------------|----------------------|----------------------|
| Convertible bond interest paid or payable to a substantial shareholder | 293 | 293 | 293 |
| Capital injection to a jointly controlled company | – | 117 | 117 |
| Loan to a jointly controlled company | 19 | – | – |
| Telecommunication service fees, rental charges and subcontracting charges received or receivable from | | | |
| - an associate | – | – | 594 |
| - a jointly controlled company | 135 | 221 | 254 |
| System integration charges received or receivable from a shareholder of a PRC subsidiary | 387 | 59 | – |
| Telecommunications services fees and rental charges paid or payable to | | | |
| - an associate | – | – | 162 |
| - a jointly controlled company | 905 | 1,086 | 1,474 |

The above 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. No prepaid advertising fees received and receivable from investee companies for advertising space on the broadband Internet and television network operated by the Group was included in advances from customers as at December 31, 2004 (2003: HK\$24 million).
- c. An indirect wholly-owned subsidiary of the Company and a wholly-owned subsidiary of a jointly controlled company (“JV”) have entered into a Hong Kong Domestic Connectivity Agreement and an International Services Agreement for the provision of domestic and international connectivity services in Hong Kong and between Hong Kong and other countries. Pursuant to the International Services Agreement, for the first five years of operations subsequent to the formation of the JV, the Group is required to acquire 90 percent, 90 percent, 80 percent, 70 percent and 60 percent per annum, respectively, of its total annual purchases of “Committed Services” (being international public switched telephone network terminating access, international transmission capacity and Internet gateway access services) from the wholly-owned subsidiary of the JV. The Hong Kong Domestic Connectivity Agreement contemplates a reciprocal arrangement, whereby the Group will provide local connectivity services in Hong Kong to the wholly-owned subsidiary of the JV under similar terms and conditions. These arrangements were subsequently amended on January 31, 2001 and further amended on April 15, 2003 such that each of the Group and Telstra have agreed to purchase 90 percent per annum of the Group’s and Telstra’s respective Committed Services from the JV and its subsidiaries until repayment of the outstanding portion of US\$1,200 million (approximately HK\$9,360 million) of the debt under the amended US\$1,500 million syndicated term loan facility (the “Reach Term Facility”) to a wholly-owned subsidiary of the JV on December 31, 2010 or earlier at rates benchmarked at least annually to prevailing market prices. The above obligation is still in force notwithstanding the purchase of the entire outstanding portion of the debt under the Reach Term Facility by the Company and Telstra in June 2004 as stated below. The wholly-owned subsidiary of the JV similarly must acquire 90 percent per annum of its local connectivity services from the Group under the amended agreement for domestic connectivity services, similarly extended for the same period.

In addition, the Group entered into one-year fixed price bulk purchase arrangements for international connectivity services from January 1, 2002 to December 31, 2002, which committed the Group to aggregate purchase levels in 2002. The Group’s commitments under these arrangements had regard to its future capacity needs and opportunities for growth as well as the JV’s minimum earnings requirements under its financing arrangements. Regulated services in Hong Kong were acquired in accordance with tariffs approved by the relevant regulatory authority and unregulated services were acquired in accordance with market prices. The agreement expired on December 31, 2002.

3 RELATED PARTY TRANSACTIONS (continued)

On April 15, 2003, the Company, the indirect wholly-owned subsidiary of the Company, and Telstra entered into a capacity prepayment agreement with the JV and certain of its subsidiaries whereby each of the Company and Telstra agreed to make a prepayment of US\$143 million (approximately HK\$1,115 million) for the purchase of capacity as stated above. These prepayments (which will be compounded to reflect the time value of money) are to be applied against the cost of services and capacity supplied to Telstra and the Group by the JV and certain of its subsidiaries as and when the JV and certain of its subsidiaries have available surplus cash in accordance with a prescribed formula. The total balance of HK\$1,139 million, comprising the prepayment of HK\$1,115 million and the accrued interest receivable of HK\$24 million as at December 31, 2003, was included in "Interest in jointly controlled companies" in the consolidated balance sheet and subsequently written down to zero as at December 31, 2003 and the total balance of prepayment remained zero as at December 31, 2004 (see note 24).

Purchases made by the Group from the JV for the year ended December 31, 2004 were HK\$855 million (2003: HK\$1,036 million, 2002: HK\$1,443 million).

On June 17, 2004, the Company and Telstra agreed to purchase from the syndicate of banks the entire outstanding portion of US\$1,200 million of the debt under the Reach Term Facility for approximately US\$310.9 million (approximately HK\$2,425 million). The Company's share of the purchased debt was 50 percent, or approximately US\$155.45 million (approximately HK\$1,213 million). The purchase was completed on June 18, 2004. This loan receivable from the wholly-owned subsidiary of the JV is secured and will be repayable in a single payment on December 31, 2010. Interest on the loan receivable has been suspended for six months from June 18, 2004 and agreed to be at London Interbank Offered Rate ("LIBOR") plus 250 basis points following such period. As at December 31, 2004, the loan receivable from the wholly-owned subsidiary of the JV was approximately HK\$1,214 million (2003: Nil) and has been included in "Interest in jointly controlled companies" in the consolidated balance sheet (see note 24).

In addition, on June 17, 2004, the Company and Telstra agreed to provide the JV with a revolving working capital loan facility with each of the Company and Telstra contributing up to US\$25 million (approximately HK\$195 million) to this facility. As at December 31, 2004, no draw down has been made by the JV under this facility. This amount has been disclosed as the Group's commitment as at December 31, 2004 with details set out in note 38(c).

- d. Other than as specified in this note and notes 24 and 25, balances with related parties are unsecured, non-interest bearing and have no fixed repayment terms.

4 TURNOVER

| | 2004 HK\$ million | 2003 HK\$ million | 2002 HK\$ million |
|--|----------------------|----------------------|----------------------|
| Telecommunications and other service revenues | 15,613 | 16,535 | 18,227 |
| Amounts received and receivable in respect of goods sold | 1,532 | 1,626 | 1,470 |
| Amounts received and receivable in respect of properties sold | 5,415 | 4,111 | 20 |
| Amounts received and receivable from the rental of investment properties | 335 | 276 | 332 |
| Revenues from construction contracts | – | 2 | 63 |
| | <hr/> | <hr/> | <hr/> |
| | 22,895 | 22,550 | 20,112 |

5 SEGMENT INFORMATION

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is consistent with the Group's internal financial reporting.

a. Business segments

The Group comprises the following main business segments:

Telecommunications Services ("TSS") is the leading provider of telecommunications services, Internet access and multimedia services and related equipment in Hong Kong.

Business eSolutions offers IT solutions, business broadband Internet access, hosting and facilities management services and directories businesses within Hong Kong, Taiwan and mainland China.

Infrastructure and Property ("Infrastructure") covers the Group's property portfolio in Hong Kong and mainland China including the Cyberport development in Hong Kong.

Others include the Group's other businesses in mainland China, JALECO LTD. ("JALECO"), Internet Services and CyberWorks Ventures.

5 **SEGMENT INFORMATION (continued)**
a. Business segments (continued)

| | TSS | | | Business eSolutions | | | Infrastructure | | | Others | | | Elimination | | | Consolidated | | |
|---|--------------|---------|---------|------------------------|-------|-------|----------------|-------|------|--------------|---------|---------|--------------|---------|---------|--------------|---------|---------|
| | HK\$ million | | | HK\$ million | | | HK\$ million | | | HK\$ million | | | HK\$ million | | | HK\$ million | | |
| | 2004 | 2003 | 2002 | 2004 | 2003 | 2002 | 2004 | 2003 | 2002 | 2004 | 2003 | 2002 | 2004 | 2003 | 2002 | 2004 | 2003 | 2002 |
| REVENUE | | | | | | | | | | | | | | | | | | |
| External revenue | 14,591 | 15,865 | 17,248 | 2,174 | 1,762 | 1,661 | 5,767 | 4,497 | 503 | 363 | 426 | 700 | - | - | - | 22,895 | 22,550 | 20,112 |
| Inter-segment revenue | 636 | 707 | 759 | 527 | 564 | 573 | 96 | 103 | 182 | 9 | - | 93 | (1,268) | (1,374) | (1,607) | - | - | - |
| Total revenue | 15,227 | 16,572 | 18,007 | 2,701 | 2,326 | 2,234 | 5,863 | 4,600 | 685 | 372 | 426 | 793 | (1,268) | (1,374) | (1,607) | 22,895 | 22,550 | 20,112 |
| RESULT | | | | | | | | | | | | | | | | | | |
| Segment results | 4,621 | 5,156 | 6,348 | (63) | (148) | (102) | 1,319 | 102 | 267 | (635) | (2,317) | (1,930) | - | - | - | 5,242 | 2,793 | 4,583 |
| Unallocated corporate expenses | | | | | | | | | | | | | | | | (806) | (537) | (203) |
| Profit from operations | | | | | | | | | | | | | | | | 4,436 | 2,256 | 4,380 |
| Finance costs, net | | | | | | | | | | | | | | | | (1,929) | (2,117) | (1,997) |
| Share of results of jointly controlled companies and associates | 163 | (750) | 1,060 | (4) | (49) | (34) | - | (1) | 1 | (11) | (26) | (196) | - | - | - | 148 | (826) | 831 |
| Impairment losses on interests in jointly controlled companies and associates | - | (4,170) | (8,263) | (16) | - | - | - | - | - | - | (294) | - | - | - | - | (16) | (4,464) | (8,263) |
| Losses on disposal of interests in RWC and MobileOne, net | - | - | (1,433) | - | - | - | - | - | - | - | - | - | - | - | - | - | - | (1,433) |
| Profit/(Loss) before taxation | | | | | | | | | | | | | | | | 2,639 | (5,151) | (6,482) |
| Taxation | | | | | | | | | | | | | | | | (981) | (1,165) | (1,406) |
| Profit/(Loss) after taxation | | | | | | | | | | | | | | | | 1,658 | (6,316) | (7,888) |
| Minority interests | | | | | | | | | | | | | | | | (20) | 216 | 126 |
| Profit/(Loss) for the year attributable to shareholders | | | | | | | | | | | | | | | | 1,638 | (6,100) | (7,762) |

5 **SEGMENT INFORMATION (continued)**
a. Business segments (continued)

| | TSS | | | Business eSolutions | | | Infrastructure | | | Others | | | Elimination | | | Consolidated | |
|---|--------------|--------|-------|---------------------|-------|------|----------------|--------|------|--------------|-------|------|--------------|------|------|--------------|--------|
| | HK\$ million | | | HK\$ million | | | HK\$ million | | | HK\$ million | | | HK\$ million | | | HK\$ million | |
| | 2004 | 2003 | 2002 | 2004 | 2003 | 2002 | 2004 | 2003 | 2002 | 2004 | 2003 | 2002 | 2004 | 2003 | 2002 | 2004 | 2003 |
| OTHER INFORMATION | | | | | | | | | | | | | | | | | |
| Capital expenditure (including fixed assets, intangible assets and goodwill) incurred during the year | 1,532 | 1,746 | 1,353 | 42 | 190 | 117 | 104 | 13 | 19 | 366 | 165 | 718 | | | | | |
| Depreciation and amortization | 2,061 | 2,228 | 2,183 | 135 | 136 | 95 | 147 | 151 | 206 | 112 | 176 | 255 | | | | | |
| Impairment losses recognized in income statement | 28 | 5,190 | 8,263 | 16 | 71 | 147 | 5 | – | – | 7 | 1,643 | 387 | | | | | |
| Significant non-cash expenses (excluding depreciation, amortization and impairment losses) | 99 | 82 | 108 | 4 | 8 | 16 | – | 9 | 10 | 212 | 328 | 742 | | | | | |
| ASSETS | | | | | | | | | | | | | | | | | |
| Segment assets | 17,202 | 17,685 | | 1,508 | 1,495 | | 18,540 | 16,474 | | 1,507 | 1,569 | | – | – | | 38,757 | 37,223 |
| Interests in jointly controlled companies and associates | 1,858 | 487 | | 2 | 20 | | – | 1 | | 14 | 13 | | – | – | | 1,874 | 521 |
| Unallocated corporate assets | | | | | | | | | | | | | | | | | |
| — Cash and cash equivalents | | | | | | | | | | | | | | | | 3,494 | 5,535 |
| — Net lease payments receivable | | | | | | | | | | | | | | | | 287 | 377 |
| — Other corporate assets | | | | | | | | | | | | | | | | 556 | 991 |
| Consolidated total assets | | | | | | | | | | | | | | | | 44,968 | 44,647 |
| LIABILITIES | | | | | | | | | | | | | | | | | |
| Segment liabilities | 3,541 | 4,527 | | 904 | 746 | | 8,496 | 5,146 | | 693 | 672 | | – | – | | 13,634 | 11,091 |
| Unallocated corporate liabilities | | | | | | | | | | | | | | | | | |
| — Short-term borrowings | | | | | | | | | | | | | | | | 9,031 | 160 |
| — Long-term liabilities | | | | | | | | | | | | | | | | 20,663 | 34,506 |
| — Deferred tax liabilities | | | | | | | | | | | | | | | | 2,613 | 3,026 |
| — Other long-term liabilities | | | | | | | | | | | | | | | | 442 | 1,540 |
| — Taxation | | | | | | | | | | | | | | | | 1,080 | 1,074 |
| — Other corporate liabilities | | | | | | | | | | | | | | | | 2,405 | 786 |
| Consolidated total liabilities | | | | | | | | | | | | | | | | 49,868 | 52,183 |

The changes in carrying amount of goodwill for the year ended December 31, 2004, are as follows:

| | TSS | | Business eSolutions | | Infrastructure | | Others | | Consolidated | |
|--|--|------------------------------|--|------------------------------|--|------------------------------|--|------------------------------|--|------------------------------|
| | Goodwill carried on consolidated balance sheet | Goodwill carried in reserves | Goodwill carried on consolidated balance sheet | Goodwill carried in reserves | Goodwill carried on consolidated balance sheet | Goodwill carried in reserves | Goodwill carried on consolidated balance sheet | Goodwill carried in reserves | Goodwill carried on consolidated balance sheet | Goodwill carried in reserves |
| | HK\$ million | HK\$ million | HK\$ million | HK\$ million | HK\$ million | HK\$ million | HK\$ million | HK\$ million | HK\$ million | HK\$ million |
| Cost | | | | | | | | | | |
| Beginning of year | 720 | 161,035 | 336 | 524 | – | (34) | 479 | 4,652 | 1,535 | 166,177 |
| Additions | – | – | 1 | – | 84 | – | 5 | – | 90 | – |
| Realization of negative goodwill on disposal of interest in a subsidiary | – | – | – | – | – | 16 | – | – | – | 16 |
| End of the year | 720 | 161,035 | 337 | 524 | 84 | (18) | 484 | 4,652 | 1,625 | 166,193 |
| Amortization | | | | | | | | | | |
| Beginning of year | 99 | 123,823 | 47 | 348 | – | – | 456 | 4,652 | 602 | 128,823 |
| Charge for the year | 36 | – | 20 | – | 3 | – | 4 | – | 63 | – |
| End of year | 135 | 123,823 | 67 | 348 | 3 | – | 460 | 4,652 | 665 | 128,823 |
| Carrying amount | | | | | | | | | | |
| End of year | 585 | 37,212 | 270 | 176 | 81 | (18) | 24 | – | 960 | 37,370 |
| Beginning of year | 621 | 37,212 | 289 | 176 | – | (34) | 23 | – | 933 | 37,354 |

5 **SEGMENT INFORMATION (continued)**

b. Geographical segments

The Group's businesses are managed on a worldwide basis, but operate in three principal economic environments. In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets, long-lived assets and capital expenditure are based on the geographical location of the assets.

| | Revenue from external customers | | | Segment assets | | Long-lived assets | | Capital expenditure incurred during the year | |
|---|---------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|--|-------------------------|
| | 2004 HK\$ million | 2003 HK\$ million | 2002 HK\$ million | 2004 HK\$ million | 2003 HK\$ million | 2004 HK\$ million | 2003 HK\$ million | 2004 HK\$ million | 2003 HK\$ million |
| Hong Kong | 21,105 | 21,172 | 19,063 | 33,351 | 31,611 | 24,677 | 23,869 | 1,651 | 1,894 |
| Mainland China (excluding Hong Kong) and Taiwan | 1,468 | 948 | 701 | 4,780 | 5,011 | 3,950 | 4,249 | 46 | 115 |
| Others | 322 | 430 | 348 | 626 | 601 | 486 | 246 | 370 | 150 |
| | 22,895 | 22,550 | 20,112 | 38,757 | 37,223 | 29,113 | 28,364 | 2,067 | 2,159 |

6 **OPERATING PROFIT BEFORE NET GAINS ON INVESTMENTS, PROVISIONS FOR IMPAIRMENT LOSSES AND RESTRUCTURING COSTS**

| | 2004 HK\$ million | 2003 HK\$ million | 2002 HK\$ million |
|--|----------------------|----------------------|----------------------|
| Turnover | 22,895 | 22,550 | 20,112 |
| Cost of sales | (10,531) | (8,730) | (5,295) |
| General and administrative expenses | (8,298) | (9,481) | (9,605) |
| Operating profit before net gains on investments, provisions for impairment losses and restructuring costs | 4,066 | 4,339 | 5,212 |

7 **GAINS ON INVESTMENTS, NET**

| | 2004 HK\$ million | 2003 HK\$ million | 2002 HK\$ million |
|---|----------------------|----------------------|----------------------|
| Net unrealized holding (losses)/gains on other investments | (25) | 8 | (142) |
| Net realized gains/(losses) from disposals of investments in jointly controlled companies and associates, investment securities and other investments | 22 | 103 | (92) |
| Provision for impairment of investments | (187) | (258) | (581) |
| Amortization of premium received from equity options | 5 | 12 | 32 |
| Release of provision for an onerous contract | – | – | 464 |
| Gain on termination and amendment of the terms of cross currency swap contracts (note 37(c)) | – | 532 | 332 |
| Gain on deemed disposal of interest in subsidiaries (note a) | 72 | – | – |
| Gain on disposal of PCPD shares, net of expenses (note b) | 563 | – | – |
| Dividend income | 11 | 10 | – |
| | 461 | 407 | 13 |

- a. In respect of the reverse acquisition of DFG effective May 10, 2004 as set out in note 1(c), the Group recorded a deemed disposal gain of approximately HK\$36 million for the year ended December 31, 2004. In addition, on October 28, 2004, Asian Motion agreed to sell, through Lehman Brothers Asia Limited, 118,000,000 PCPD shares at a price of HK\$2.18 per PCPD share. On the same date, Asian Motion also entered into a subscription agreement with PCPD for the subscription of 118,000,000 new PCPD shares at the price of HK\$2.18 per PCPD share. The net proceeds from the subscription were used for general working capital purposes. As a result, the Group recorded another deemed disposal gain of approximately HK\$36 million for the year ended December 31, 2004.

7 GAINS ON INVESTMENTS, NET (continued)

- b. On April 30, 2004, the Company and Asian Motion agreed to sell, through Citigroup Global Markets Hong Kong Futures and Securities Limited, 237,000,000 PCPD shares at a price of HK\$2.65 per PCPD share. The Group's gain (net of expenses) from the share placing was approximately HK\$252 million for the year ended December 31, 2004 and the net proceeds were used for the general working capital purposes of Asian Motion. In addition, on November 30, 2004, Asian Motion agreed to sell, through Deutsche Bank AG, Hong Kong Branch, 450,000,000 PCPD shares at a price of HK\$2.48 per PCPD share. The Group's gain (net of expenses) from this disposal was approximately HK\$311 million for the year ended December 31, 2004 and the net proceeds were used for general corporate purposes.

8 PROVISIONS FOR IMPAIRMENT LOSSES

| | 2004 HK\$ million | 2003 HK\$ million | 2002 HK\$ million |
|---|----------------------|----------------------|----------------------|
| Provisions for impairment of: | | | |
| Fixed assets (note a) | 29 | 1,167 | 204 |
| Multimedia business related assets (note b) | – | 301 | 309 |
| Game business related assets (note c) | – | 893 | – |
| Others | 11 | 91 | 21 |
| | <hr/> | <hr/> | <hr/> |
| | 40 | 2,452 | 534 |

- a. Due to technology and market changes in the sectors in which the Group operates, certain of the Group's fixed assets became obsolete or impaired. Accordingly, the Group recognized an impairment loss of approximately HK\$29 million (2003: HK\$1,155 million) in the consolidated income statement for the year ended December 31, 2004. In 2003, an impairment loss of approximately HK\$12 million on the fixed assets of the game business was recognized as described in note (c) below.
- b. Following the launch of certain new value-added services in 2003, the Group reviewed the recoverable amount of its multimedia business related assets and identified that the usage of certain content archive was diminishing. The income to be generated from such assets was expected to be insignificant. Accordingly, the Group fully wrote down the remaining carrying value of a content license as at December 31, 2003 to zero and recognized an impairment loss of approximately HK\$301 million for the year ended December 31, 2003.
- c. In 2003, JALECO, a subsidiary incorporated under the laws of Japan with shares registered on the Over the Counter market in Japan, restructured its on-line game and game development businesses and exited certain legacy businesses. In view of the continual losses incurred by JALECO, management performed an assessment of the fair value of its interest in JALECO, including the related goodwill that was previously eliminated against reserves, as at December 31, 2003. As a result, based on the estimated value in use of JALECO determined using a discount rate of 12.5 percent (2002: 12.5 percent), the Group recognized impairment losses for goodwill and other assets of HK\$742 million and HK\$151 million respectively in the consolidated income statement for the year ended December 31, 2003.

9 RESTRUCTURING COSTS

In 2003, JALECO incurred restructuring costs of approximately HK\$38 million representing mainly the severance payments and the write-off of development cost and inventory in relation to the restructuring exercise described in note 8(c) above.

In 2002, the Group subcontracted a significant portion of its network maintenance function to 17 newly-established subcontracting companies owned by individuals previously employed by the Group. Approximately 1,600 former employees joined these subcontracting companies in November 2002 and approximately 3,000 of the Group's employees joined a new wholly-owned subsidiary, Cascade Limited ("Cascade"), on January 1, 2003. In addition, the Group reset staff levels in 2002 involving approximately 1,400 employees. Restructuring costs of approximately HK\$311 million in 2002 mainly represented the ex-gratia payments, curtailment losses on the related defined benefit retirement schemes, Cascade incentive bonuses on employment transfers and payments in lieu of notice for the above exercises.

10 PROFIT/(LOSS) BEFORE TAXATION

Profit/(Loss) before taxation is stated after crediting and charging the following:

| | 2004 | 2003 | 2002 |
|--|--------------|--------------|--------------|
| | HK\$ million | HK\$ million | HK\$ million |
| <i>Crediting:</i> | | | |
| Dividend income from | | | |
| - listed other investments | – | 2 | – |
| - unlisted investment securities | 11 | 8 | – |
| Realized gains on disposal of investments in jointly controlled companies and associates included in gains on investments, net | 3 | 8 | 34 |
| Realized gains on disposal of investment securities included in gains on investments, net | 19 | 87 | 56 |
| Realized gains on disposal of other investments included in gains on investments, net | – | 8 | – |
| Gain on disposal of fixed assets | 56 | – | – |
| Retirement costs for other staff | | | |
| - pension income for defined benefit retirement schemes (note 31(a)(iii)) | 129 | – | – |
| Exchange gains, net | 34 | 7 | 9 |
| Gross rental income | 335 | 276 | 332 |
| Less: outgoings | (54) | (21) | (11) |
| <i>Charging:</i> | | | |
| Realized losses on disposal of other investments included in gains on investments, net | – | – | 182 |
| Provision for impairment of goodwill attributable to REACH | – | 315 | 8,263 |
| Provision for impairment of goodwill attributable to subsidiaries | – | 742 | 309 |
| Provision for impairment of goodwill attributable to another jointly controlled company | – | 122 | – |
| Provision for impairment of fixed assets | 29 | 1,167 | 232 |
| Provision for impairment of intangible assets | – | 351 | – |
| Write-off of intangible assets | – | – | 8 |
| Provision for doubtful debts | 45 | 115 | 148 |
| Provision for inventory obsolescence | 9 | 70 | 26 |
| Depreciation | 2,379 | 2,674 | 2,623 |
| Amortization of intangible assets | 97 | 132 | 112 |
| Amortization of goodwill | 63 | 82 | 85 |
| Staff costs (excluding directors' emoluments (note 14) and retirement costs for other staff) | 2,732 | 2,813 | 3,395 |
| Retirement costs for other staff | | | |
| - contributions to defined contribution retirement scheme | 174 | 112 | 47 |
| - pension expense for defined benefit retirement schemes (note 31(a)(iii)) | – | 103 | 197 |
| - curtailment loss for defined benefit retirement schemes included in restructuring costs | – | – | 108 |
| Cost of inventories | 1,473 | 1,528 | 1,431 |
| Cost of properties sold | 4,665 | 3,951 | 9 |
| Loss on disposal of fixed assets | – | 145 | 76 |
| Auditors' remuneration | | | |
| - current year | 14 | 12 | 10 |
| - under provision in previous year | – | – | 2 |
| Operating lease rental | | | |
| - land and buildings | 231 | 223 | 261 |
| - equipment | 86 | 99 | 145 |

11 FINANCE COSTS, NET

| | 2004 | 2003 | 2002 |
|---|--------------|--------------|--------------|
| | HK\$ million | HK\$ million | HK\$ million |
| Interest paid/payable for: | | | |
| Overdrafts and bank loans wholly repayable within 5 years | 113 | 501 | 10 |
| Bank loans not wholly repayable within 5 years | 5 | 4 | 842 |
| Other loans wholly repayable within 5 years | 895 | 908 | 811 |
| Other loans not wholly repayable within 5 years | 993 | 853 | 531 |
| | <hr/> | <hr/> | <hr/> |
| | 2,006 | 2,266 | 2,194 |
| Interest capitalized in fixed assets | (20) | (17) | (33) |
| | <hr/> | <hr/> | <hr/> |
| Finance costs | 1,986 | 2,249 | 2,161 |
| Interest income on bank deposits and other loan | (57) | (132) | (164) |
| | <hr/> | <hr/> | <hr/> |
| Finance costs, net | 1,929 | 2,117 | 1,997 |
| | <hr/> | <hr/> | <hr/> |

Finance costs of HK\$1,986 million (2003: HK\$2,249 million, 2002: HK\$2,161 million) include arrangement fees and facility fees expensed of approximately HK\$154 million (2003: HK\$246 million, 2002: HK\$263 million) incurred in respect of the bank loans and other long-term borrowings of the Group. During the year, unamortized debt origination costs of approximately HK\$36 million has been written off (2003: HK\$122 million, 2002: HK\$135 million).

During the year, the capitalization rates used to determine the amount of interest eligible for capitalization ranged from 3.9 percent to 5.5 percent (2003: 2.7 percent to 4.9 percent, 2002: 3.0 percent to 3.5 percent).

12 IMPAIRMENT LOSSES ON INTERESTS IN JOINTLY CONTROLLED COMPANIES AND ASSOCIATES

| | 2004 | 2003 | 2002 |
|---|--------------|--------------|--------------|
| | HK\$ million | HK\$ million | HK\$ million |
| Impairment losses on interests in: | | | |
| REACH (note a) | – | 4,159 | 8,263 |
| Another jointly controlled company (note b) | – | 227 | – |
| Other jointly controlled company and associates | 16 | 78 | – |
| | <hr/> | <hr/> | <hr/> |
| | 16 | 4,464 | 8,263 |
| | <hr/> | <hr/> | <hr/> |

- a. On April 15, 2003, REACH and its bankers amended the terms of the Reach Term Facility, the outstanding balance of which was subsequently reduced to US\$1,200 million, with effect from April 25, 2003. The amendments to the Reach Term Facility were intended to provide REACH with greater financial flexibility and an improved capital structure. REACH continues to operate in a difficult environment and the industry is expected to remain challenging for a period of time due to aggressive pricing and over supply of capacity.

The Group performed an assessment of the fair value of its interest in REACH, including the related goodwill that was previously eliminated against reserves, as at December 31, 2003. As a result, based on the estimated value in use of REACH determined using a discount rate of 10 percent (2002: 9 percent), the Group made full provision for impairment of its previously unimpaired interest in REACH, recognizing an impairment loss of approximately HK\$4,159 million (2002: HK\$8,263 million) in the consolidated income statement for the year ended December 31, 2003. Accordingly, the Group's total interest in REACH had been written down to zero as at December 31, 2003 (2002: HK\$3,930 million).

- b. Due to continual losses sustained, the Group performed an assessment of the carrying value of its interest in a jointly controlled company, which is engaged in the on-line game business, as at December 31, 2003. Based on the result of the assessment, the Group made a full provision for impairment of its interest in this jointly controlled company of approximately HK\$227 million in the consolidated income statement for the year ended December 31, 2003.

13 LOSSES ON DISPOSAL OF INTERESTS IN JOINT VENTURE (BERMUDA) NO. 2 LIMITED (“RWC”) AND MOBILEONE LTD (“MobileOne”), NET

| | 2002 HK\$ million |
|--|--|
| Loss on disposal of interest in RWC (note a) | (1,771) |
| Profit on disposal of partial interest in MobileOne (note b) | 338 |
| | <hr style="border-top: 1px solid black;"/> |
| | (1,433) |
| | <hr style="border-top: 1px solid black;"/> |

a. Loss on disposal of interest in RWC

On June 28, 2002, the Company and Telstra entered into, and completed, an agreement relating to the following:

- i. the sale by the Company of its entire 40 percent equity interest in RWC to Telstra for a consideration of approximately US\$614 million (approximately HK\$4,792 million);
- ii. the redemption by the Company of the outstanding principal amount of the US\$750 million (approximately HK\$5,850 million) Telstra Bond due 2007 together with accrued interest of approximately US\$54.38 million (approximately HK\$424 million); and
- iii. the issue by the Company of a US\$190 million (approximately HK\$1,482 million) Telstra Note due 2005 to Telstra.

A summary of the loss on disposal of interest in RWC is set out below:

| | 2002 HK\$ million |
|---|--|
| Telstra Bond due 2007 | 5,850 |
| Accrued interest on Telstra Bond due 2007 | 424 |
| Less: Fair value of Telstra Note due 2005 | (1,482) |
| | <hr style="border-top: 1px solid black;"/> |
| Proceeds on disposal of interest in RWC | 4,792 |
| Less: Book carrying value of interest in RWC as at June 28, 2002 | (2,482) |
| | <hr style="border-top: 1px solid black;"/> |
| Surplus of proceeds on disposal of interest in RWC over its book carrying value | 2,310 |
| Less: Realization of related goodwill previously charged against reserves | (4,081) |
| | <hr style="border-top: 1px solid black;"/> |
| Loss on disposal of interest in RWC | (1,771) |
| | <hr style="border-top: 1px solid black;"/> |

b. Profit on disposal of partial interest in MobileOne

In December 2002, MobileOne was listed on the Singapore Exchange Securities Trading Limited through the sale of existing shares. This resulted in a disposal of an equivalent of 8.4 percent stake in MobileOne by the Group. The consideration, net of transaction costs, for the disposal was approximately HK\$497 million, which generated a profit of approximately HK\$338 million. Following completion of the disposal, the Group’s effective interest in MobileOne was reduced from 14.7 percent to 6.3 percent as at December 31, 2002. As at December 31, 2003 and 2004, the Group’s effective interest in MobileOne was 5.9 percent.

A summary of the profit on disposal of partial interest in MobileOne is set out below:

| | 2002 HK\$ million |
|---|--|
| Proceeds on disposal of partial interest in MobileOne, net of transaction costs | 497 |
| Less: Share of the book carrying value of partial interest in MobileOne | (159) |
| | <hr style="border-top: 1px solid black;"/> |
| Profit on disposal of partial interest in MobileOne | 338 |
| | <hr style="border-top: 1px solid black;"/> |

14 **DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS**

Details of director's emoluments are set out below:

| | 2004 HK\$ million | 2003 HK\$ million | 2002 HK\$ million |
|---|----------------------|----------------------|----------------------|
| Non-executive directors | | | |
| Fees | 5 | 4 | 3 |
| Executive directors | | | |
| Fees | – | – | – |
| Salaries, allowances and other allowances and benefits in kind | 52 | 62 | 46 |
| Pension scheme contributions | 4 | 4 | 4 |
| Bonuses (note a) | 65 | 50 | 38 |
| Payments as compensation for loss of office | – | – | 22 |
| Further payment as compensation for loss of office to a past director | – | 2 | – |
| Payment to a director as inducement to join the Company | – | – | 8 |
| | 121 | 118 | 118 |
| Total | 126 | 122 | 121 |

- a. The amount in 2004 reflects both the bonus paid and payable whereas the amount in 2003 only reflects the bonus paid in 2003.
- b. Pursuant to an agreement made between the Chairman and a director in 2002, 387,600 shares (2003: 387,600 shares) of the Company were transferred by the Chairman personally to that director in April 2004, being the second of three annual installments of a total of 1,162,800 shares the Chairman agreed to transfer to that director. The transfer of the third (last) annual installment of 387,600 shares will not proceed as the director concerned has resigned from the Company in September 2004. In addition, pursuant to another agreement made between the Chairman and another director in 2003, 2,161,000 shares of the Company were transferred by the Chairman personally to that director in July 2004, being the first of three annual installments of a total of 6,483,000 shares the Chairman agreed to transfer to that director. No new shares were issued by the Company and the Company did not bear any portion of the cost of the shares transferred by the Chairman.

The emoluments of the directors analyzed by the number of directors and emolument ranges are as follows:

| | Number of directors | | |
|---------------------------------|---------------------|------|------|
| | 2004 | 2003 | 2002 |
| Up to HK\$1,000,000 | 6 | 5 | 7 |
| HK\$1,000,001 - HK\$1,500,000 | 1 | – | 3 |
| HK\$1,500,001 - HK\$2,000,000 | – | 1 | – |
| HK\$2,000,001 - HK\$2,500,000 | – | 3 | – |
| HK\$2,500,001 - HK\$3,000,000 | 1 | – | – |
| HK\$4,000,001 - HK\$4,500,000 | 1 | – | 1 |
| HK\$5,000,001 - HK\$5,500,000 | – | 1 | – |
| HK\$5,500,001 - HK\$6,000,000 | – | – | 1 |
| HK\$6,500,001 - HK\$7,000,000 | 1 | – | – |
| HK\$7,000,001 - HK\$7,500,000 | – | 2 | – |
| HK\$8,000,001 - HK\$8,500,000 | – | 1 | 1 |
| HK\$9,500,001 - HK\$10,000,000 | 1 | – | – |
| HK\$10,000,001 - HK\$10,500,000 | – | 1 | 1 |
| HK\$10,500,001 - HK\$11,000,000 | – | 1 | 2 |
| HK\$11,000,001 - HK\$11,500,000 | – | – | 3 |
| HK\$13,500,001 - HK\$14,000,000 | – | – | 1 |
| HK\$16,000,001 - HK\$16,500,000 | – | – | 1 |
| HK\$16,500,001 - HK\$17,000,000 | – | 1 | – |
| HK\$18,500,001 - HK\$19,000,000 | 4 | – | – |
| HK\$23,500,001 - HK\$24,000,000 | 1 | – | – |
| HK\$45,000,001 - HK\$45,500,000 | – | 1 | – |
| | 16 | 17 | 21 |

No directors waived the right to receive emoluments during the years.

The above analysis has also taken into account the aggregate benefits realized by the individuals on the exercise of share options.

Of the five highest paid individuals in the Group, all (2003: all, 2002: all) are directors of the Company whose emoluments are included above.

15 TAXATION

In March 2003, the Government of Hong Kong (the "Government") announced an increase in the profits tax rate applicable to the Group's operations in Hong Kong from 16 percent to 17.5 percent. Accordingly, Hong Kong profits tax has been provided at the rate of 17.5 percent (2003: 17.5 percent, except for certain subsidiaries as mentioned in note (a) below, 2002: 16 percent) on the estimated assessable profits for the year.

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

| | 2004 HK\$ million | 2003 HK\$ million | 2002 HK\$ million |
|--|----------------------|----------------------|----------------------|
| The Company and subsidiaries: | | | |
| Hong Kong profits tax | | | |
| - provision for current year | 1,305 | 1,300 | 1,249 |
| - (over)/under provision in respect of prior years | (76) | 57 | 3 |
| Overseas tax | | | |
| - provision for current year | 10 | 10 | 137 |
| - overprovision in respect of prior years | - | (74) | - |
| Recovery of deferred taxation (note 34(a)) | (259) | (145) | (152) |
| | <hr/> 980 | <hr/> 1,148 | <hr/> 1,237 |
| A jointly controlled company: | | | |
| Hong Kong profits tax | | | |
| - provision for current year | - | 24 | 175 |
| Recovery of deferred taxation | - | (8) | (14) |
| Associates: | | | |
| Hong Kong profits tax | | | |
| - provision for current year | 1 | 1 | 36 |
| Recovery of deferred taxation | - | - | (28) |
| | <hr/> 981 | <hr/> 1,165 | <hr/> 1,406 |
| Total | <hr/> <hr/> 981 | <hr/> <hr/> 1,165 | <hr/> <hr/> 1,406 |

PCCW-HKT Telephone Limited ("HKTC"), an indirect wholly-owned subsidiary of the Company, has been in dispute with Hong Kong's Inland Revenue Department (the "IRD") regarding the deductibility of certain interest payments totalling HK\$1,708 million in the current and previous year's tax computations. Subsequent to the balance sheet date, HKTC received official notification from the IRD in respect of its intention to disallow the deduction of interest payments in dispute and to issue additional assessments. The directors consider that their grounds for claiming the deduction are reasonable and will lodge a formal objection to the IRD against the additional assessments and accordingly no provision for taxation has been made in the financial statements of the Group.

15 TAXATION (continued)

Reconciliation between taxation charge and the Group's accounting profit/(loss) at applicable tax rates is set out below:

| | 2004 HK\$ million | 2003 HK\$ million | 2002 HK\$ million |
|--|----------------------|----------------------|----------------------|
| Profit/(Loss) before taxation | 2,639 | (5,151) | (6,482) |
| Calculated at applicable taxation rate (note a) | 462 | (922) | (1,037) |
| Income not subject to taxation | | | |
| - release of provision for onerous contract | - | - | (74) |
| - gain on disposal of MobileOne | - | - | (54) |
| - interest income | (10) | (23) | (26) |
| - realized gain on disposal of investments | - | (1) | (5) |
| - recovery of loan provision | (15) | - | - |
| - pension income for defined benefit retirement schemes | (23) | - | - |
| - others | (38) | (24) | (34) |
| Expenses not deductible for taxation purposes | | | |
| - non-deductible interest | 275 | 329 | 290 |
| - provision for impairment of goodwill | - | 206 | 1,372 |
| - loss on disposal of interest in RWC | - | - | 283 |
| - provision for impairment of investments | 33 | 45 | 93 |
| - impairment losses on interests in jointly controlled companies and associates, other than goodwill | 3 | 697 | - |
| - others | 22 | 63 | 62 |
| Tax losses not recognized | 456 | 453 | 304 |
| (Over)/Under provision in prior years | (142) | 57 | 3 |
| Utilization of tax losses | (27) | - | - |
| (Income not subject to taxation)/Expenses not deductible for taxation purposes for jointly controlled companies, associates and unconsolidated subsidiaries, net | (25) | 161 | 36 |
| (Recovery of)/Provision for deferred tax on revaluation surplus of properties | - | (56) | 56 |
| Tax provision of overseas operations | 10 | 10 | 137 |
| Effect on opening balance of deferred tax resulting from an increase in tax rate during the year | - | 170 | - |
| Taxation charge | 981 | 1,165 | 1,406 |

- a. For certain subsidiaries having an accounting year end date of March 31, the applicable tax rate of 16 percent was used on the estimated assessable profits for the first three months of 2003 while 17.5 percent was used on the estimated assessable profits for the rest of 2003.

16 LOSS ATTRIBUTABLE TO SHAREHOLDERS

Loss of HK\$548 million (2003: HK\$8,660 million, 2002: HK\$14,049 million) attributable to shareholders was dealt with in the financial statements of the Company.

17 DIVIDENDS

| | 2004 HK\$ million | 2003 HK\$ million | 2002 HK\$ million |
|--|----------------------|----------------------|----------------------|
| Interim dividend declared and paid of 5.5 HK cents per ordinary share (2003: Nil, 2002: Nil) | 295 | - | - |
| Final dividend proposed after the balance sheet date of 9.6 HK cents per ordinary share (2003: Nil, 2002: Nil) | 645 | - | - |
| | 940 | - | - |

The final dividend proposed after the balance sheet date has already taken into account 1,343,571,766 new shares to be issued pursuant to the subscription agreement on January 19, 2005 with China Network Communications Group Corporation ("China Netcom Group"), a state-owned enterprise established under the laws of the PRC, and China Netcom Group Corporation (BVI) Limited ("CNC(BVI)"), a company incorporated in the British Virgin Islands which is a wholly-owned subsidiary of China Netcom Group and this has not been recognized as a liability as at the balance sheet date. Please refer to note 41(a) for details of the subscription agreement.

18 EARNINGS/(LOSS) PER SHARE

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

| | 2004 | 2003 | 2002 |
|---|---------------|---------------|---------------|
| Earnings/(Loss) (In HK\$ million) | | | |
| Earnings/(Loss) for the purpose of basic earnings/(loss) per share | 1,638 | (6,100) | (7,762) |
| Interest on convertible bonds | 23 | – | – |
| Earnings/(Loss) for the purpose of diluted earnings/(loss) per share | 1,661 | (6,100) | (7,762) |
| Number of shares | | | |
| Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share | 5,369,998,643 | 4,967,178,732 | 4,605,653,512 |
| Effect of dilutive potential ordinary shares | 118,793,037 | – | – |
| Weighted average number of ordinary shares for the purpose of diluted earnings/(loss) per share | 5,488,791,680 | 4,967,178,732 | 4,605,653,512 |

The weighted average number of ordinary shares in 2003 and 2002 for the purposes of calculating the basic and diluted loss per share have been retrospectively adjusted for the five-to-one share consolidation which took place in January 2003.

19 FIXED ASSETS

| | For the year ended December 31, 2004 | | | | | | Total HK\$ million |
|--|--|---------------------------------------|---------------------------------------|---------------------------------------|---|---|-----------------------|
| | Investment properties HK\$ million | Land and buildings HK\$ million | Exchange equipment HK\$ million | Transmission plant HK\$ million | Other plant and equipment HK\$ million | Projects under construction HK\$ million | |
| Cost or valuation | | | | | | | |
| Beginning of year | 5,880 | 3,365 | 7,398 | 8,304 | 5,374 | 1,141 | 31,462 |
| Additions | – | 13 | 418 | 337 | 575 | 629 | 1,972 |
| Transfers | (182) | 177 | 656 | (757) | 1,234 | (1,128) | – |
| Disposals | (179) | (108) | (141) | – | (180) | – | (608) |
| Exchange differences | (13) | – | – | – | 37 | – | 24 |
| Valuation adjustment | – | (247) | – | – | – | – | (247) |
| Deficit on revaluation | (322) | – | – | – | – | – | (322) |
| End of year | 5,184 | 3,200 | 8,331 | 7,884 | 7,040 | 642 | 32,281 |
| Representing: | | | | | | | |
| At cost | – | 3,200 | 8,331 | 7,884 | 7,040 | 642 | 27,097 |
| At valuation | 5,184 | – | – | – | – | – | 5,184 |
| | 5,184 | 3,200 | 8,331 | 7,884 | 7,040 | 642 | 32,281 |
| Accumulated depreciation and impairment | | | | | | | |
| Beginning of year | – | 278 | 3,268 | 2,490 | 3,886 | – | 9,922 |
| Charge for the year | – | 82 | 898 | 500 | 899 | – | 2,379 |
| Provision for impairment in value | – | – | – | 29 | – | – | 29 |
| Disposals | – | (19) | (141) | – | (166) | – | (326) |
| Exchange differences | – | – | – | – | 31 | – | 31 |
| End of year | – | 341 | 4,025 | 3,019 | 4,650 | – | 12,035 |
| Net book value | | | | | | | |
| End of year | 5,184 | 2,859 | 4,306 | 4,865 | 2,390 | 642 | 20,246 |
| Beginning of year | 5,880 | 3,087 | 4,130 | 5,814 | 1,488 | 1,141 | 21,540 |

Land and buildings with an aggregate carrying value of approximately HK\$33 million were pledged as security for certain bank borrowings of the Group as at December 31, 2004 (2003: Nil).

19 **FIXED ASSETS (continued)**

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

| | Investment properties | | Land and buildings | |
|--------------------------------------|-----------------------|--------------|--------------------|--------------|
| | 2004 | 2003 | 2004 | 2003 |
| | HK\$ million | HK\$ million | HK\$ million | HK\$ million |
| Held in Hong Kong | | | | |
| On long lease (over 50 years) | 1,875 | 2,117 | 1,289 | 1,447 |
| On medium-term lease (10 - 50 years) | – | 4 | 1,471 | 1,559 |
| On short lease (less than 10 years) | – | 4 | – | – |
| Held outside Hong Kong | | | | |
| Freehold | – | – | 41 | 44 |
| Leasehold | | | | |
| On medium-term lease (10 - 50 years) | 3,309 | 3,755 | 58 | 37 |
| | <u>5,184</u> | <u>5,880</u> | <u>2,859</u> | <u>3,087</u> |

Investment properties held in and outside Hong Kong were revalued as at December 31, 2004 by an independent valuer, CB Richard Ellis Limited. The basis of valuation for investment properties was open market value.

No investment properties were mortgaged as collateral for banking facilities of the Group as at December 31, 2004 (2003: HK\$3,737 million).

As at December 31, 2004, the total future minimum lease payments under non-cancellable operating leases are receivable as follows:

Land and buildings

| | 2004 | 2003 |
|---------------------------------|--------------|--------------|
| | HK\$ million | HK\$ million |
| Within 1 year | 191 | 215 |
| After 1 year but within 5 years | 333 | 413 |
| After 5 years | 96 | 146 |
| | <u>620</u> | <u>774</u> |

Total future minimum lease payments receivable under non-cancellable operating leases as at December 31, 2004 included minimum lease receipts from the tenants of PCCW Tower, the Group's headquarters in Hong Kong, up to February 7, 2005, i.e. the completion date of the disposal of PCCW Tower as set out in note 41(c). Under the property sale and purchase agreement dated December 21, 2004 between Partner Link Investments Limited ("Partner Link"), an indirect wholly-owned subsidiary of PCPD, and an independent third party purchaser ("Property Sale and Purchase Agreement"), on completion of the disposal of PCCW Tower, there is a rental guarantee pursuant to which Partner Link will undertake to the purchaser that it will pay the sum of approximately HK\$13.3 million to the purchaser by way of guaranteed net monthly rental for a period of five years. In return, the lease receipts from the tenants of PCCW Tower for the same five year period will be collected by Partner Link.

20 PROPERTIES HELD FOR/UNDER DEVELOPMENT

| | 2004 HK\$ million | 2003 HK\$ million |
|---|----------------------|----------------------|
| Leasehold land, at cost: | | |
| Located in Hong Kong | 3 | 3 |
| Properties held for development | 3 | 3 |
| Properties under development (note b) | 6,548 | 4,068 |
| Less: Properties under development classified as current assets | (469) | (297) |
| | 6,079 | 3,771 |
| Total | 6,082 | 3,774 |

- a. No properties held for/under development were pledged as security for banking facilities as at December 31, 2004 (2003: Nil).
- b. Pursuant to an agreement dated May 17, 2000 entered into with the Government (“Cyberport Project Agreement”), the Group was granted an exclusive right and obligation to design, develop, construct and market the Cyberport project at Telegraph Bay on the Hong Kong Island. The Cyberport project consists of commercial and residential portions. The completed commercial portion was transferred to the Government at no consideration. The associated costs incurred have formed part of the development costs of the residential portion. Pre-sales of the residential portion of the Cyberport project commenced in February 2003.

21 GOODWILL

| | 2004 | | 2003 | |
|--|---|--|---|--|
| | Goodwill carried on consolidated balance sheet HK\$ million | Goodwill carried in reserves HK\$ million | Goodwill carried on consolidated balance sheet HK\$ million | Goodwill carried in reserves HK\$ million |
| Cost | | | | |
| Beginning of year | 1,535 | 166,177 | 1,429 | 166,177 |
| Additions | 90 | – | 106 | – |
| Realization of negative goodwill on disposal of interest in a subsidiary | – | 16 | – | – |
| End of year | 1,625 | 166,193 | 1,535 | 166,177 |
| Accumulated amortization and impairment | | | | |
| Beginning of year | 602 | 128,823 | 125 | 128,039 |
| Charge for the year | 63 | – | 82 | – |
| Provision for impairment | – | – | 395 | 784 |
| End of year | 665 | 128,823 | 602 | 128,823 |
| Carrying amount | | | | |
| End of year | 960 | 37,370 | 933 | 37,354 |
| Beginning of year | 933 | 37,354 | 1,304 | 38,138 |

22 INTANGIBLE ASSETS

| | Trademarks HK\$ million | Content License HK\$ million | 2004 | Others HK\$ million | Total HK\$ million | 2003 |
|--|----------------------------|------------------------------------|--|------------------------|-----------------------|-----------------------|
| | | | Wireless Broadband License HK\$ million | | | Total HK\$ million |
| Cost | | | | | | |
| Beginning of year | 1,518 | 375 | 93 | 63 | 2,049 | 1,954 |
| Additions | – | – | 5 | – | 5 | 95 |
| Exchange differences | – | – | 8 | – | 8 | – |
| End of year | 1,518 | 375 | 106 | 63 | 2,062 | 2,049 |
| Accumulated amortization and impairment | | | | | | |
| Beginning of year | 256 | 375 | 11 | 57 | 699 | 216 |
| Charge for the year | 76 | – | 20 | 1 | 97 | 132 |
| Provision for impairment | – | – | – | – | – | 351 |
| End of year | 332 | 375 | 31 | 58 | 796 | 699 |
| Net book value | | | | | | |
| End of year | 1,186 | – | 75 | 5 | 1,266 | 1,350 |
| Beginning of year | 1,262 | – | 82 | 6 | 1,350 | 1,738 |

23 INVESTMENT IN SUBSIDIARIES

Certain subsidiaries had borrowings to or from the Company bearing interest at commercial rates throughout the terms of the borrowings. The interest bearing principal receivable from subsidiaries as at December 31, 2004 is HK\$2,564 million (2003: HK\$503 million) and the interest bearing principal payable to subsidiaries as at December 31, 2004 is HK\$5,056 million (2003: HK\$16,327 million). Other balances with subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment except for the HK\$1,170 million convertible note due 2011 due from a subsidiary.

Dividends from the PRC joint ventures accounted for as subsidiaries will be declared based on the profits in the statutory financial statements of these PRC joint ventures. Such profits will be different from the amounts reported under HK GAAP.

As at December 31, 2004, the Group has financed the operations of certain of its PRC joint ventures accounted for as subsidiaries in the form of shareholder's loans amounting to approximately US\$198 million (2003: US\$198 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.

23 INVESTMENT IN SUBSIDIARIES (continued)

As at December 31, 2004, 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 | Equity interest attributable to the Group | |
|--|---------------------------------------|--|---|---|------------|
| | | | | Directly | Indirectly |
| PCCW-HKT Limited | Hong Kong | Investment holding | HK\$6,092,100,052 | – | 100% |
| PCCW-HKT Telephone Limited* | Hong Kong | Telecommunications services | HK\$2,163,783,209 | – | 100% |
| PCCW-HKT Business Services Limited | Hong Kong | Provision of business customer premises equipment and ancillary business services | HK\$2 | – | 100% |
| PCCW-HKT Consumer Services Limited | Hong Kong | Provision of consumer premises equipment, computer products and ancillary services | HK\$2 | – | 100% |
| PCCW-HKT Network Services Limited | Hong Kong | Provision of retail international data and value-added services, and local value-added telecommunications services | HK\$2 | – | 100% |
| PCCW-HKT Products & Services Limited* | Hong Kong | Management of customer loyalty programs “No.1 Club” and “Partners” for members of the programs | HK\$8,437,500 | – | 100% |
| PCCW Teleservices (Hong Kong) Limited | Hong Kong | Provision of customer relationship management and customer contact management solutions and services | HK\$2 | – | 100% |
| PCCW-HKT Technical Services Limited | Hong Kong | Provision of technical support and maintenance services | HK\$2 | – | 100% |
| PCCW VOD Limited (now known as PCCW Media Limited) | Hong Kong | Provision of pay television programme services | HK\$3,500,000,100 (HK\$3,500,000,095 ordinary shares, HK\$1 “A” Class share and HK\$4 “B” Class shares) | – | 100% |
| PCCW Teleservices Operations (Hong Kong) Limited | Hong Kong | Provision of customer relationship management and customer contact management solutions and services | HK\$2 | – | 100% |
| Cascade Limited | Hong Kong | Design, build and operate network infrastructures including technical consultancy and operation outsourcing | HK\$10,000 | – | 100% |
| PCCW IMS Limited | Hong Kong | Provision of retail broadband and narrowband Internet access services under the “NETVIGATOR” brandname, interactive multimedia services, international telecommunication services and the provision of support services to a fellow subsidiary | HK\$2 | – | 100% |
| Pacific Century Systems Limited | Hong Kong | Customer premises equipment related business | HK\$1,000,000 | 100% | – |
| Corporate Access Limited | Cayman Islands/ Asia Pacific | Transponder leasing | US\$10 | – | 100% |

23 INVESTMENT IN SUBSIDIARIES (continued)

| Company Name | Place of incorporation/ operations | Principal activities | Nominal value of issued capital/ registered capital | Equity interest attributable to the Group | |
|---|---------------------------------------|--|--|---|------------|
| | | | | Directly | Indirectly |
| BtN Access (HK) Limited | Hong Kong | Provision of satellite based telecommunication services to third parties and satellite transponder capacity to a fellow subsidiary | HK\$10 | – | 100% |
| Beyond The Network Limited | Hong Kong | Global Internet Protocol based communication service | HK\$2 | – | 100% |
| PCCW (Beijing) Limited | The PRC | System integration, consulting and informatization project | US\$6,750,000 | – | 100% |
| Omnalink Technology Limited | British Virgin Islands | Investment holding | US\$14,850 | – | 76.43% |
| Unihub China Information Technology Company Limited | The PRC | Selling of hardware and software and information system consulting services | RMB200,000,000 | – | 38.2% |
| Unihub Limited | Hong Kong/ Asia Pacific | Computer services and provision of IP/IT related value-added services to business customers | HK\$1,200 | – | 100% |
| PCCW Business eSolutions Limited | Hong Kong | Provision of IP/IT related value-added services to business customers | HK\$2 | – | 100% |
| PCCW Powerbase Data Center Services (HK) Limited | Hong Kong | Data Center services | HK\$2 | – | 100% |
| Power Logistics Limited | Hong Kong | Delivery services | HK\$100,000 | – | 100% |
| PCCW Directories Limited* | Hong Kong | Sale of advertising in the Business White Pages, Yellow Pages for businesses and Yellow Pages for customers, publication of directories, provision of Internet directory services and sale of online advertising | HK\$10,000 | – | 100% |
| ChinaBiG Limited | Hong Kong | Production and distribution of trade directory | HK\$359,189 | – | 62.31% |
| Pacific Century Premium Developments Limited | Bermuda/ Hong Kong | Investment holding | HK\$188,245,987 | – | 51.07% |
| Cyber-Port Limited | Hong Kong | Property development | HK\$2 | – | 51.07% |
| JALECO LTD. | Japan | Games developing, publishing and distribution and certain content businesses | Yen19,742,711,522 | – | 79.80% |
| Taiwan Telecommunication Network Services Co., Ltd. | Taiwan | Type II Telecommunications services provider | NT\$1,087,000,000 | – | 56.56% |
| UK Broadband Limited | United Kingdom | Public Fixed Wireless Access License Business | GBP1 | – | 100% |

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

* The subsidiary has accounting year end date of March 31. These subsidiaries prepare, for the purpose of consolidation, financial statements as at the same date as the Group.

| | 2004 HK\$ million | 2003 HK\$ million |
|--|----------------------|----------------------|
| Share of net assets of jointly controlled companies, net of impairment | 10 | 7 |
| Loans due from jointly controlled companies, net of impairment | 1,214 | – |
| Amounts due from jointly controlled companies, net of impairment | 3 | 27 |
| Amounts due to jointly controlled companies | – | (1) |
| | <hr/> 1,227 | <hr/> 33 |
| Investments at cost, unlisted shares | <hr/> 3,130 | <hr/> 3,130 |

Balances with jointly controlled companies are unsecured, non-interest bearing and have no fixed terms of repayment except for the capacity prepayment to REACH of HK\$1,139 million (2003: HK\$1,139 million) and the loan receivable from the wholly-owned subsidiary of REACH of HK\$1,214 million (2003: Nil) (see note 3(c)) as included in “Loans due from jointly controlled companies” above.

As at December 31, 2004, particulars of the principal jointly controlled company of the Group are as follows:

| Company Name | Place of incorporation/ operations | Principal activities | Nominal value of issued capital/ registered capital | Equity interest attributable to the Group | |
|--------------|---------------------------------------|---|--|---|------------|
| | | | | Directly | Indirectly |
| Reach Ltd. | Bermuda/Asia | Provision of international telecommunication services | US\$5,000,000,000 | – | 50% |

Summarized unaudited financial information of the significant jointly controlled company, REACH, is as follows:

| | 2004 HK\$ million | 2003 HK\$ million |
|---|----------------------|----------------------|
| Condensed consolidated balance sheet information as at December 31 | | |
| Non-current assets | 3,202 | 3,737 |
| Current assets | 2,122 | 2,346 |
| | <hr/> 5,324 | <hr/> 6,083 |
| Total assets | | |
| Non-current liabilities | (13,257) | (13,969) |
| Current liabilities | (3,721) | (3,651) |
| Minority interests | (78) | (158) |
| | <hr/> (11,732) | <hr/> (11,695) |
| Net liabilities | | |
| Condensed consolidated income statement information for the year ended December 31 | | |
| Turnover | 6,300 | 7,036 |
| | <hr/> 6,300 | <hr/> 7,036 |
| Loss after taxation | (275) | (22,069) |
| | <hr/> (275) | <hr/> (22,069) |

On April 15, 2003, REACH and its bankers amended the terms of Reach Term Facility, the outstanding balance of which was subsequently reduced to US\$1,200 million, with effect from April 25, 2003. The amendments to the Reach Term Facility were intended to provide REACH with greater financial flexibility and an improved capital structure. REACH continues to operate in a difficult environment and the industry is expected to remain challenging for a period of time due to aggressive pricing and over supply of capacity.

The Group had written down its interest in REACH to zero as at December 31, 2003 (2002: HK\$3,930 million) (see note 12(a)).

24 INTEREST IN JOINTLY CONTROLLED COMPANIES (continued)

An analysis of the Group's total interest in REACH as at December 31, 2004 is as follows:

| | 2004 HK\$ million | 2003 HK\$ million |
|--|----------------------|----------------------|
| Share of net assets, net of impairment | – | – |
| Capacity prepayment to REACH (note 3(c)), net of impairment | – | – |
| Loan receivable from a wholly-owned subsidiary of REACH (note 3(c)), net of impairment | 1,214 | – |
| Goodwill previously eliminated against reserves, net of impairment | – | – |
| | <hr/> | <hr/> |
| Total interest in REACH, net of impairment | 1,214 | – |
| | <hr/> | <hr/> |

25 INTEREST IN ASSOCIATES

| | 2004 HK\$ million | 2003 HK\$ million |
|--|----------------------|----------------------|
| Share of net assets of associates, net of impairment | 643 | 488 |
| Loans due from an associate, net of impairment | – | – |
| Amounts due from an associate, net of impairment | 4 | – |
| | <hr/> | <hr/> |
| | 647 | 488 |
| | <hr/> | <hr/> |
| Investments at cost, unlisted shares | 1,000 | 991 |
| | <hr/> | <hr/> |

Balances with associates are unsecured, non-interest bearing and have no fixed terms of repayment except for the loans due from an associate, which bear interest at commercial rates, are secured by part of its movable properties and have fixed terms of repayment ranging up to three years from the date of drawdown in 2000.

As at December 31, 2004, particulars of the principal associates of the Group are as follows:

| Company Name | Place of incorporation/ operations | Principal activities | Nominal value of issued capital/ registered capital | Equity interest attributable to the Group | |
|---|---------------------------------------|--|--|---|------------|
| | | | | Directly | Indirectly |
| Great Eastern Telecommunications Limited* | Cayman Islands | Investment holding | US\$43,112,715 | – | 49% |
| Abacus Distribution Systems (Hong Kong) Limited | Hong Kong | Provision of computer reservation systems and travel related services | HK\$15,600,000 | – | 37.04% |
| 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% |

* The associate has accounting year end date of March 31. The associate prepares, for the purpose of consolidation, financial statements as at the same date as the Group.

26 INVESTMENTS

Investments are analyzed as follows:

| | 2004 HK\$ million | 2003 HK\$ million |
|--------------------------------|-------------------------|-------------------------|
| Held-to-maturity securities | 31 | 37 |
| Investment securities (note a) | 388 | 601 |
| | <u>419</u> | <u>638</u> |

a. Investment securities

| | 2004 HK\$ million | 2003 HK\$ million |
|---|-------------------------|-------------------------|
| Unlisted, at cost | 1,765 | 1,751 |
| Less: Provision for impairment in value | (1,377) | (1,222) |
| | <u>388</u> | <u>529</u> |
| Listed, at cost | | |
| Hong Kong | – | 51 |
| Overseas | – | 63 |
| | <u>–</u> | <u>114</u> |
| Less: Provision for impairment in value | – | (42) |
| | <u>–</u> | <u>72</u> |
| Total investment securities | <u>388</u> | <u>601</u> |
| Quoted market value of listed investment securities as at December 31 | <u>–</u> | <u>83</u> |

During the year, a listed security was transferred from investment securities to other investments. This transfer was effected at fair value. The aggregate unrealized holding loss at the date of transfer which had not been previously recognized of approximately HK\$0.5 million (2003: HK\$1 million, 2002: HK\$28 million) was recognized in the income statement at the date of transfer.

Investment securities with an aggregate carrying value of approximately HK\$19 million (2003: HK\$20 million) were pledged as security for certain bank borrowings of the Group.

CURRENT ASSETS AND LIABILITIES

a. Sales proceeds held in stakeholders' accounts

The balance represents proceeds from the sale of the residential portion of the Cyberport project retained in bank accounts opened and maintained by stakeholders which will be transferred to specific bank accounts, which are restricted in use as described in note (b) below, pursuant to certain conditions and procedures as stated in the Cyberport Project Agreement.

b. Restricted cash

Pursuant to the Cyberport Project Agreement, the Group has a restricted cash balance of approximately HK\$903 million as at December 31, 2004 (2003: HK\$2,701 million) held in specific bank accounts. The uses of the funds are specified in the Cyberport Project Agreement. The remaining HK\$1 million as at December 31, 2004 (2003: Nil) represented a bank deposit placed by an indirect subsidiary of the Company as a security for a banking facility granted to that subsidiary of the Company (see note 40).

c. Inventories

| | 2004 HK\$ | 2003 HK\$ |
|------------------------|--------------|--------------|
| | million | million |
| Work-in-progress | 351 | 218 |
| Finished goods | 86 | 298 |
| Consumable inventories | 33 | 21 |
| | <hr/> | <hr/> |
| | 470 | 537 |
| | <hr/> | <hr/> |

d. Other investments

| | 2004 HK\$ | 2003 HK\$ |
|--------------------------------|--------------|--------------|
| | million | million |
| Unlisted | | |
| Overseas | 71 | 73 |
| Listed, at quoted market value | | |
| Hong Kong | 242 | 250 |
| | <hr/> | <hr/> |
| | 313 | 323 |
| | <hr/> | <hr/> |

In 2002, the Group entered into certain derivative contracts, in the form of equity swap and equity option contracts, with a third party with the effect of entering into forward sales of a portion of certain quoted other investments plus written call options held by the counterparty for the remaining portion of those quoted other investments. As at December 31, 2004, the underlying quoted other investments with aggregate carrying value of approximately HK\$224 million (2003: HK\$246 million) have been placed as collateral for the transaction. The equity swap and equity option contracts have terms of up to five years from the date of the contracts and will mature in 2007 (see note 37(a)). No new derivative contract of this nature was entered into by the Group in 2004 and 2003.

e. Investment in unconsolidated subsidiaries

In respect of the reverse acquisition of DFG as set out in note 1(c), considering that certain subsidiaries of DFG are acquired and held exclusively with a view to the subsequent disposal in the near future, the investment in certain subsidiaries of PCPD is accounted for as other investments and stated at a fair value of approximately HK\$51 million as at December 31, 2004 (2003: Nil).

f. Accounts receivable, net

An aging analysis of accounts receivables is set out below:

| | 2004 HK\$ million | 2003 HK\$ million |
|------------------------------------|----------------------------------|----------------------------------|
| 0 - 30 days | 1,055 | 1,125 |
| 31 - 60 days | 253 | 206 |
| 61 - 90 days | 108 | 88 |
| 91 - 120 days | 88 | 64 |
| Over 120 days | 327 | 276 |
| | <hr/> | <hr/> |
| | 1,831 | 1,759 |
| Less: Provision for doubtful debts | (192) | (188) |
| | <hr/> | <hr/> |
| | 1,639 | 1,571 |

The normal credit period granted by the Group ranges from 18 days to 30 days from the date of the invoice.

g. Short-term borrowings

| | 2004 HK\$ million | 2003 HK\$ million |
|--|----------------------------------|----------------------------------|
| Bank loans | 2 | 54 |
| Current portion of long-term borrowings (note 28(a)) | 12 | 106 |
| Convertible note and bonds (note 28(b)) | 9,017 | - |
| | <hr/> | <hr/> |
| | 9,031 | 160 |
| | <hr/> | <hr/> |
| Secured | 473 | 154 |
| | <hr/> | <hr/> |
| Unsecured | 8,558 | 6 |
| | <hr/> | <hr/> |

Please refer to note 40 for details of the Group's banking facilities.

At December 31, 2004, the weighted average interest rate of the short-term borrowing, excluding the current portion of long-term borrowings and convertible note and bonds is nil (2003: 1.45 percent).

h. Accounts payable

An aging analysis of accounts payable is set out below:

| | 2004 HK\$ million | 2003 HK\$ million |
|---------------|----------------------------------|----------------------------------|
| 0 - 30 days | 636 | 886 |
| 31 - 60 days | 67 | 130 |
| 61 - 90 days | 22 | 88 |
| 91 - 120 days | 41 | 44 |
| Over 120 days | 166 | 229 |
| | <hr/> | <hr/> |
| | 932 | 1,377 |
| | <hr/> | <hr/> |

27 **CURRENT ASSETS AND LIABILITIES** (continued)

i. Gross amounts due to customers for contract work

| | 2004 HK\$ million | 2003 HK\$ million |
|---|-------------------------|-------------------------|
| Contract costs incurred plus attributable profits less foreseeable losses | 794 | 809 |
| Less: Estimated value of work performed | (799) | (809) |
| | (5) | – |

The total amount of progress billings, included in the estimated value of work performed as at December 31, 2004, is approximately HK\$782 million (2003: HK\$776 million).

No retentions receivable from customers in respect of construction contracts in progress was included in non-current assets as at December 31, 2004 (2003: HK\$8 million).

j. Accruals, other payables and deferred income

Included in accruals, other payables and deferred income are accruals for staff costs, construction-related costs, fixed asset purchases, interest expenses and redemption premium for convertible bonds due 2005 of HK\$278 million, HK\$848 million, HK\$363 million, HK\$458 million and HK\$1,410 million respectively (2003: HK\$420 million, HK\$972 million, HK\$578 million, HK\$430 million and Nil).

28 **LONG-TERM LIABILITIES**

| | 2004 HK\$ million | 2003 HK\$ million |
|-------------------------------------|-------------------------|-------------------------|
| Long-term borrowings (note a) | 17,163 | 22,029 |
| Convertible note and bonds (note b) | 3,500 | 12,477 |
| | 20,663 | 34,506 |

a. Long-term borrowings

| | 2004 HK\$ million | 2003 HK\$ million |
|---|-------------------------|-------------------------|
| Repayable within a period | | |
| – not exceeding one year | 12 | 106 |
| – over one year, but not exceeding two years | – | 133 |
| – over two years, but not exceeding three years | – | 136 |
| – over three years, but not exceeding four years | – | 153 |
| – over four years, but not exceeding five years | – | 4,415 |
| – over five years | 17,163 | 17,192 |
| | 17,175 | 22,135 |
| Less: Amounts repayable within one year included under current liabilities (note 27(g)) | (12) | (106) |
| | 17,163 | 22,029 |

Representing:

| | | |
|---|-------|-------|
| US\$456 million guaranteed notes (note i) | 3,547 | 3,541 |
| HK\$3,003 million 5-year term loan (note ii) | – | 3,003 |
| US\$500 million guaranteed notes (note iii) | 3,900 | 3,900 |
| Yen 30,000 million guaranteed notes (note iv) | 1,950 | 1,950 |
| US\$1,000 million guaranteed notes (note v) | 7,766 | 7,801 |
| Other bank loans | – | 1,834 |

17,163 22,029

Secured – 1,819

Unsecured 17,163 20,210

a. Long-term borrowings (continued)

Details of major long-term borrowings of HK\$17,163 million of the Group are presented below:

- i. **US\$456 million guaranteed notes**
On January 24, 2003, PCCW Capital No. 3 Limited, an indirect wholly-owned subsidiary of the Company, privately placed US\$456 million 7.88 percent guaranteed notes due 2013 to raise funds for general corporate purposes. The notes are listed on the Luxembourg Stock Exchange and were unconditionally and irrevocably guaranteed by the Company until May 12, 2004. On May 12, 2004, the noteholders approved the novation of the guarantee to HKTC and amendments to certain terms of the notes.
- ii. **HK\$3,003 million 5-year term loan**
On March 14, 2003, the Company entered into a five-year term loan facility for HK\$3,003 million on an unsecured basis. The loan was repayable in 2008. The proceeds were used for general corporate purposes. This term loan has been fully prepaid as at December 31, 2004.
- iii. **US\$500 million guaranteed notes**
On July 17, 2003, PCCW-HKT Capital No.2 Limited, an indirect wholly-owned subsidiary of the Company, issued US\$500 million 6 percent guaranteed notes due 2013 which are listed on the Luxembourg Stock Exchange. The notes are irrevocable and unconditionally guaranteed by HKTC and will rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTC. The proceeds are used for general corporate purposes.
- iv. **Yen 30,000 million guaranteed notes**
On October 26, 2001, Profit Century Finance Limited (“PCF”), an indirect wholly-owned subsidiary of the Company, completed the placement of Yen 30,000 million 3.65 percent guaranteed notes due 2031 (the “Yen Notes”). Interest is payable semi-annually in arrears. The Yen Notes are redeemable at the option of PCF on any interest payment date falling on or after October 27, 2006.

The Yen Notes are unconditionally and irrevocably guaranteed by HKTC and will rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTC.

- v. **US\$1,000 million guaranteed notes**
In November 2001, PCCW-HKT Capital Limited, an indirect wholly-owned subsidiary of the Company, issued US\$1,000 million 7.75 percent guaranteed notes due 2011 (the “Notes due 2011”). Interest is payable semi-annually in arrears. The interest rate payable on the Notes due 2011 will be subject to adjustment from time to time if the relevant rating agencies downgrade the rating ascribed to the Notes due 2011 below a pre-agreed level. The interest rate payable on the Notes due 2011 has been adjusted to 8 percent based on the current ratings.

The Notes due 2011 are unconditionally and irrevocably guaranteed by HKTC and will rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTC.

Please refer to note 40 for details of the Group’s banking facilities.

b. Convertible note and bonds

| | 2004 HK\$ million | 2003 HK\$ million |
|---|----------------------|----------------------|
| Repayable within a period | | |
| – not exceeding one year | 9,017 | – |
| – over one year, but not exceeding two years | – | 8,983 |
| – over two years, but not exceeding three years | 3,500 | – |
| – over three years, but not exceeding four years | – | 3,494 |
| | 12,517 | 12,477 |
| Less: Amounts repayable within one year included under current liabilities (note 27(g)) | | |
| Telstra Note due 2005 (note ii) | (461) | – |
| US\$1,100 million 3.5 percent guaranteed convertible bonds due 2005 (note iii) | (8,556) | – |
| | (9,017) | – |
| | 3,500 | 12,477 |
| Representing: | | |
| US\$450 million 1 percent guaranteed convertible bonds due 2007 (note i) | 3,500 | 3,494 |
| Telstra Note due 2005 (note ii) | – | 440 |
| US\$1,100 million 3.5 percent guaranteed convertible bonds due 2005 (note iii) | – | 8,543 |
| | 3,500 | 12,477 |
| Secured | – | 440 |
| Unsecured | 3,500 | 12,037 |

Details of convertible note and bonds of HK\$12,517 million of the Group are presented below:

- i. US\$450 million 1 percent guaranteed convertible bonds due 2007
On January 29, 2002, PCCW Capital No. 2 Limited, an indirect wholly-owned subsidiary of the Company, issued US\$450 million 1 percent guaranteed convertible bonds due 2007, which are unconditionally and irrevocably guaranteed on a joint and several basis by the Company and HKTC. The convertible bonds due 2007 are listed on the Luxembourg Stock Exchange. They are convertible, at the option of their holders, into ordinary shares of the Company at an initial conversion price of HK\$13.5836 (approximately US\$1.7415) per share at any time up to and including the close of business on January 15, 2007. The bonds bear interest at 1 percent per annum, payable semi-annually in arrears on January 29 and July 29 in each year and at maturity, commencing on July 29, 2002. Unless previously redeemed, converted or purchased and cancelled, these bonds will be redeemed in US dollars at 119.383 percent of their principal amount, plus accrued interest on January 29, 2007. The redemption premium is being accrued on a straight-line basis from the date of issuance to the final redemption date of January 29, 2007.
- ii. Telstra Note due 2005
On June 28, 2002, the Company issued the Telstra Note due 2005 to Telstra as part of the disposal of the Group's 40 percent interest in RWC (see note 13(a)). Unless previously redeemed or converted or purchased and cancelled, the Telstra Note due 2005 will be convertible into ordinary shares of the Company on June 30, 2005 or the date which is 30 days after the holder of the Telstra Note due 2005 has given notice to the Company declaring that, amongst other things, an event of default or potential event of default has occurred under the Reach Term Facility, or any financing agreement entered into for the purpose of refinancing all or a significant part of such facility; the Company has ceased to have a controlling interest in HKTC; or if HKTC and its subsidiaries have ceased to carry on as their principal business the provision of fixed line telecommunications services in Hong Kong ("Repayment Date"). Interest is payable at 5 percent per annum compounded on a quarterly basis.

On the Repayment Date, the Telstra Note due 2005, plus accrued interest thereon, will be redeemed through its mandatory conversion into ordinary shares of the Company at a conversion price determined by reference to the volume weighted average price of the ordinary shares of the Company as quoted on the Stock Exchange for the 20 dealing days immediately preceding the Repayment Date. The Company is entitled to early redeem the Telstra Note due 2005 in full by giving notice in writing to Telstra. The redemption amount would be the outstanding principal balance together with any unpaid interest accrued at the date of redemption. The Telstra Note due 2005 may be redeemed at the request of Telstra, if a resolution is passed or an order is made that the Company be wound up or dissolved. The Company's obligations to Telstra as the initial holder of the Telstra Note due 2005 are secured by the Group's equity interest in REACH.

b. Convertible note and bonds (continued)

ii. Telstra Note due 2005 (continued)

On April 15, 2003, the Company redeemed US\$143 million (approximately HK\$1,115 million) of the Telstra Note due 2005 and issued an amended note in the principal amount of approximately US\$54 million ("Amended Telstra Note due 2005") to Telstra. The principal amount of the Amended Telstra Note due 2005 is equal to US\$190 million, being the initial principal amount of the Telstra Note due 2005, plus its accrued and capitalized interest until March 31, 2003 of approximately US\$7 million less US\$143 million. The terms of the Amended Telstra Note due 2005 are substantially the same as those of the Telstra Note due 2005.

As at December 31, 2004, the balance of Amended Telstra Note due 2005 was HK\$461 million and has been included in "Short-term borrowings" in the consolidated balance sheet.

iii. US\$1,100 million 3.5 percent guaranteed convertible bonds due 2005

On December 5, 2000, guaranteed convertible bonds due 2005 with the principal amount of US\$1,100 million were issued by PCCW Capital Limited, a wholly-owned subsidiary of the Company. These bonds are listed on the Luxembourg Stock Exchange. They are convertible into ordinary shares of the Company at US\$4.9804 (approximately HK\$38.8471) subject to adjustments, per share at any time on or after January 5, 2001 and up to the close of business on November 21, 2005 and bear interest at 3.5 percent per annum, payable annually in arrears. Unless previously cancelled, redeemed or converted, these bonds will be redeemed in US dollars at 120.12 percent of the principal amount together with accrued interest on December 5, 2005. If these bonds are fully converted, the Company will be required to issue approximately 221 million ordinary shares. The redemption premium is being accrued on a straight-line basis from the date of issuance to the final redemption date of December 5, 2005. As at December 31, 2004, the balance of these bonds was HK\$8,556 million and has been included in "Short-term borrowings" in the consolidated balance sheet.

As at December 31, 2004, the total redemption premiums for the convertible bonds described in (i) and (iii) above were HK\$1,808 million (2003: HK\$1,326 million), of which HK\$398 million (2003: HK\$1,326 million) and HK\$1,410 million (2003: Nil) have been included in "Other long-term liabilities" and "Accruals, other payables and deferred income" respectively in the consolidated balance sheet.

As at December 31, 2004, none of the above-mentioned convertible note and bonds had been converted into ordinary shares of the Company.

29 PROVISIONS

| | Payment to the Government (note a) | Others | Total |
|--|--|--------------|--------------|
| | HK\$ million | HK\$ million | HK\$ million |
| Balances as at January 1, 2003 | – | 70 | 70 |
| Additional provisions made | – | 123 | 123 |
| Additional provisions included within properties under development | 3,680 | – | 3,680 |
| Provisions used | – | (62) | (62) |
| | 3,680 | 131 | 3,811 |
| Balances as at December 31, 2003 | – | 11 | 11 |
| Additional provisions made | 4,375 | – | 4,375 |
| Additional provisions included within properties under development | (1,675) | (54) | (1,729) |
| | 6,380 | 88 | 6,468 |
| Balances as at December 31, 2004 | (1,496) | (88) | (1,584) |
| Less: Amount classified as current liabilities | 4,884 | – | 4,884 |

- a. Pursuant to the Cyberport Project Agreement, the Government shall be entitled to receive payments of surplus cashflow 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. Provision for payment to the Government is included within properties under development as the amount is considered as part of the development costs of the Cyberport project. The provision is based on estimated sales proceeds of the residential portion 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.

| | 2004 Number of Shares | Nominal Value HK\$ million | 2003 Number of Shares | Nominal Value HK\$ million |
|--|-----------------------------|----------------------------------|-----------------------------|----------------------------------|
| Authorized: | | | | |
| Ordinary shares of HK\$0.05 each | | | | |
| Beginning of year | – | – | 32,000,000,000 | 1,600 |
| Ordinary shares of HK\$0.25 each | | | | |
| Beginning of year | 6,400,000,000 | 1,600 | – | – |
| Effect of increase in nominal value of shares from HK\$0.05 each to HK\$0.25 each (note b) | – | – | (25,600,000,000) | – |
| End of year | 6,400,000,000 | 1,600 | 6,400,000,000 | 1,600 |
| Issued and fully paid: | | | | |
| Ordinary shares of HK\$0.05 each | | | | |
| Beginning of year | – | – | 23,268,770,370 | 1,164 |
| Ordinary shares of HK\$0.25 each | | | | |
| Beginning of year | 5,368,754,074 | 1,343 | – | – |
| Effect of increase in nominal value of shares from HK\$0.05 each to HK\$0.25 each (note b) | – | – | (18,615,016,296) | – |
| Exercise of staff share options (note a) | 5,368,754,074 | 1,343 | 4,653,754,074 | 1,164 |
| Issued for cash (note c) | 5,508,987 | 1 | – | – |
| | – | – | 715,000,000 | 179 |
| End of year | 5,374,263,061 | 1,344 | 5,368,754,074 | 1,343 |

- a. During the year, 5,508,987 staff share options were exercised by the eligible optionholders at their respective subscription prices of HK\$4.35 for a total cash consideration of HK\$23,964,093 resulting in the issue of 5,508,987 new ordinary shares of HK\$0.25 each.
- b. Pursuant to an ordinary resolution passed at an extraordinary general meeting of the Company held on January 7, 2003, every five issued and unissued shares of HK\$0.05 each were consolidated into one new share of HK\$0.25 with effect from January 8, 2003. Following the share consolidation becoming effective on January 8, 2003, the authorized share capital of the Company is HK\$1,600,000,000 divided into 6,400,000,000 shares of HK\$0.25 each, of which 4,653,754,074 shares were in issue and fully paid. The shares after the share consolidation rank pari passu in all respects with each other.
- c. On July 17, 2003, the Company and PCR D entered into a subscription agreement, pursuant to which PCR D conditionally agreed to subscribe for 715,000,000 new shares of HK\$0.25 each at a price of HK\$4.40 per share. The net proceeds from the subscription were approximately HK\$3,068 million, of which HK\$3,060 million was used for debt repayment purpose. The subscription was completed on July 25, 2003.
- d. Subsequent to the balance sheet date, an ordinary resolution was passed at an extraordinary general meeting of the Company held on March 16, 2005, pursuant to which the authorized share capital of the Company was increased to HK\$2,500,000,000 divided into 10,000,000,000 shares of HK\$0.25 each.

All new ordinary shares issued during the year rank pari passu in all respects with the existing shares.

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.

On July 1, 2003 (“the Transfer Date”), all former members of the DB Schemes were transferred to defined contribution schemes operated by the Group for future services to be rendered by them to the Group and the benefit in respect of services rendered before the Transfer Date remained unchanged. In other words, scheme service in determining the level of benefit was frozen as of June 30, 2003 whereas the scheme salary and multiple will continue to grow. This freezing of scheme services was considered as a curtailment event under SSAP 34 but did not result in any accounting impact on the Group’s financial statements for the year ended December 31, 2003.

In December 2004, members of certain DB Schemes were offered an option to receive a commuted lump sum payment in respect of their future monthly pension benefit and 382 members elected this option. This pension buy-out event was considered as a settlement event under SSAP 34. A gain of HK\$131 million was recognized in the consolidated income statement for the year ended December 31, 2004.

The latest independent actuarial valuation of the DB Schemes, in accordance with SSAP 34, was carried out on December 31, 2004 and was prepared by Mr Aaron Wong of Watson Wyatt Hong Kong Limited, fellow of the Canadian Institute of Actuaries and also fellow of the Society of Actuaries, USA, using the projected unit credit method. The actuary was of the opinion that the fair value of the scheme assets was sufficient to cover 92.6 percent (2003: 90.6 percent) of the present value of the defined benefit obligations as at December 31, 2004.

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

| | 2004 | 2003 |
|---|--------------|--------------|
| | HK\$ million | HK\$ million |
| Present value of the defined benefit obligations | 3,984 | 4,567 |
| Fair value of scheme assets | (3,691) | (4,137) |
| | <u>293</u> | <u>430</u> |
| Unrecognized actuarial gains | 24 | 16 |
| | <u>317</u> | <u>446</u> |
| Defined benefit liability in the consolidated balance sheet | 317 | 446 |

As at December 31, 2004, the scheme assets do not include any ordinary shares issued by the Company (2003: fair value of HK\$5 million).

ii. Movements in the net liability recognized in the consolidated balance sheet are as follows:

| | 2004 | 2003 |
|--|--------------|--------------|
| | HK\$ million | HK\$ million |
| Beginning of year | 446 | 586 |
| Contributions paid | - | (243) |
| (Income)/Expense recognized in the consolidated income statement | (129) | 103 |
| | <u>317</u> | <u>446</u> |
| End of year | 317 | 446 |

a. Defined benefit retirement schemes (continued)

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

| | 2004 HK\$ million | 2003 HK\$ million |
|----------------------------------|----------------------|----------------------|
| Current service cost | - | 89 |
| Interest cost | 235 | 234 |
| Expected return on scheme assets | (233) | (222) |
| Net actuarial losses recognized | - | 2 |
| Gain on settlement | (131) | - |
| | (129) | 103 |

The (income)/expense is recognized in the following line item in the consolidated income statement:

| | | |
|--|-------|-----|
| General and administrative expenses – retirement costs for other staff (note 10) | (129) | 103 |
| | 296 | 700 |

Actual return on scheme assets

iv. The principal actuarial assumptions used (expressed as weighted average) are as follows:

| | 2004 | 2003 |
|--|-------|-------|
| Discount rate | 4.00% | 5.25% |
| Expected rate of return on scheme assets | 5.75% | 5.75% |
| Future salary increases | 3.50% | 3.50% |

b. Defined contribution retirement scheme

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

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

Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5 percent 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.

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 ten 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 the 1994 Scheme must not exceed 30 percent 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 percent 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 in its absolute discretion but in any event shall not be less than the highest of (i) the closing price of the shares as stated in the 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.

i. **Movements in share options**

The following presents a summary of the Company’s staff share option scheme for each of the years ended December 31, 2002, 2003 and 2004:

| | Number of options | Weighted average exercise price HK\$ |
|--|----------------------|---|
| Outstanding, January 1, 2002 | 119,242,866 | 21.10 |
| Granted | 14,930,700 | 8.00 |
| Cancelled | (104,600) | 17.45 |
| Lapsed | (24,509,070) | 18.95 |
| Outstanding, December 31, 2002 | 109,559,896 | 19.80 |
| Granted (note iii) | 132,856,200 | 4.35 |
| Exercised (note iv) | - | N/A |
| Cancelled (note v) | - | N/A |
| Lapsed (note vi) | (20,238,568) | 16.55 |
| Outstanding, December 31, 2003 (note ii) | 222,177,528 | 10.87 |
| Granted (note iii) | - | N/A |
| Exercised (note iv) | (5,508,987) | 4.35 |
| Cancelled (note v) | (5,130,000) | 7.85 |
| Lapsed (note vi) | (32,795,825) | 10.30 |
| Outstanding, December 31, 2004 (note ii) | 178,742,716 | 11.26 |

Options to purchase 54,540,325, 66,869,490 and 93,379,227 shares of the Company’s shares at weighted average exercise prices of HK\$20.65, HK\$20.38 and HK\$14.75 were exercisable at December 31, 2002, 2003 and 2004.

The number of share options for the movement in 2002 has been retrospectively adjusted for the five-to-one share consolidation which took place in January 2003.

a. Share option schemes of the Company (continued)

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

| Date of grant | Exercise period | Exercise price HK\$ | Number of options | |
|---------------------------------------|--|------------------------|-------------------|-------------|
| | | | 2004 | 2003 |
| August 17, 1999 to September 15, 1999 | August 17, 2000 to August 17, 2009 | 11.7800 | 18,872,390 | 19,525,188 |
| October 25, 1999 to November 23, 1999 | August 17, 2000 to October 25, 2009 | 22.7600 | 3,432,400 | 4,509,200 |
| February 8, 2000 to March 8, 2000 | February 8, 2001 to February 8, 2010 | 75.2400 | 86,700 | 86,700 |
| August 26, 2000 to September 24, 2000 | May 26, 2001 to August 26, 2010 | 60.1200 | 9,946,600 | 10,308,600 |
| October 27, 2000 to November 25, 2000 | March 15, 2001 to October 27, 2010 | 24.3600 | 11,085,070 | 12,966,082 |
| January 22, 2001 to February 20, 2001 | January 22, 2001 to January 22, 2011 | 16.8400 | 17,195,318 | 23,278,438 |
| February 20, 2001 | February 8, 2002 to February 8, 2011 | 18.7600 | 86,700 | 86,700 |
| April 17, 2001 to May 16, 2001 | May 26, 2001 to April 17, 2011 | 10.3000 | 1,324,360 | 3,542,960 |
| July 16, 2001 to September 15, 2001 | July 16, 2002 to July 16, 2011 | 9.1600 | 648,600 | 689,760 |
| September 27, 2001 | September 27, 2001 to September 7, 2011 | 6.8150 | - | 3,600,000 |
| October 15, 2001 to November 13, 2001 | October 15, 2002 to October 15, 2011 | 8.6400 | 292,000 | 292,000 |
| May 10, 2002 | April 11, 2003 to April 11, 2012 | 7.9150 | 231,700 | 231,700 |
| May 28, 2002 | April 29, 2003 to April 29, 2012 | 9.9500 | - | 5,600,000 |
| June 19, 2002 | June 19, 2002 to May 21, 2012 | 10.0900 | 179,000 | 279,000 |
| August 1, 2002 | August 1, 2003 to July 31, 2012 | 8.0600 | 200,000 | 200,000 |
| October 11, 2002 | October 11, 2002 to October 10, 2007 | 8.6165 | 1,200,000 | 1,200,000 |
| November 13, 2002 | November 13, 2003 to November 12, 2012 | 6.1500 | 6,860,000 | 7,040,000 |
| July 25, 2003 | July 25, 2004 to July 23, 2013 | 4.3500 | 105,911,878 | 127,551,200 |
| September 16, 2003 | September 16, 2004 to September 14, 2013 | 4.9000 | 1,190,000 | 1,190,000 |
| | | | 178,742,716 | 222,177,528 |

iii. Details of share options granted during the year

| Exercise period | Exercise price HK\$ | 2004 | | 2003 | |
|--|------------------------|--------------------------------|-------------------|--------------------------------|-------------------|
| | | Consideration received HK\$ | Number of options | Consideration received HK\$ | Number of options |
| July 25, 2004 to July 23, 2013 | 4.3500 | - | - | - | 131,666,200 |
| September 16, 2004 to September 14, 2013 | 4.9000 | - | - | - | 1,190,000 |
| | | - | - | - | 132,856,200 |

iv. Details of share options exercised during the year

| Exercise period | Exercise price HK\$ | Market value per share at exercise date HK\$ | 2004 | | 2003 | |
|------------------------------------|------------------------|---|---------------------------|-------------------|---------------------------|-------------------|
| | | | Proceeds received HK\$ | Number of options | Proceeds received HK\$ | Number of options |
| July 26, 2004 to December 31, 2004 | 4.3500 | 4.75 to 5.50 | 23,964,093 | 5,508,987 | - | - |
| | | | 23,964,093 | 5,508,987 | - | - |

v. Details of share options cancelled during the year

| Exercise period | Exercise price HK\$ | Number of options | |
|---|------------------------|-------------------|------|
| | | 2004 | 2003 |
| May 26, 2001 to April 17, 2011 | 10.3000 | 1,530,000 | - |
| September 27, 2001 to September 7, 2011 | 6.8150 | 3,600,000 | - |
| | | 5,130,000 | - |

32 EQUITY COMPENSATION BENEFITS (continued)

a. Share option schemes of the Company (continued)

vi. Details of share options lapsed during the year

| Exercise period | Exercise price HK\$ | Number of options | |
|--|------------------------|-------------------|------------|
| | | 2004 | 2003 |
| August 17, 2000 to August 17, 2009 | 11.7800 | 652,798 | 5,223,068 |
| August 17, 2000 to October 25, 2009 | 22.7600 | 1,076,800 | 1,900,000 |
| December 20, 2000 to December 20, 2009 | 33.5600 | - | 216,000 |
| May 26, 2001 to August 26, 2010 | 60.1200 | 362,000 | 1,125,000 |
| March 15, 2001 to October 27, 2010 | 24.3600 | 1,881,012 | 1,780,120 |
| January 22, 2001 to January 22, 2011 | 16.8400 | 6,083,120 | 4,393,140 |
| May 26, 2001 to April 17, 2011 | 10.3000 | 688,600 | 251,240 |
| July 16, 2002 to July 16, 2011 | 9.1600 | 41,160 | 55,000 |
| March 31, 2002 to August 1, 2011 | 16.8400 | - | 800,000 |
| April 29, 2003 to April 29, 2012 | 9.9500 | 5,600,000 | - |
| June 19, 2002 to May 21, 2012 | 10.0900 | 100,000 | 300,000 |
| November 13, 2003 to November 12, 2012 | 6.1500 | 180,000 | 80,000 |
| July 25, 2004 to July 23, 2013 | 4.3500 | 16,130,335 | 4,115,000 |
| | | 32,795,825 | 20,238,568 |

vii. The following table summarizes information about fixed stock options outstanding at December 31, 2004

| Range of exercise prices | Number outstanding at December 31, 2004 | Options outstanding | | Options exercisable | |
|--------------------------|---|--|--|--|--|
| | | Weighted average remaining contractual life (years) | Weighted average exercise price HK\$ | Number of options exercisable at December 31, 2004 | Weighted average exercise price HK\$ |
| HK\$ 4.01 to 5.04 | 107,101,878 | 8.57 | 4.36 | 32,327,596 | 4.36 |
| 5.05 to 7.54 | 6,860,000 | 7.87 | 6.15 | 4,573,307 | 6.15 |
| 7.55 to 11.29 | 4,075,660 | 5.50 | 9.25 | 3,775,426 | 9.28 |
| 11.30 to 16.79 | 18,872,390 | 4.63 | 11.78 | 18,872,390 | 11.78 |
| 16.80 to 25.04 | 31,799,488 | 5.85 | 20.11 | 27,435,848 | 20.62 |
| 55.05 to 70.04 | 9,946,600 | 5.65 | 60.12 | 6,307,960 | 60.12 |
| 70.05 to 85.00 | 86,700 | 5.11 | 75.24 | 86,700 | 75.24 |
| Total | 178,742,716 | | | 93,379,227 | |

viii. The following table summarizes information about fixed stock options granted for the years ended December 31, 2003 and 2004.

| Options granted | 2004 | | 2003 | |
|---|--|--|--|--|
| | Weighted average fair value at grant date HK\$ | Weighted average exercise price HK\$ | Weighted average fair value at grant date HK\$ | Weighted average exercise price HK\$ |
| Exercise price of the options equals to market price of the stock at grant date | - | - | 2.68 | 4.36 |

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 a scheme (the "Purchase Scheme") under which selected employees are awarded shares purchased in the market. On November 12, 2002, the Company approved the establishment of a scheme (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. The maximum aggregate number of shares that can be awarded under the two schemes is limited to one percent 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 | |
|--|------------------|--------------|
| | 2004 | 2003 |
| Beginning of year | 5,771,000 | 7,935,205 |
| Purchases from the market by the trustee at average market price of HK\$4.35 per share | - | 834,800 |
| Awards of vested shares to employees | (2,078,600) | (2,999,005) |
| End of year | 3,692,400 | 5,771,000 |
| | | |
| | 2004 | 2003 |
| | HK\$ million | HK\$ million |
| Fair value of shares held as at December 31 | 18 | 29 |
| Fair value, on date of purchase, of shares purchased from the market | - | 4 |
| Fair value of shares awarded to employees during the year | 10 | 16 |
| Amounts recognized in the consolidated balance sheet as prepaid expenses | 7 | 17 |
| Amounts recognized in the consolidated income statement as staff costs | 10 | 12 |

c. Employees' rights to invest in shares of JALECO

In August 2000, the Group established an incentive scheme under which certain employees of the Group were granted options to acquire equity interests in JALECO. The exercise price of the options to the employees was set at a price not less than the fair value of the shares at the time of issue. Shares of JALECO have been trading below the cost of the options since the first exercise date. As at December 31, 2003 and up to November 8, 2004, a total number of 4,021,000 shares of JALECO were held by the incentive scheme which was operated under a limited partnership arrangement and no options were exercised by the employees. On November 8, 2004, the limited partnership was dissolved and the 4,021,000 shares of JALECO were transferred to Pacific Century CyberWorks Japan Limited, a wholly-owned subsidiary of the Company.

d. Share option scheme of PCPD

A new share option scheme (the "2003 Scheme") was approved and adopted on March 17, 2003 by PCPD. The 2003 Scheme is valid and effective for a period of ten years after the date of adoption.

The purpose of the 2003 Scheme is to enable PCPD to grant options to any directors (including executive directors, non-executive directors and independent non-executive directors) of PCPD and its subsidiaries (the "PCPD Group") and full-time or part-time employees (including executives or officers) of the PCPD Group and any advisors and consultants providing advisory, consultancy or other services to the PCPD Group, distributors, contractors, suppliers, agents, customers, business partners, joint venture business partners, promoters, service providers of any member of the PCPD Group and those staff under secondment to the PCPD Group who the Board of PCPD considers, in its sole discretion, have contributed or will contribute to the PCPD Group ("Participant") as incentives or rewards for their contribution to the PCPD Group and to encourage Participants to work towards enhancing the value of PCPD and its shares for the benefit of PCPD and its shareholders as a whole.

d. Share option scheme of PCPD (continued)

The maximum number of shares of PCPD in respect of which options may be granted under the 2003 Scheme and any other share option schemes of PCPD is not permitted to exceed 30 percent in nominal amount of the issued share capital of PCPD from time to time. The maximum number of shares in respect of which options may be granted to a specifically identified single grantee under the 2003 Scheme shall not (when aggregated with any shares subject to any other share option schemes of PCPD) in any twelve month period exceed one percent of the shares in issue.

Where any grant of options to a substantial shareholder or an independent non-executive director of PCPD, or any of their respective associates, would result in the shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled or outstanding) to such person in the twelve month period up to and including the date of grant:

- (i) representing in aggregate over 0.1 percent of the shares in issue; and
- (ii) having an aggregate value, based on the closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange on the date of grant, in excess of HK\$5 million,

such grant of options shall be subject to prior approval by resolution of the shareholders who are not connected persons of PCPD pursuant to the Listing Rules.

Consideration to be paid on each grant of options is HK\$1 and an offer remains open for the acceptance by Participant concerned for a period of 28 days from date of grant or otherwise stated in the offer letter. The option period is a period to be notified by the Board of PCPD to each grantee at the time of making an offer which shall not expire later than ten years from the date of grant. The exercise price is determined by the Board of PCPD, and shall not be less than the greatest of (i) the closing price of the shares of PCPD as stated in the daily quotations sheet issued by the Stock Exchange on the date of grant; (ii) the average closing price of the shares of PCPD for the five business days immediately preceding the date of grant; and (iii) the nominal value of the share of PCPD.

i. Movements in share options

The following presents a summary of the share option scheme of PCPD for each of the years ended December 31, 2003 and 2004:

| | Number of options | Weighted average exercise price HK\$ |
|--|----------------------|--|
| Outstanding, December 31, 2002 and 2003 | - | N/A |
| Granted (note ii) | 10,000,000 | 2.375 |
| Outstanding, December 31, 2004 (note ii) | 10,000,000 | 2.375 |

Options to purchase 10,000,000 shares of the Company's shares at weighted average exercise prices of HK\$2.375 were exercisable at December 31, 2004.

ii. Details of share options granted during the year

| Date of grant | Exercise period | Exercise price HK\$ | 2004 | | 2003 | |
|-------------------|--|------------------------|-----------------------------------|----------------------|-----------------------------------|----------------------|
| | | | Consideration received HK\$ | Number of options | Consideration received HK\$ | Number of options |
| December 20, 2004 | December 20, 2004 to December 19, 2014 | 2.375 | 2 | 10,000,000 | - | - |
| | | | 2 | 10,000,000 | - | - |

iii. The following table summarizes information about fixed stock options granted for the years ended December 31, 2003 and 2004.

| Options granted | 2004 | | 2003 | |
|---|--|--|--|--|
| | Weighted average fair value at grant date HK\$ | Weighted average exercise price HK\$ | Weighted average fair value at grant date HK\$ | Weighted average exercise price HK\$ |
| Exercise price of the options equals to market price of the stock at grant date | 1.29 | 2.375 | - | - |

- a. Pursuant to a special resolution passed at an extraordinary general meeting of the Company held on May 19, 2004 and the subsequent order of the High Court of Hong Kong (the "High Court") made on August 3, 2004, the entire amount of HK\$173,464,615,915 then standing to the credit of the share premium account of the Company was cancelled in accordance with the provisions of the Hong Kong Companies Ordinance (the "Capital Reduction").

Out of the credit arising from the Capital Reduction, HK\$152,932,345,321 was applied to eliminate the accumulated losses of the Company as at June 30, 2004. An undertaking was given by the Company in connection with the Capital Reduction. Pursuant to the undertaking, the balance of HK\$20,532,270,594 of the credit arising from the Capital Reduction and any sum received by the Company in respect of its investments against which provision for impairment loss or diminution in value had been made up to June 30, 2004 (or, in the case of a revaluation or disposal of any of such investment, sums revalued or realized in excess of the written down value of the relevant investment as at June 30, 2004) up to an aggregate amount of HK\$152,932,345,321 shall be credited to a special capital reserve in the accounting records of the Company. While any debt or liability of, or claim against, the Company at the date of the Capital Reduction remains outstanding and the person entitled to the benefit thereof has not agreed otherwise, the special capital reserve shall not be treated as realized profit and (for so long as the Company remains a listed company) shall be treated as an undistributable reserve for the purposes of section 79C of the Hong Kong Companies Ordinance. The undertaking, however, is subject to the following provisos:-

- (i) the amount standing to the credit of the special capital reserve may be applied for the same purposes as a share premium account may be applied or may be reduced or extinguished by the aggregate of any increase in the Company's issued share capital or share premium account resulting from an issue of shares for cash or other new consideration or upon a capitalization of distributable reserves after the date of the Capital Reduction;
 - (ii) an amount of up to HK\$20,532,270,594 of the special capital reserve may be applied by the Company for the purpose of eliminating any loss sustained after June 30, 2004, provided that if subsequent to the elimination any of the Company's investments against which provision for impairment loss or diminution in value has been made for the period respecting the loss shall be revalued in excess of their written down value at the end of that period or realized for a sum in excess of such written down value, or any sum is received by the Company in respect of such investment, then a sum equal to the amount of the revaluation or the sum realized in excess of the written down value or the sum received by the Company in respect of such investment as aforesaid up to an aggregate amount of HK\$20,532,270,594 or the total amount of the non-permanent losses sought to be eliminated (whichever is less) shall be re-credited to the special capital reserve; and
 - (iii) upon the coming into force of one or more guarantees to be issued by Standard Chartered Bank (HK) Limited in the form scheduled to the undertaking, the Company will be released from the undertaking to the extent of an amount equal to the sum so guaranteed less the fees and expenses incurred in issuing the relevant guarantee(s), with the result that such amount of the special capital reserve would thereby become distributable.
- b. Pursuant to resolutions of the Board of the Company passed on September 29, 2004 and December 30, 2004, losses for the periods from July 1, 2004 to September 29, 2004 and from September 30, 2004 to December 30, 2004 in the amount of HK\$284,227,183 and HK\$281,932,052 respectively was eliminated against the special capital reserve by the Company.
- c. During the year, a subsidiary of the Company, against which provision for impairment loss for diminution in value had been made in prior years, was liquidated. The amount realized from the liquidation exceeded the written down value by HK\$13,681,249. In accordance with the undertaking given by the Company to the High Court, as summarized in note (a) above, the Company is required to credit such amount to the special capital reserve.

34 DEFERRED TAXATION

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

| | 2004 | | | | | Total HK\$ million |
|--|--|--|--|---|------------------------|-----------------------|
| | Accelerated tax depreciation HK\$ million | Valuation adjustment resulting from acquisition of subsidiaries HK\$ million | Leasing partnership HK\$ million | Revaluation of properties HK\$ million | Others HK\$ million | |
| Beginning of year | 1,725 | 490 | 469 | 471 | (129) | 3,026 |
| (Credited)/Charged to consolidated income statement (note 15) | (171) | (30) | (152) | 42 | 52 | (259) |
| Credited to property revaluation reserve | - | - | - | (188) | - | (188) |
| Exchange differences | - | - | - | - | (4) | (4) |
| End of year | 1,554 | 460 | 317 | 325 | (81) | 2,575 |

| | 2003 | | | | | Total HK\$ million |
|--|--|--|--|---|------------------------|-----------------------|
| | Accelerated tax depreciation HK\$ million | Valuation adjustment resulting from acquisition of subsidiaries HK\$ million | Leasing partnership HK\$ million | Revaluation of properties HK\$ million | Others HK\$ million | |
| Beginning of year | 1,840 | 485 | 467 | 451 | (78) | 3,165 |
| (Credited)/Charged to consolidated income statement (note 15) | (115) | 5 | 2 | 20 | (57) | (145) |
| Exchange differences | - | - | - | - | 6 | 6 |
| End of year | 1,725 | 490 | 469 | 471 | (129) | 3,026 |

| | 2004 HK\$ million | 2003 HK\$ million |
|---|----------------------|----------------------|
| Net deferred tax assets recognized in the consolidated balance sheet | (38) | - |
| Net deferred tax liabilities recognized in the consolidated balance sheet | 2,613 | 3,026 |
| | 2,575 | 3,026 |

- b. Deferred income tax assets are recognized for tax loss carry forwards 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 of HK\$14,846 million (2003: HK\$12,643 million) to carry forward for deduction against future taxable income. Estimated tax losses of HK\$1,916 million (2003: HK\$1,818 million) will expire within 1-5 years from December 31, 2004. The remaining portion of the tax losses, mainly relating to Hong Kong companies, can be carried forward indefinitely.

a. Reconciliation of profit/(loss) before taxation to net cash inflow from operating activities

| | 2004 HK\$ million | 2003 HK\$ million | 2002 HK\$ million |
|--|----------------------|----------------------|----------------------|
| Profit/(Loss) before taxation | 2,639 | (5,151) | (6,482) |
| Adjustment for: | | | |
| Losses on disposal of interests in RWC and MobileOne, net | – | – | 1,433 |
| Impairment loss on interest in REACH | – | 4,159 | 8,263 |
| Impairment loss on interest in another jointly controlled company | – | 227 | – |
| Impairment loss on interest in other jointly controlled companies and associates | 16 | 78 | – |
| Provision for inventory obsolescence | 9 | 70 | 26 |
| Write-off of intangible assets | – | – | 8 |
| Interest income | (57) | (132) | (164) |
| Interest expense | 1,852 | 2,020 | 1,948 |
| Finance charges | 124 | 217 | 226 |
| Depreciation | 2,379 | 2,674 | 2,623 |
| Net unrealized holding losses/(gains) on other investments | 25 | (8) | 142 |
| Realized (gains)/losses on disposal of other investments | – | (8) | 182 |
| Realized gains on disposal of investments in jointly controlled companies and associates | (3) | (8) | (34) |
| Realized gains on disposal of investment securities | (19) | (87) | (56) |
| Gain on deemed disposal of interest in subsidiaries | (72) | – | – |
| Gain on disposal of shares of a subsidiary, net of expenses | (563) | – | – |
| Provision for impairment of investments | 187 | 258 | 581 |
| Provision for impairment of fixed assets | 29 | 1,167 | 232 |
| Provision for impairment of multimedia business related assets | – | 301 | 309 |
| Provision for impairment of game business related assets | – | 893 | – |
| Provision for impairment of other non-current assets | 11 | 91 | – |
| Release of provision for an onerous contract | – | – | (464) |
| (Gain)/Loss on disposal of fixed assets | (56) | 145 | 76 |
| Provision for doubtful debts | 45 | 115 | 148 |
| Dividend income | (11) | – | – |
| Amortization of intangible assets | 97 | 132 | 112 |
| Amortization of goodwill | 63 | 82 | 85 |
| Amortization of business development costs | 3 | – | 12 |
| Amortization of premium received from equity options | (5) | (12) | (32) |
| Share of results of jointly controlled companies and associates | (148) | 826 | (831) |
| Gain on termination and amendment of the terms of cross currency swap contracts | – | (532) | (332) |
| Operating profit before changes in working capital | 6,545 | 7,517 | 8,011 |

a. Reconciliation of profit/(loss) before taxation to net cash inflow from operating activities (continued)

| | 2004 HK\$ million | 2003 HK\$ million | 2002 HK\$ million |
|--|----------------------|----------------------|----------------------|
| Operating profit before changes in working capital | 6,545 | 7,517 | 8,011 |
| Decrease/(Increase) in operating assets | | | |
| - properties under development | (2,480) | 286 | (2,204) |
| - inventories | 58 | (123) | (135) |
| - accounts receivable | (113) | 54 | (32) |
| - prepayment, deposits and other current assets | 72 | (245) | 54 |
| - sales proceeds held in stakeholders' accounts | (2,016) | (2,402) | - |
| - restricted cash | 1,797 | (2,701) | - |
| - amounts due from related companies | 94 | (25) | 204 |
| Increase/(Decrease) in operating liabilities | | | |
| - accruals, accounts payable, provisions, other payables and deferred income | 2,488 | 3,448 | 159 |
| - amount due to minority shareholders of subsidiaries | - | - | 5 |
| - gross amounts due to customers for contract work | 5 | (10) | (38) |
| - amounts due to related companies | (49) | (322) | (446) |
| - advances from customers | (106) | (63) | (277) |
| Cash generated from operations | 6,295 | 5,414 | 5,301 |
| Interest paid | (338) | (294) | (221) |
| Interest received | 41 | 93 | 82 |
| Tax paid | | | |
| - Hong Kong profits tax paid | (1,233) | (1,371) | (1,243) |
| - overseas tax paid | - | (26) | (2) |
| Net cash inflow from operating activities | 4,765 | 3,816 | 3,917 |

b. Acquisitions of subsidiaries

| | 2004 HK\$ million | 2003 HK\$ million | 2002 HK\$ million |
|--|----------------------|----------------------|----------------------|
| Net assets acquired: | | | |
| Fixed assets | – | 25 | – |
| Intangible assets | 5 | – | – |
| Investment in unconsolidated subsidiaries | 55 | – | – |
| Inventories | – | 3 | – |
| Accounts receivable, prepayments, deposits and other assets | 70 | 161 | – |
| Cash and bank balances | – | 304 | – |
| Accounts payable, accruals and other payables | – | (135) | – |
| Minority interests | – | 4 | – |
| | 130 | 362 | – |
| Goodwill arising on acquisition | 89 | 55 | – |
| | 219 | 417 | – |
| Satisfied by: | | | |
| Interest in jointly controlled companies | – | 130 | – |
| Interest in associates | – | 112 | – |
| Interest in certain subsidiaries | 209 | – | – |
| Setting off shareholder's loan | – | 23 | – |
| Cash from internal resources | 10 | 152 | – |
| | 219 | 417 | – |
| Analysis of the net (outflow)/inflow of cash and cash equivalents in respect of the acquisition of subsidiaries: | | | |
| Cash | (10) | (152) | – |
| Cash and bank balances acquired | – | 304 | – |
| Net cash (outflow)/inflow in respect of acquisition of subsidiaries | (10) | 152 | – |

c. Analysis of cash and cash equivalents

| | 2004 HK\$ million | 2003 HK\$ million | 2002 HK\$ million |
|---|----------------------|----------------------|----------------------|
| Cash and bank balances | 4,413 | 8,248 | 8,638 |
| Bank loans and overdrafts | (15) | (12) | (37) |
| Restricted cash | (904) | (2,701) | (720) |
| Cash and cash equivalents as at December 31 | 3,494 | 5,535 | 7,881 |

d. Major non-cash transaction

During 2004, the Group disposed of its interest in certain investment properties, the Cyberport project and related property and facilities management companies to DFG for an aggregate consideration of HK\$6,557 million. Such consideration was satisfied by the issuance of the then 93.42 percent of the increased share capital of DFG of approximately HK\$2,967 million and convertible notes of HK\$3,590 million respectively. Details of this transaction are set out in note 1(c).

36 NET LEASE PAYMENTS RECEIVABLE

A company within the Group is a limited partner in a number of limited partnerships, which own and lease assets to third parties.

| | 2004 HK\$ million | 2003 HK\$ million |
|---|----------------------|----------------------|
| The net investment in relation to these finance leases comprises: | | |
| Net lease payments receivable | 377 | 454 |
| Less: Current portion of net lease payments receivable (included in "Prepayments, deposits and other current assets" in the consolidated balance sheet) | (90) | (77) |
| | <u>287</u> | <u>377</u> |

Non-recourse finance of HK\$1,573 million (2003: HK\$2,302 million) has been offset against net rentals receivable in arriving at the above net investment in finance leases.

37 FINANCIAL INSTRUMENTS**a. Equity options**

In 2002, the Group entered into certain derivative contracts, in the form of equity swap and equity option contracts, with a third party with the effect of entering into forward sales of a portion of certain quoted other investments plus written call options held by the counterparty for the remaining portion of those quoted other investments. The deemed forward sales effectively eliminated the Group's exposure to market price fluctuation and accordingly, the underlying quoted other investments were carried at the deemed forward price as at December 31, 2002. An advance receipt of approximately HK\$187 million for the deemed forward sales was received in 2002. The amount was included in "Other long-term liabilities" in the consolidated balance sheet and is interest bearing at commercial rate. The Group recognized a gain of approximately HK\$10 million for marking the quoted other investments to the deemed forward price and the gain was reflected in "Net gains on investments" in the consolidated income statement for the year ended December 31, 2002. The Group also received premiums of approximately HK\$25 million for the written call options with notional amount of approximately HK\$71 million. The premiums received were recorded as deferred income and are being amortized into income on a straight-line basis over the life of the call options. The underlying quoted other investments are carried at market value at each balance sheet date and any unrealized holding gains or losses are recognized in the consolidated income statement in the period as it arises. The underlying quoted other investments for both the deemed forward sales and written call options have been placed as collateral for the above equity swap and equity option transactions (note 27(d)). No new derivative contract of this nature was entered into by the Group in 2004 and 2003.

Apart from the above, the Group had no other outstanding written equity call options as at December 31, 2004 and 2003. Other than the equity options as mentioned in the previous paragraph, the Group did not receive premiums on writing new equity options in 2004 and 2003.

The notional amounts of the outstanding equity option contracts indicate the volume of transactions outstanding at the balance sheet date and do not represent amounts at risk.

b. Interest rate options

The Group entered into interest rate options to manage its interest rate risk. As at December 31, 2004, the total notional amount of such instruments was HK\$53 million (2003: HK\$68 million).

The notional amounts of the outstanding interest rate options indicate the volume of transactions outstanding at the balance sheet date and do not represent amounts at risk.

c. Swaps

As at December 31, 2004, the Group had outstanding cross currency swap contracts of US\$5,956 million and Yen 30,000 million (2003: US\$2,756 million and Yen 30,000 million) at various rates totaling approximately HK\$46,457 million and HK\$1,950 million (2003: HK\$21,497 million and HK\$1,950 million), respectively, to manage the Group's exposure to foreign currencies and interest rate fluctuations.

In 2003, the Group recognized a gain of approximately HK\$532 million (2002: HK\$332 million) from the termination of certain cross currency swap contracts and the amendment of the terms of another cross currency swap contract. The gain was reflected under "Net gains on investments" in the consolidated income statement (see note 7).

a. Capital

| | 2004 HK\$ million | 2003 HK\$ million |
|--|----------------------|----------------------|
| Authorized and contracted for with payments due | | |
| – not exceeding one year | 1,148 | 2,514 |
| – over one year, but not exceeding two years | 680 | 481 |
| – over two years, but not exceeding three years | 76 | 25 |
| – over three years, but not exceeding four years | 2 | 4 |
| – over four years, but not exceeding five years | 3 | 1 |
| | <hr/> 1,909 | <hr/> 3,025 |
| Authorized but not contracted for | 3,077 | 3,480 |
| | <hr/> 4,986 | <hr/> 6,505 |

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

| | 2004 HK\$ million | 2003 HK\$ million |
|-------------------------------|----------------------|----------------------|
| Investments | 236 | 274 |
| Investment properties | 85 | 82 |
| Property development (note i) | 3,954 | 5,637 |
| Acquisition of fixed assets | 707 | 512 |
| Others | 4 | – |
| | <hr/> 4,986 | <hr/> 6,505 |

- i. The capital commitment as disclosed above represented management's best estimate of total construction costs of the Cyberport project, which has been revised from the total construction costs since the Cyberport Project Agreement was entered into on May 17, 2000.

b. Operating leases

As at December 31, 2004, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

Land and buildings

| | 2004 HK\$ million | 2003 HK\$ million |
|---------------------------------|----------------------|----------------------|
| Within 1 year | 143 | 148 |
| After 1 year but within 5 years | 209 | 259 |
| After 5 years | 76 | 198 |
| | <hr/> 428 | <hr/> 605 |

Equipment

| | 2004 HK\$ million | 2003 HK\$ million |
|---------------------------------|----------------------|----------------------|
| Within 1 year | 144 | 44 |
| After 1 year but within 5 years | 56 | – |
| After 5 years | 10 | – |
| | <hr/> 210 | <hr/> 44 |

b. Operating leases (continued)

Future minimum payments for the next five years, under the non-cancellable operating leases with initial or remaining terms of one year or more, consist of the following at December 31, 2004:

| | HK\$ million |
|------------|--------------|
| 2005 | 287 |
| 2006 | 133 |
| 2007 | 65 |
| 2008 | 35 |
| 2009 | 32 |
| Thereafter | 86 |
| | <hr/> |
| | 638 |
| | <hr/> |

c. Others

As at December 31, 2004, the Group had outstanding forward foreign exchange contracts to buy US\$141 million (2003: US\$910 million) at various rates totaling approximately HK\$1,090 million (2003: HK\$7,100 million).

As set out in note 3(c) above, on June 17, 2004, the Company agreed to provide REACH with a revolving working capital loan facility up to US\$25 million (approximately HK\$195 million). The facility is secured and will be repayable in full by REACH on December 31, 2007. The interest receivable under this facility is LIBOR plus 250 basis points. As at December 31, 2004, none of this working capital loan facility has been drawn down by REACH.

In addition, the Group has outstanding commitment of HK\$586 million as at December 31, 2004 (2003: Nil) in relation to the rights to broadcast certain TV contents, under which the payments are due:

| | 2004 HK\$ million | 2003 HK\$ million |
|--|----------------------|----------------------|
| Within one year | 242 | – |
| Over one year, but not exceeding two years | 237 | – |
| Over two years, but not exceeding three years | 103 | – |
| Over three years, but not exceeding four years | 3 | – |
| Over four years, but not exceeding five years | 1 | – |
| | <hr/> | |
| | 586 | – |
| | <hr/> | |

39 CONTINGENT LIABILITIES

| | 2004 HK\$ million | 2003 HK\$ million |
|---|----------------------|----------------------|
| Performance guarantee | 129 | 130 |
| Tender guarantee | 1 | 2 |
| Advance payment guarantee | 6 | 9 |
| Guarantees given to banks in respect of credit facilities granted to an associate | – | 85 |
| Guarantee in lieu of cash deposit | 5 | 16 |
| Staff mortgage loan guarantee | 1 | 1 |
| Employee compensation | 3 | – |
| Guarantee indemnity | 11 | 12 |
| Corporate guarantee | 92 | – |
| | 248 | 255 |
| Expiry dates | | |
| – not exceeding one year | 110 | 69 |
| – over one year, but not exceeding two years | 12 | 64 |
| – over two years, but not exceeding three years | 20 | 3 |
| – over three years, but not exceeding four years | 1 | 19 |
| – over five years | 105 | 100 |
| | 248 | 255 |

On April 23, 2002, a writ of summons was issued against PCCW-HKT Limited (“HKT”), an indirect wholly-owned subsidiary of the Company, by New Century Infocomm Tech Co., Ltd. for HKT’s failure to purchase 6,522,000 shares of Taiwan Telecommunication Network Services Co., Ltd. (“TTNS”), an indirect subsidiary of the Company, pursuant to an option agreement entered into on July 24, 2000. The total claim against HKT amounted to approximately HK\$103 million (NT\$418 million), being the purchase price of shares in TTNS, contractual interest for the period from January 1, 2001 to January 2, 2002 at 6.725 percent per annum and interest on the due amount pursuant to Sections 48 and 49 of the High Court Ordinance, Cap. 4. However, this figure should be reduced by the current market value of the shares in TTNS which would be transferred to HKT in the event that the claimants are successful in their claim. A defense was filed by HKT on May 29, 2002 and proceedings are ongoing. Based on legal advice received, the directors consider that HKT has valid defenses and therefore no provision has been made.

40 BANKING FACILITIES

Aggregate banking facilities as at December 31, 2004 were HK\$11,300 million (2003: HK\$17,714 million) of which the unused facilities amounted to HK\$11,286 million (2003: HK\$12,745 million).

A summary of major borrowings is set out in note 28(a).

Security pledged for certain banking facilities includes:

| | 2004 HK\$ million | 2003 HK\$ million |
|--------------------------|----------------------|----------------------|
| Investment properties | – | 3,737 |
| Interest in a subsidiary | – | 312 |
| Land and buildings | 33 | – |
| Bank deposit | 15 | 119 |
| Investment securities | 19 | 20 |
| | 67 | 4,188 |

As at December 31, 2004, an indirect subsidiary of the Company has been granted a banking facility amounting to approximately HK\$20 million (2003: Nil) from a bank for the purpose of providing guarantee to the Government. Such facility was secured by bank deposit placed by the subsidiary from time to time to secure the amount of guarantee issued by the bank. The bank deposit was included in “Restricted cash” in the consolidated balance sheet (see note 27(b)) as at December 31, 2004.

41 POST BALANCE SHEET EVENTS

The following events occurred subsequent to December 31, 2004 up to the date of approval of these financial statements by the Board:

- a. On January 19, 2005, China Netcom Group and CNC(BVI) entered into a conditional subscription agreement (the "Subscription Agreement") with the Company. Pursuant to the Subscription Agreement, CNC(BVI) conditionally agreed to subscribe for 1,343,571,766 new ordinary shares of the Company of HK\$0.25 each at a price of HK\$5.90 per share (the "Subscription"), representing approximately 20 percent of the Company's issued share capital as enlarged by the allotment and issue of the subscription shares. Under the terms of the Subscription Agreement, China Netcom Group has been granted certain rights, including the right to nominate three directors and China Netcom Group's anti-dilution rights. The proceeds of the Subscription are approximately HK\$7,927 million (before deduction of expenses). Subject to the Group's capital investment procedures and the identification of appropriate investment opportunities, the Company intends to invest up to HK\$5,000 million of these proceeds in telecommunications opportunities in the PRC. The remainder will be used for reducing the Group's debt and general corporate purposes. The Subscription Agreement and related matters were approved by the Company's shareholders pursuant to an ordinary resolution passed at an extraordinary general meeting of the Company held on March 16, 2005.
- b. On February 24, 2005, the Company elected to convert Tranche A of the convertible note with the principal amount of HK\$1,170 million, which was issued by PCPD to the Company on May 10, 2004 as set out in note 1(c), into new shares of PCPD of HK\$0.10 each at HK\$2.25 per PCPD share. Upon the exercise of conversion rights by the Company effective March 1, 2005, PCPD allotted and issued 520,000,000 new PCPD shares to Asian Motion (as directed by the Company), which rank *pari passu* in all respects with the existing shares of PCPD. Immediately after the conversion and as at the date of approval of these financial statements by the Board, the Company holds an equity interest of approximately 61.66% in the issued share capital of PCPD.
- c. Pursuant to the Property Sale and Purchase Agreement as set out in note 19, the disposal by Partner Link of PCCW Tower was completed on February 7, 2005 such that the entire cash consideration of HK\$2,808 million was all received by Partner Link and the assignment of PCCW Tower to the purchaser was completed on February 7, 2005. Taking into account the adoption of Hong Kong Accounting Standard ("HKAS") 40 "Investment Property", which is effective for accounting periods beginning on or after January 1, 2005, and the related transitional provisions, the disposal is estimated to realize a gain of approximately HK\$17 million to the Group.
- d. Pursuant to an ordinary resolution passed at an extraordinary general meeting of the Company held on March 16, 2005, the authorized share capital of the Company was increased to HK\$2,500,000,000 divided into 10,000,000,000 shares of HK\$0.25 each.

RECENT HK GAAP ACCOUNTING STANDARDS

- a. The HKICPA has undertaken to converge by January 1, 2005 all Hong Kong Financial Reporting Standards (“HKFRSs”) with International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board. As a result, the HKICPA has issued a number of new and revised HKFRSs, including HKASs, HKAS Interpretations (“HKAS-INTs”) and HKFRSs, which were aligned with the requirements of IFRSs in effect as at December 31, 2004 in all material respects and are effective for accounting periods beginning on or after January 1, 2005. As a consequence, the corresponding SSAPs and Interpretations are superseded effective January 1, 2005. The applicable HKFRSs required to be adopted by the Group for the year ending December 31, 2005 are set out below.

| <u>HKFRSs issued</u> | | <u>Standards superseded</u> | |
|----------------------|---|-----------------------------|--|
| HKAS 1 | Presentation of Financial Statements | SSAP 1 | Presentation of financial statements |
| HKAS 2 | Inventories | SSAP 22 | Inventories |
| HKAS 7 | Cash Flow Statements | SSAP 15 | Cash flow statements |
| HKAS 8 | Accounting Policies, Changes in Accounting Estimates and Errors | SSAP 2 | Net profit or loss for the period, fundamental errors and changes in accounting policies |
| HKAS 10 | Events After the Balance Sheet Date | SSAP 9 | Events after the balance sheet date |
| HKAS 11 | Construction Contracts | SSAP 23 | Construction contracts |
| HKAS 12 | Income Taxes | SSAP 12 | Income taxes |
| HKAS 14 | Segment Reporting | SSAP 26 | Segment reporting |
| HKAS 16 | Property, Plant and Equipment | SSAP 17 | Property, plant and equipment |
| HKAS 17 | Leases | SSAP 14 | Leases |
| HKAS 18 | Revenue | SSAP 18 | Revenue |
| HKAS 19 | Employee Benefits | SSAP 34 | Employee benefits |
| HKAS 21 | The Effects of Changes in Foreign Exchange Rates | SSAP 11 | Foreign currency translation |
| HKAS 23 | Borrowing Costs | SSAP 19 | Borrowing costs |
| HKAS 24 | Related Party Disclosures | SSAP 20 | Related party disclosures |
| HKAS 27 | Consolidated and Separate Financial Statements | SSAP 32 | Consolidated financial statements and accounting for investments in subsidiaries |
| HKAS 28 | Investment in Associates | SSAP 10 | Accounting for investments in associates |
| HKAS 31 | Interests in Joint Ventures | SSAP 21 | Accounting for interests in joint ventures |
| HKAS 32 | Financial Instruments: Disclosure and Presentation | SSAP 24 | Accounting for investments in securities |
| HKAS 33 | Earnings Per Share | SSAP 5 | Earnings per share |
| HKAS 36 | Impairment of Assets | SSAP 31 | Impairment of assets |
| HKAS 37 | Provisions, Contingent Liabilities and Contingent Assets | SSAP 28 | Provisions, contingent liabilities and contingent assets |
| HKAS 38 | Intangible Assets | SSAP 29 | Intangible assets |
| HKAS 39 | Financial Instruments: Recognition and Measurement | SSAP 24 | Accounting for investments in securities |
| HKAS 40 | Investment Property | SSAP 13 | Accounting for investment properties |
| HKFRS 2 | Share-based Payment | — | |
| HKFRS 3 | Business Combinations | SSAP 30 | Business combinations |
| HKFRS 5 | Non-current Assets held for Sale and Discontinued Operations | SSAP 33 | Discontinuing operations |
| HKAS-INT 21 | Income Taxes – Recovery of Revalued Non-Depreciable Assets | Interpretation 20 | Income taxes – Recovery of revalued non-depreciable assets |

The adoption of HKAS 1, 2, 7, 8, 10, 11, 12, 14, 16, 17, 18, 19, 21, 23, 24, 27, 28, 31, 33, 36, 37 and HKFRS 5 is not expected to result in substantial changes to the Group’s existing accounting policies under HK GAAP. In summary:

- i. HKAS 1 will affect certain presentations of accounts in the consolidated balance sheet, consolidated income statement and consolidated statement of changes in equity;
- ii. HKAS 2, 8, 16, 21, 28 and 36 will affect certain disclosures in the financial statements;
- iii. HKAS 7, 10, 11, 12, 14, 17, 18, 19, 23, 27, 31, 33, 37 and HKFRS 5 are not expected to have any material impact as the Group’s existing accounting policies already comply with the standards in all material respects; and
- iv. HKAS 24 will affect the identification of related parties and the disclosure of related party transactions.

For the HKFRSs set out below, the Group is currently assessing the potential impact but is not yet in a position to state whether these HKFRSs would have a significant impact on PCCW's financial statements presented in accordance with HK GAAP.

- i. HKAS 38 requires an intangible asset to be recognized as an asset apart from goodwill if it satisfies either the "separability" or "contractual-legal" criterion. It requires intangible assets with infinite useful lives be no longer amortized but tested for impairment at least annually. Intangible assets with finite useful lives are required to be amortized over their useful lives, which are no longer limited to the rebuttable presumption of 20 years, and tested for impairment on the occurrence of a triggering event.
 - ii. HKAS 39 prescribes the principles for recognition and measurement for all financial instruments, including financial assets, financial liabilities and contracts to buy or sell non-financial items, and also extends fair value principles to the measurement of the financial instruments. HKAS 32 prescribes requirements for the presentation of all financial instruments and identifies required information for disclosure in the financial statements.
 - iii. HKAS 40 allows investment properties to be accounted for under the cost model, i.e. at cost less depreciation and impairment loss, or the fair value model. However, if the investment properties are carried at fair value, HKAS 40 requires any changes in the fair value of the investment properties to be reported directly in the income statement. In addition, the transitional provisions of HKAS 40 require any investment property revaluation reserve existing at the date of first adoption of HKAS 40 to be eliminated by way of an opening balance adjustment to the retained earnings, and, if an entity has disclosed publicly the fair value of the investment properties in earlier periods, the standard encourages, but does not require, the adjustment of opening balance of retained earnings for the earliest period presented for which such fair value was disclosed publicly and the restatement of the comparative information for those periods.
 - iv. HKFRS 2 prescribes the recognition principles and fair value measurement basis for all share-based payment transactions, including (i) equity-settled share-based payment transactions, (ii) cash-settled share-based payment transactions; and (iii) transactions with a choice of whether they are settled in cash or by issuing equity instruments. It requires companies to reflect in their profit or loss and financial position the effects of share-based payment transactions, including expenses associated with transactions in which share options are granted to employees. HKFRS 2 applies to grants of shares, share options or other equity instruments after November 7, 2002 and not yet vested as at January 1, 2005, and it applies retrospectively to liabilities arising from share-based payment transactions existing as at January 1, 2005.
 - v. HKFRS 3 requires all business combinations for which the agreement date is on or after January 1, 2005 to be accounted for using the purchase method. Goodwill acquired in a business combination will no longer be amortized but will be subject to impairment tests at least annually in accordance with HKAS 36. Upon the adoption of HKFRS 3, the net carrying amount of goodwill carried on the balance sheet is frozen and will be tested for impairment. Goodwill previously taken directly to reserves will no longer be subject to impairment testing and will not be recognized in the income statement when all or part of the business to which the goodwill relates is disposed of. Accordingly, goodwill previously taken directly to reserves will not impact the income statement in the future upon the adoption of HKAS 36.
 - vi. HKAS-INT 21 requires the deferred tax arising from the revaluation of the property to be recalculated as if the investment property is held through use and charged to the income statement.
- b. In March 2005, the HKICPA issued Interpretation 24 "Revenue – Pre-completion contracts for the sale of development properties". The Interpretation concludes that property developers shall apply HKAS 18 in recognizing revenue arising from pre-completion contracts for the sale of development properties that do not fall within the scope of HKAS 11 and accordingly, recognize revenue only when all of the criteria specified in HKAS 18 are met. The Interpretation is first effective for pre-completion contracts for the sale of development properties entered into on or after January 1, 2005 and is therefore required to be adopted by the Group for the year ending December 31, 2005. The Group is currently assessing the potential impact on the adoption of this Interpretation on the Group's financial statements presented in accordance with HK GAAP.

43 SUMMARY OF DIFFERENCES BETWEEN HONG KONG AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The Group's primary financial statements are prepared in accordance with HK GAAP, which differ in certain significant respects from accounting principles generally accepted in the United States ("US GAAP"). The following table summarizes the adjustments considered necessary to restate profit/(loss) attributable to shareholders to US GAAP giving effect to significant differences between HK GAAP and US GAAP.

| | Note(s) | Year ended December 31, | | |
|--|-----------|---|------------------|-------------------|
| | | 2004 | 2003 | 2002 |
| | | HK\$ | HK\$ | HK\$ |
| | | (in million, except per Share and per ADS data) | | |
| Profit/(Loss) attributable to shareholders as reported under HK GAAP | | 1,638 | (6,100) | (7,762) |
| US GAAP adjustments: | | | | |
| Provision for impairment of goodwill attributable to - subsidiaries | (a) | (13,224) | (6) | 178 |
| - investments equity accounted for | | - | (203) | 1,809 |
| Amortization of goodwill | (a) | 63 | 82 | 85 |
| Provision for impairment of intangible assets | (b) | (3,389) | - | (4,703) |
| Amortization of intangible assets | (b) | (283) | (283) | (283) |
| Mark-to-market of marketable equity securities and derivative instruments | (c) & (n) | (397) | (641) | 1,324 |
| Employee stock option schemes | (d) | (9) | (69) | (193) |
| Depreciation of investment properties | (g) | (191) | (291) | (279) |
| Deferral of up-front fees | (h) | (111) | (131) | (138) |
| Expenses relating to non-employee stock options | (i) | (42) | (53) | (67) |
| Provision for onerous contracts | (j) | (53) | 41 | (534) |
| Deferred taxes arising from other GAAP differences | (k) | 707 | 101 | 716 |
| Retirement scheme costs | (l) | (214) | (57) | (369) |
| Loss on disposal of interest in RWC | (p) | - | - | 1,771 |
| Equity pick up of results of REACH | (q) | (136) | - | - |
| Others | (r) | (26) | 51 | (23) |
| Loss for the year before cumulative effect of a change in accounting principle | | (15,667) | (7,559) | (8,468) |
| Cumulative effect of a change in accounting principle, net of tax | (a)(ii) | - | - | (43,589) |
| Net loss | | (15,667) | (7,559) | (52,057) |
| Loss per share under US GAAP | | | | |
| Basic | | | | |
| Loss for the year before cumulative effect of a change in accounting principle | | (291.75) cents | (152.18) cents | (182.22) cents |
| Net loss | | (291.75) cents | (152.18) cents | (1,120.19) cents |
| Diluted | | | | |
| Loss for the year before cumulative effect of a change in accounting principle | | (291.75) cents | (152.18) cents | (182.22) cents |
| Net loss | | (291.75) cents | (152.18) cents | (1,120.19) cents |
| Loss per ADS under US GAAP* | | | | |
| Basic | | | | |
| Loss for the year before cumulative effect of a change in accounting principle | | (2,917.51) cents | (1,521.79) cents | (1,822.19) cents |
| Net loss | | (2,917.51) cents | (1,521.79) cents | (11,201.92) cents |
| Diluted | | | | |
| Loss for the year before cumulative effect of a change in accounting principle | | (2,917.51) cents | (1,521.79) cents | (1,822.19) cents |
| Net loss | | (2,917.51) cents | (1,521.79) cents | (11,201.92) cents |

* One ADS is equivalent to 10 shares.

43 SUMMARY OF DIFFERENCES BETWEEN HONG KONG AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES
(continued)

The following table summarizes the effect on shareholders' (deficit)/equity of the differences between HK GAAP and US GAAP.

| | Note(s) | December 31, | |
|--|-----------|--------------|--------------|
| | | 2004 | 2003 |
| | | HK\$ million | HK\$ million |
| Shareholders' deficit as reported under HK GAAP | | (6,716) | (7,839) |
| US GAAP adjustments: | | | |
| Goodwill – cost | (a) | 141,412 | 141,412 |
| Goodwill – amortization and provision for impairment loss | (a) | (78,768) | (65,607) |
| Intangible assets – cost | (b) | 10,694 | 10,694 |
| Intangible assets – amortization and provision for impairment loss | (b) | (9,676) | (6,004) |
| Accumulated depreciation on investment properties | (g) | (1,067) | (876) |
| Investments in marketable equity securities and derivative instruments | (c) & (n) | 337 | 745 |
| Property revaluation reserve | (g) | (25) | (305) |
| Retirement scheme costs | (l) | 130 | 344 |
| Deferral of up-front fees | (h) | (609) | (498) |
| Deferred taxes arising from other GAAP differences | (k) | 210 | (497) |
| Non-employee stock options | (i) | (273) | (231) |
| Expenses relating to onerous contracts | (j) | (17) | 36 |
| Others | (r) | 347 | 322 |
| | | 62,695 | 79,535 |
| Shareholders' equity under US GAAP | | 55,979 | 71,696 |

Under SSAP 15 (revised) issued by the HKICPA, "Cash flow statements", the Group presents its cash flow under three headings: (i) operating activities; (ii) investing activities; and (iii) financing activities, which are the same as the three categories under US GAAP. However, the presentation of the Group's cash flow data in accordance with US GAAP has resulted in certain reclassifications from those presented in accordance with HK GAAP, details of which are set out in note (o). Summarized cash flow data by operating, investing and financing activities in accordance with US GAAP are as follows:

| | Note | Year ended December 31, | | |
|--|----------|-------------------------|--------------|--------------|
| | | 2004 | 2003 | 2002 |
| | | HK\$ million | HK\$ million | HK\$ million |
| Net cash provided by/(used in): | | | | |
| Operating activities | (o)(i) | 3,728 | 3,415 | 2,810 |
| Investing activities | (o)(ii) | (735) | (2,643) | (812) |
| Financing activities | (o)(iii) | (5,031) | (3,143) | (1,598) |
| Change in cash and cash equivalents | | (2,038) | (2,371) | 400 |
| Cash and cash equivalents at beginning of year | (o)(iv) | 5,547 | 7,918 | 7,518 |
| Cash and cash equivalents at end of year | (o)(iv) | 3,509 | 5,547 | 7,918 |

The components of comprehensive income under US GAAP include the following for the years ended December 31:

| | 2004 | 2003 | 2002 |
|---|--------------|--------------|--------------|
| | HK\$ million | HK\$ million | HK\$ million |
| Net loss under US GAAP | (15,667) | (7,559) | (52,057) |
| Unrealized (losses)/gains on marketable securities | (11) | 49 | (38) |
| Currency translation reserve | 53 | 20 | 107 |
| Share of change in reserves of a jointly controlled company | 118 | 121 | (124) |
| Other comprehensive income | 160 | 190 | (55) |
| Total comprehensive income | (15,507) | (7,369) | (52,112) |

43 **SUMMARY OF DIFFERENCES BETWEEN HONG KONG AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES**
(continued)

Our primary financial statements have been prepared in accordance with HK GAAP, which differ in certain significant respects from US GAAP.

a. **Accounting for goodwill**

| | Note | Year ended December 31, | | 2002 |
|--|-------|-------------------------|--------------|--------------|
| | | 2004 | 2003 | |
| | | HK\$ million | HK\$ million | HK\$ million |
| Provision for goodwill impairment attributable to subsidiaries | | | | |
| - under HK GAAP | (i) | - | 742 | 309 |
| - under US GAAP | (iii) | (13,224) | (748) | (131) |
| | | (13,224) | (6) | 178 |
| Provision for goodwill impairment attributable to investments equity accounted for | | | | |
| - under HK GAAP | (i) | - | 437 | 8,263 |
| - under US GAAP | (iii) | - | (640) | (6,454) |
| | | - | (203) | 1,809 |
| Net US GAAP adjustment for goodwill impairment loss | | (13,224) | (209) | 1,987 |

- i. Under HK GAAP as specified in SSAP 30, "Business combinations" issued by the HKICPA, any goodwill arising from transactions completed from January 1, 2001 onwards is capitalized and amortized on a straight-line basis over its estimated useful life. The amortization charge for each period is recognized as an expense. Generally, goodwill is tested for impairment whenever there are indications that impairment may exist. However, goodwill that is taken initially to reserves arising on transactions prior to January 1, 2001 which was not restated as an asset on adoption of SSAP 30 in 2001 is required to be tested for impairment annually. Goodwill which is amortized over a period exceeding 20 years is also required to be tested for impairment annually. An impairment loss is recognized in the income statement whenever the carrying amount of a cash generating unit to which goodwill belongs exceeds its recoverable amount, which is defined as the higher of net selling price and value-in-use, estimated at each balance sheet date.
- ii. Upon the adoption under US GAAP of Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets" on January 1, 2002, goodwill and goodwill included in the carrying value of equity method investments are no longer to be amortized. However, the Group is required to perform goodwill impairment tests in accordance with the provisions of SFAS No. 142.

SFAS No. 142 requires that goodwill be tested for impairment upon first adoption and annually thereafter, or more frequently if events or changes in circumstances indicate that it might be impaired, using the prescribed two-step process. The first step screens for potential impairment of goodwill if the fair value of the reporting unit is less than its carrying value, while the second step measures the amount of goodwill impairment, if any, by comparing the implied fair value of goodwill to its carrying value. In preparation for the adoption of SFAS No. 142, the Group had completed the transitional impairment test of goodwill as of January 1, 2002 by comparing the fair value of its reporting units to their carrying values. The fair value of TSS1 reporting unit, as determined by a combination of the discounted cashflow method and the guideline company method of the market approach, was less than its carrying value. The allocation of fair values to identifiable tangible and intangible assets resulted in an implied fair value of the goodwill associated with the reporting unit of HK\$75,000 million. As a result, a goodwill impairment loss of HK\$40,190 million was recorded as at January 1, 2002. For other reporting units, the Group determined that there was no indication of impairment at that time. In addition, the Group recorded an additional HK\$3,399 million of transitional goodwill impairment loss, representing its share of transitional goodwill impairment loss in connection with the Group's investment in RWC as at January 1, 2002. Please refer to note (p) for discussion on implementation of SFAS No. 142 by RWC. Accordingly, the total impairment losses of HK\$43,589 million were recorded as a cumulative effect of change in accounting principle in the consolidated income statement as of January 1, 2002.

43 SUMMARY OF DIFFERENCES BETWEEN HONG KONG AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES
(continued)

a. Accounting for goodwill (continued)

iii. The Group performed the annual goodwill impairment tests for all the reporting units as of October 31, 2004. Based on those tests, the fair value of TSS1 reporting unit as determined by a combination of the discounted cashflow method and the guideline company method of the market approach, was less than its carrying value and the Group recorded a provision for impairment of goodwill amounting to HK\$13,224 million for the year that has been included in "Provisions for impairment losses" in the consolidated income statement for the year ended December 31, 2004. For other reporting units, the Group determined that there was no indication of impairment based on the annual tests performed. No impairment was recorded under HK GAAP for TSS1 reporting unit for the year ended December 31, 2004 as provision for impairment was made for the related balance of goodwill in previous years based on discounted cashflow methodology under SSAP 31 "Impairment of assets".

During 2003, based on the annual goodwill impairment tests for all the reporting units as of October 31, 2003, only the fair value of the JALECO reporting unit as determined by the discounted cashflow method was less than its carrying value and the Group recorded a provision for impairment of goodwill amounting to HK\$748 million for the year that was included in "Provisions for impairment losses" in the consolidated income statement for the year ended December 31, 2003.

During 2002, based on the annual goodwill impairment tests for all the reporting units as of October 31, 2002, only the fair value of the PCC reporting unit included in "Others" as determined by the discounted cashflow method was less than its carrying value and the Group recorded a provision for impairment of goodwill amounting HK\$131 million that was included in "Provisions for impairment losses" in the consolidated income statement for the year ended December 31, 2002.

The carrying values of goodwill under US GAAP for the reporting units noted above for the years ended December 31, 2004 and 2003 are as follows:

| | TSS1 HK\$ million | BtN Access HK\$ million | PCCW Directories HK\$ million | JALECO HK\$ million | PCPD HK\$ million | Others HK\$ million | Total HK\$ million |
|---|----------------------|----------------------------|-------------------------------------|------------------------|----------------------|------------------------|-----------------------|
| As at January 1, 2003 | 75,000 | 693 | 251 | 757 | – | 134 | 76,835 |
| Addition | – | – | 56 | – | – | 27 | 83 |
| Reclassification from interest in associates | – | – | 157 | – | – | – | 157 |
| Provision for impairment losses made during the year | – | – | – | (748) | – | – | (748) |
| Others | – | – | – | (9) | – | – | (9) |
| As at December 31, 2003 | 75,000 | 693 | 464 | – | – | 161 | 76,318 |
| Addition | – | – | – | – | 84 | 6 | 90 |
| Provision for impairment losses made during the year | (13,224) | – | – | – | – | – | (13,224) |
| As at December 31, 2004 | 61,776 | 693 | 464 | – | 84 | 167 | 63,184 |

43 **SUMMARY OF DIFFERENCES BETWEEN HONG KONG AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES**
(continued)

a. **Accounting for goodwill (continued)**

The following table sets out the reconciliation between the carrying value of goodwill as reported under HK GAAP and US GAAP:

| | 2004 HK\$ million | 2003 HK\$ million |
|--|----------------------|----------------------|
| Carrying value as reported under HK GAAP | | |
| Goodwill on consolidated balance sheet | 960 | 933 |
| Goodwill in reserves | 37,370 | 37,354 |
| | <hr/> | <hr/> |
| | 38,330 | 38,287 |
| Reduction in cost of goodwill under US GAAP arising from | | |
| - adoption of different measurement date | (9,789) | (9,789) |
| - additional intangible assets recognized under US GAAP, net of taxation | (9,171) | (9,171) |
| - other GAAP differences | (245) | (245) |
| Excess of goodwill amortization recognized under US GAAP over HK GAAP | (8,313) | (8,376) |
| Excess of goodwill impairment recognized under HK GAAP over US GAAP | 52,388 | 65,612 |
| Excess realization of goodwill recognized under US GAAP over HK GAAP | (16) | - |
| | <hr/> | <hr/> |
| Carrying value as reported under US GAAP | 63,184 | 76,318 |

b. **Accounting for identifiable intangible assets**

Under HK GAAP, acquired identifiable intangible assets have been limited to those assets that can be identified and controlled and for which the existence of future economic benefits can be determined. In the event the criteria cannot be met, identifiable intangibles acquired in a business combination are required to be classified as a component of goodwill. Identifiable intangible assets are amortized over their expected future economic lives.

Under US GAAP, acquired identifiable intangible assets are required to be determined separately from goodwill based on their fair value as at the acquisition date. SFAS No. 141, "Business Combinations", which became effective and was adopted by the Group on January 1, 2002, adds new and specific criteria that must be applied to determine whether an intangible asset should be recognized apart from goodwill. In particular, an intangible asset which is acquired in a business combination should be recognized as an asset apart from goodwill if it satisfies either the "contractual-legal" or "separability" criterion. As at the date that SFAS No. 142 was initially applied in its entirety, intangible assets that have been recognized separately from goodwill prior to the adoption of SFAS No. 142 should be reclassified as goodwill if the intangible assets do not meet one of the criteria for recognition apart from goodwill as stated in SFAS No. 141 or have been specifically excluded under SFAS No. 141. SFAS No. 141 specifically excludes assembled workforce acquired in a business combination from recognition apart from goodwill. In addition, as at the date SFAS No. 142 was initially applied in its entirety, the carrying amounts of any previously acquired intangible assets that have been included in the amount reported as goodwill should be reclassified and accounted for as intangible assets apart from goodwill only if (i) the asset meets the recognition criteria mentioned above; (ii) the asset had been assigned an amount equal to its estimated fair value at the date that the business combination was initially recorded; and (iii) the asset was accounted for separately from goodwill as evidenced by the maintenance of accounting records for that asset.

With the adoption of SFAS No. 142 on January 1, 2002, intangible assets with indefinite useful lives are no longer amortized, while intangible assets with finite useful lives will continue to be amortized over their useful lives which are no longer limited to 40 years.

SUMMARY OF DIFFERENCES BETWEEN HONG KONG AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES
(continued)

b. Accounting for identifiable intangible assets (continued)

The following comprise the components of the Group's intangible assets that will continue to be amortized under SFAS No. 142 as at December 31:

| | Useful lives (years) | 2004 | | 2003 | |
|--|-------------------------|--|--|--|--|
| | | Gross carrying amount HK\$ million | Accumulated amortization and impairment HK\$ million | Gross carrying amount HK\$ million | Accumulated amortization and impairment HK\$ million |
| Intangible assets subject to amortization: | | | | | |
| Subscriber lists | 20 | 5,255 | 4,237 | 5,255 | 565 |
| Trademarks and tradenames | 20 | 1,518 | 332 | 1,518 | 256 |
| Content license | 20 | 375 | 375 | 375 | 375 |
| Patented technology | 10 | 54 | 54 | 54 | 54 |
| Wireless broadband license | 5 | 106 | 31 | 93 | 11 |
| Others | | 9 | 4 | 9 | 3 |
| | | <hr/> | <hr/> | <hr/> | <hr/> |
| | | 7,317 | 5,033 | 7,304 | 1,264 |
| | | <hr/> | <hr/> | <hr/> | <hr/> |

The Group has no intangible assets with indefinite useful lives which is not subject to amortization as at December 31, 2003 and 2004.

The following table presents current and expected amortization expense of the intangible assets as of December 31, 2004 for the year ended December 31, 2004 and the subsequent five years:

| | Amount HK\$ million |
|--------------------------------------|------------------------|
| Aggregate amortization expense: | |
| For the year ended December 31, 2004 | <hr/> 380 |
| Expected amortization expense: | |
| For the years ending December 31, | |
| 2005 | 161 |
| 2006 | 161 |
| 2007 | 161 |
| 2008 | 156 |
| 2009 | <hr/> 141 |

43 **SUMMARY OF DIFFERENCES BETWEEN HONG KONG AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES**
(continued)

b. Accounting for identifiable intangible assets (continued)

Under HK GAAP, intangible assets are required to be tested for impairment when there are indications that impairment may exist. Impairment loss on intangible assets is recognized based on the excess, if any, of the carrying value of the intangible assets over the recoverable amount. The recoverable amount of an asset is the greater of its net selling price and value in use, of which the calculation basis is described in note 2(h)(i).

Under US GAAP, SFAS No. 144 which became effective January 1, 2002 requires that intangible assets with finite useful lives be tested for impairment if events or changes in circumstances indicate that the asset might be impaired, using the prescribed two-step process. The first step is a recoverability test which screens for potential impairment of an asset based on whether the undiscounted sum of estimated future cash flows from an asset is less than its carrying value. The second step measures the amount of impairment, if any, by comparing the fair value of the asset to its carrying value.

During the year, the local telephony services subscriber list, that is not recognized as an intangible asset under HK GAAP, was tested for impairment in view of the estimated increase in churn rate of existing direct exchange lines resulting from full liberalization of the fixed line telecommunication market since the beginning of 2003, competition from other fixed line operators and substitution by broadband access lines and wireless telecommunications services. Based on the impairment test performed, the fair value of the local telephony services subscriber list determined by the excess-earnings method was less than its carrying value. Hence, the Group recorded an impairment loss of HK\$3,389 million (2003: Nil, 2002: HK\$4,703 million) which was included in "Provisions for impairment losses" in the consolidated income statement for the year ended December 31, 2004.

The following table sets out the reconciliation between the carrying value of intangible assets as reported under HK GAAP and US GAAP:

| | 2004 HK\$ million | 2003 HK\$ million |
|---|----------------------|----------------------|
| Carrying value as reported under HK GAAP | 1,266 | 1,350 |
| Carrying value of subscriber lists recognized under US GAAP | 1,018 | 4,690 |
| | <hr/> | <hr/> |
| Carrying value as reported under US GAAP | 2,284 | 6,040 |
| | <hr/> | <hr/> |

*(continued)***c. Investments in marketable equity securities**

Under HK GAAP, investments in marketable equity securities are classified as either investment securities or other investments. Investment securities are included in the balance sheet at cost less any provisions for impairment. Provisions, if any, are reversed to the income statement when the circumstances and events that led to the provision cease to exist. Other investments are carried at fair value in the balance sheet and any unrealized holding gain or loss is recognized in the income statement.

Under US GAAP, investments in marketable equity securities are classified as either available-for-sale or trading securities. Trading securities are bought and held principally for the purpose of selling them in the near term and, thus, held for only a short period of time. Trading securities are carried at fair value and any unrealized gains or losses are included in net profit or loss for the period. Available-for-sale securities are investments not classified as trading securities. Available-for-sale securities are carried at fair value and any unrealized gains or losses are reported as a component of comprehensive income.

If a decline in fair value of available-for-sale securities is judged to be other than temporary, the cost basis of the individual security shall be written down to fair value as a new cost basis and the amount of the write-down shall be included in earnings as a realized loss. The new cost basis is not changed for subsequent recoveries in fair value. Subsequent increases in the fair value (and subsequent decreases in fair value, if not other-than-temporary) of available-for-sale securities are included as a component of comprehensive income.

| | 2004 HK\$ million | 2003 HK\$ million | 2002 HK\$ million |
|--|----------------------|----------------------|----------------------|
| Proceeds from disposal of available-for-sale securities | 70 | 49 | 117 |
| Gross loss from disposal of available-for-sale securities | (26) | (128) | (949) |
| Add: Provision for other than temporary decline in fair value | 40 | 146 | 1,002 |
| Realized net gains on available-for-sale securities included in earnings | 14 | 18 | 53 |

The cost of securities sold or the amount reclassified out of accumulated other comprehensive income into earnings was determined based on a specific identification basis.

Investments in securities have been reclassified to conform with US GAAP resulting in the following at December 31:

| | 2004 HK\$ million | 2003 HK\$ million |
|--|----------------------|----------------------|
| Available-for-sale securities | – | 83 |
| Unlisted securities carried at cost, net of impairment | 419 | 565 |
| | 419 | 648 |

(continued)

d. Employee stock option schemes

The Group follows the current practice in Hong Kong that no accounting entry is made on grant of share options to employees. Under US GAAP, compensation expense for share options is recognized at the date of grant and amortized over the vesting period. In accordance with the provisions of SFAS No. 148 "Accounting for Stock-Based Compensation – Transition and Disclosure – an amendment of FASB Statement No. 123", the Group has selected only the disclosure provisions related to employee stock options and follows the recognition and measurement provisions of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations in accounting for share options granted to employees. Accordingly, the amount of compensation expense is determined based on the intrinsic value, i.e. the excess, if any, of the quoted market price of the shares over the exercise price of the options at the date of the grant and is amortized over the vesting period of the option concerned.

During 2002, the Group cancelled and reissued certain staff options that had the effect of re-pricing the previously outstanding options. Under US GAAP, variable option accounting is applied for these options and the difference between the intrinsic value of the new share options granted and the intrinsic value of the old share options is calculated and amortized to income, requiring remeasurement at each reporting date. Total options of 104,600 have been re-priced with a lower exercise price in 2002, while other terms relating to the re-priced options remain the same. There was no re-pricing of staff options in 2004 and 2003.

Compensation expenses for the share options are recognized on a graded (pro rata) vesting basis over the vesting periods. Compensation expense recognized for US GAAP in 2004 was HK\$9 million (2003: HK\$69 million, 2002: HK\$193 million). As at December 31, 2004, there were outstanding options in respect of a total of 179 million (2003: 222 million) and 10 million (2003: Nil) ordinary shares in the Company and in PCPD respectively. The Group discloses the fair value of its share option grants under the scheme in accordance with SFAS No. 123, "Accounting for Stock-Based Compensation".

The fair value of each option grant is estimated on the date of grant using the trinomial option-pricing model with the following weighted average assumptions used for grants by the Company and PCPD in the years ended December 31, 2004, 2003 and 2002.

Grants by the Company

| | *2004 | 2003 | 2002 |
|-----------------------------|-------|----------|----------|
| Dividend yield | N/A | Nil | Nil |
| Expected volatility | N/A | 44.054% | 48.994% |
| Risk-free interest rate | N/A | 4.840% | 5.179% |
| Expected life | N/A | 10 years | 10 years |
| Weighted average fair value | N/A | HK\$2.68 | HK\$4.75 |

Grants by PCPD

| | 2004 | *2003 | *2002 |
|-----------------------------|----------|-------|-------|
| Dividend yield | Nil | N/A | N/A |
| Expected volatility | 50.460% | N/A | N/A |
| Risk-free interest rate | 3.950% | N/A | N/A |
| Expected life | 10 years | N/A | N/A |
| Weighted average fair value | HK\$1.29 | N/A | N/A |

* No share options were granted during the year.

43 SUMMARY OF DIFFERENCES BETWEEN HONG KONG AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES
(continued)

d. Employee stock option schemes (continued)

Had the compensation cost for the Group's stock-based compensation plans been determined consistent with the fair value recognition provisions of SFAS No. 123, the Group's US GAAP net loss and loss per share would have been increased to the pro forma amounts indicated below:

| | Year ended December 31, | | |
|---|-------------------------|-----------------|------------------|
| | 2004 HK\$ | 2003 HK\$ | 2002 HK\$ |
| Loss for the year before cumulative effect of a change in accounting principle | | | |
| - As reported | (15,667) million | (7,559) million | (8,468) million |
| Add: Stock-based employee compensation expense included in reported net loss, net of related tax effects | 9 million | 69 million | 193 million |
| Deduct: Stock-based employee compensation expense determined under fair value based accounting method, net of related tax effects | (216) million | (375) million | (841) million |
| | <hr/> | <hr/> | <hr/> |
| - Pro forma | (15,874) million | (7,865) million | (9,116) million |
| | <hr/> | <hr/> | <hr/> |
| Net loss | | | |
| - As reported | (15,667) million | (7,559) million | (52,057) million |
| Add: Stock-based employee compensation expense included in reported net loss, net of related tax effects | 9 million | 69 million | 193 million |
| Deduct: Stock-based employee compensation expense determined under fair value based accounting method, net of related tax effects | (216) million | (375) million | (841) million |
| | <hr/> | <hr/> | <hr/> |
| - Pro forma | (15,874) million | (7,865) million | (52,705) million |
| | <hr/> | <hr/> | <hr/> |
| Loss per share | | | |
| Basic | | | |
| Loss for the year before cumulative effect of a change in accounting principle | | | |
| - As reported | (2.92) | (1.52) | (1.82) |
| - Pro forma | (2.96) | (1.58) | (1.96) |
| | <hr/> | <hr/> | <hr/> |
| Net loss | | | |
| - As reported | (2.92) | (1.52) | (11.20) |
| - Pro forma | (2.96) | (1.58) | (11.34) |
| | <hr/> | <hr/> | <hr/> |
| Loss per share | | | |
| Diluted | | | |
| Loss for the year before cumulative effect of a change in accounting principle | | | |
| - As reported | (2.92) | (1.52) | (1.82) |
| - Pro forma | (2.96) | (1.58) | (1.96) |
| | <hr/> | <hr/> | <hr/> |
| Net loss | | | |
| - As reported | (2.92) | (1.52) | (11.20) |
| - Pro forma | (2.96) | (1.58) | (11.34) |
| | <hr/> | <hr/> | <hr/> |

43 SUMMARY OF DIFFERENCES BETWEEN HONG KONG AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES
(continued)

d. Employee stock option schemes (continued)

| | Year ended December 31, | | |
|--|-------------------------|---------|----------|
| | 2004 | 2003 | 2002 |
| | HK\$ | HK\$ | HK\$ |
| Loss per ADS * | | | |
| Basic | | | |
| Loss for the year before cumulative effect of a change in accounting principle | | | |
| - As reported | (29.18) | (15.22) | (18.22) |
| - Pro forma | (29.56) | (15.83) | (19.62) |
| Net loss | | | |
| - As reported | (29.18) | (15.22) | (112.02) |
| - Pro forma | (29.56) | (15.83) | (113.41) |
| Diluted | | | |
| Loss for the year before cumulative effect of a change in accounting principle | | | |
| - As reported | (29.18) | (15.22) | (18.22) |
| - Pro forma | (29.56) | (15.83) | (19.62) |
| Net loss | | | |
| - As reported | (29.18) | (15.22) | (112.02) |
| - Pro forma | (29.56) | (15.83) | (113.41) |

* One ADS is equivalent to 10 shares.

e. Share award schemes

The Company has established two employee share incentive award schemes in 2002 under which selected employees are awarded shares at no cost to the employees. Directors of the Company are not eligible to participate in either scheme. The shares are either newly issued at par value or are purchased from the open market. Compensation expense for shares either purchased from the market or newly issued under the share award schemes is recognized at the date of grant and amortized over the respective vesting period. Under HK GAAP, the amount of compensation expense is measured by the issue price of the shares for newly issued shares which is the par value of the shares or the purchase price for shares purchased from the market. Under US GAAP, the amount of compensation expense is measured by the quoted market price of the shares at the measurement date less the amount, if any, that the employee is required to pay. The measurement date is not changed from the grant or award date to a later date solely by provisions that termination of employment reduces the number of shares that may be issued to an employee.

Compensation expenses for the shares under the share award schemes are recognized on a graded (pro rata) vesting basis over the vesting periods. Compensation expense recognized for US GAAP in 2004 was HK\$9 million (2003: HK\$10 million, 2002: HK\$1 million). As at December 31, 2004, there were 3.7 million shares held under the share award schemes (2003: 5.8 million).

43 **SUMMARY OF DIFFERENCES BETWEEN HONG KONG AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES**
(continued)

f. Shares granted by principal shareholder

Under HK GAAP, shares granted by the principal shareholder to employees of the Group are not recognized in the financial statements.

Under US GAAP, shares granted by the principal shareholder to employees of the Group are accounted for as shareholder's contribution for the purpose of enhancing or maintaining the value of the shareholder's investment. The contribution is measured by the quoted market price of the shares at the date of grant. In 2004, no shares were granted by the principal shareholder to employees of the Group (2003: 6,483,000 shares, 2002: 2,153,600 shares). In 2003 and 2002, the weighted average market price of the shares at date of grant was HK\$4.63 and HK\$9.70 respectively. The contribution is charged to the income statement as a compensation expense when the shares become vested. Compensation expense recognized during the year was HK\$11 million (2003: HK\$15 million, 2002: HK\$7 million).

g. Investment properties

Under HK GAAP, investment properties are stated on the basis of appraised values and depreciation is not provided. Under US GAAP, investment properties not held for resale are stated at historical cost less accumulated depreciation.

h. Revenue recognition

Under HK GAAP, revenues are recognized when services are provided, including up-front fees received for installation of equipment and activation of customer service, among others.

Staff Accounting Bulletin ("SAB") No. 104, "Revenue Recognition" issued by the US Securities and Exchange Commission ("SEC"), applicable to financial statements prepared in accordance with US GAAP, requires, in certain cases, non-refundable up-front fees for services to be deferred and recognized over the longer of the contractual period or the expected customer relationship. Under US GAAP, the Group amortizes these up-front fees over periods of 20 years.

For US GAAP, the Company adopted SAB No. 104 for all periods presented.

i. Non-employee stock options

Under HK GAAP, share options issued for the provision of goods and services are not recognized in the Group's financial statements.

Under US GAAP, the fair value of the share options granted is recorded to reflect these transactions on a similar basis as if such goods or services had been paid for in cash.

j. Onerous contract

Under HK GAAP, if an enterprise has a contract that is onerous, the present obligation under the contract should be recognized and measured as a provision. An onerous contract is defined as a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

Under US GAAP, no provision is allowed for obligations under onerous contracts.

43 **SUMMARY OF DIFFERENCES BETWEEN HONG KONG AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES**
(continued)

k. **Deferred income taxes**

Under HK GAAP, deferred tax liabilities are provided in full on all taxable temporary differences while deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

For US GAAP purposes, deferred tax assets and liabilities are recognized for the expected future tax consequences of all taxable temporary differences and loss or tax credit carryforwards using enacted tax rates expected to be in effect when these differences are realized. Valuation allowances are recorded for deferred tax assets for which it is more likely than not that such assets will not be realized.

In general, deferred income taxes under HK GAAP and US GAAP are similar. However, as a result of the corresponding deferred tax effect for the GAAP differences mentioned elsewhere in this section such as intangible assets, there are differences in the deferred income tax recognized under HK GAAP and US GAAP.

The following comprise the components of the Group's income taxes under US GAAP for the years ended December 31:

| | 2004 HK\$ million | 2003 HK\$ million | 2002 HK\$ million |
|----------|----------------------|----------------------|----------------------|
| Current | 1,240 | 1,318 | 1,600 |
| Deferred | (962) | (254) | (910) |
| | 278 | 1,064 | 690 |

The following comprise the components of the Group's net deferred tax liabilities under US GAAP as at December 31:

| | 2004 HK\$ million | 2003 HK\$ million |
|------------------------------|----------------------|----------------------|
| Fixed assets | 2,242 | 2,560 |
| Intangible assets | 368 | 1,023 |
| Others | (84) | (60) |
| Deferred tax liabilities | 2,526 | 3,523 |
| Tax assets carryforward | 3,050 | 2,962 |
| Less: Valuation allowance | (3,050) | (2,962) |
| Deferred tax assets | - | - |
| Net deferred tax liabilities | 2,526 | 3,523 |

As at December 31, 2004 and 2003, the Company and its subsidiaries have tax losses carryforward of approximately HK\$14,846 million and HK\$12,643 million. There is significant uncertainty as to the ability of the group companies generating these losses to realize the benefits through future taxable profits. As a result, management has provided a valuation allowance of HK\$3,050 million and HK\$2,962 million as of December 31, 2004 and 2003.

*(continued)***I. Retirement scheme costs**

With the adoption under HK GAAP of SSAP 34 “Employee benefits” from January 1, 2002, costs of retirement benefits are assessed using the projected unit credit method and the cost of providing retirement 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 who carry out a full valuation of the schemes on an annual basis. The Group chose to recognize the entire transitional liability, which represents the excess of the defined benefit obligation over fair value of the scheme assets as at January 1, 2002 of HK\$521 million, against the opening balance of the accumulated deficit as at January 1, 2002 and carry such liability in the consolidated balance sheet as non-current liabilities.

Whenever a settlement or curtailment occurs, a gain or loss from settlement or curtailment, which comprises the resulting change in the present value of the defined benefit obligation and the fair value of scheme assets and any related unrecognized actuarial gains or losses, is recognized in the income statement. When a settlement or curtailment relates to only some of employees covered by the retirement scheme, the gain or loss includes a proportionate share of the unrecognized actuarial gain or loss based on the basis of the defined benefit obligation before and after the settlement or curtailment. In December 2004, 382 members of certain DB Schemes elected an option to receive a commuted lump sum payment in respect of their future monthly pension benefit. This pension buy-out event was considered as a settlement event under SSAP 34 and the Group recognized a settlement gain of HK\$131 million. In 2003, scheme service in determining the level of benefit was frozen as of June 30, 2003 whereas the scheme salary and multiple will continue to grow. This freezing of scheme services was considered as a curtailment event under SSAP 34 but did not result in any accounting impact on the Group’s financial statements.

US GAAP requires that retirement scheme costs be recorded in accordance with SFAS No. 87, “Employers’ Accounting for Pensions” which recognizes in each accounting period the cost of providing retirement benefits earned by employees in that period. The Group adopted SFAS No. 87 on May 25, 2000, i.e. the date of the Company’s acquisition of HKT in 2000, for US GAAP purposes.

SFAS No. 88 addresses an employer’s accounting for a settlement or a curtailment of its benefit pension scheme. The statement requires the employer to recognize a gain or loss in the income statement, the unrecognized net gain or loss plus any remaining unrecognized net assets or liabilities when a scheme obligation is settled. When a curtailment occurs, the unrecognized prior service cost associated with years of service no longer expected to be rendered shall be recognized as a loss. The pension buy-out event as mentioned above was also considered as a settlement event under SFAS No. 88 and aggregate settlement and curtailment losses of HK\$60 million were recognized in the income statement as pension costs for the year ended December 31, 2004. For the year ended December 31, 2003, the freezing of scheme services as mentioned above was also considered as a curtailment event under SFAS No. 88 but did not result in any accounting impact on the Group’s financial statements under US GAAP.

On adoption of SSAP 34 on January 1, 2002 for HK GAAP purposes, the accounting for retirement scheme costs became substantially the same under both HK GAAP and US GAAP. However, GAAP reconciling adjustments still arise due to the difference in adoption dates of the applicable accounting standards under HK GAAP and US GAAP.

43 SUMMARY OF DIFFERENCES BETWEEN HONG KONG AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES
(continued)

1. Retirement scheme costs (continued)

In conjunction with the acquisition of HKT, the Company assumed sponsorship of HKT's defined benefit schemes. Disclosures in accordance with SFAS No. 132 (revised 2003) for the defined benefit schemes are as follows:

The Company uses a December 31 measurement date for all its schemes.

Obligations and Funded Status

| | 2004 HK\$ million | 2003 HK\$ million |
|---|----------------------|----------------------|
| Change in benefit obligation | | |
| Benefit obligation, at beginning of year | 4,567 | 4,578 |
| Net service cost | – | 89 |
| Interest cost | 235 | 234 |
| Actual employee contributions | – | 10 |
| Actuarial loss/(gain) | 52 | (62) |
| Benefits paid | (327) | (282) |
| Effect of curtailment/settlement | (543) | – |
| | <hr/> | <hr/> |
| Benefit obligation, at end of year | 3,984 | 4,567 |
| | <hr/> | <hr/> |
| Changes in scheme assets | | |
| Fair value of scheme assets, at beginning of year | 4,137 | 3,466 |
| Actual return on scheme assets | 296 | 700 |
| Actual employer contributions | – | 243 |
| Actual employee contributions | – | 10 |
| Benefits paid | (327) | (282) |
| Effect of curtailment/settlement | (415) | – |
| | <hr/> | <hr/> |
| Fair value of scheme assets, at end of year | 3,691 | 4,137 |
| | <hr/> | <hr/> |
| Funded status | (293) | (430) |
| Unrecognized actuarial loss | 569 | 791 |
| | <hr/> | <hr/> |
| Amounts recognized in the balance sheet | 276 | 361 |
| | <hr/> | <hr/> |
| Representing: | | |
| Prepaid benefit cost (included in "Other non-current assets" in the consolidated balance sheet) | 276 | 361 |
| | <hr/> | <hr/> |

As at December 31, 2004, the accumulated benefit obligation for all defined benefit schemes was HK\$2,734 million (2003: HK\$2,982 million).

43 SUMMARY OF DIFFERENCES BETWEEN HONG KONG AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES
(continued)

1. Retirement scheme costs (continued)

Information for defined benefit schemes with an accumulated benefit obligation in excess of scheme assets

| | 2004 HK\$ million | 2003 HK\$ million |
|--------------------------------|----------------------|----------------------|
| Projected benefit obligation | 3,984 | 4,567 |
| Accumulated benefit obligation | 2,734 | 2,982 |
| Fair value of scheme assets | 3,691 | 4,137 |

Components of net periodic benefit cost

| | 2004 HK\$ million | 2003 HK\$ million |
|---------------------------------------|----------------------|----------------------|
| Net service cost | – | 89 |
| Interest cost | 235 | 234 |
| Expected return on scheme assets | (233) | (222) |
| Amortization of unrecognized net loss | 23 | 59 |
| Curtailement/settlement loss | 60 | – |

85 160

Additional information

| | 2004 HK\$ million | 2003 HK\$ million |
|--|----------------------|----------------------|
| Increase in minimum liability included in other comprehensive income | – | – |

Assumptions

| | 2004 % | 2003 % |
|--|-----------|-----------|
| Weighted-average assumptions used to determine benefit obligations | | |
| Discount rate | 4.00 | 5.25 |
| Rate of salary increase | 3.50 | 3.50 |

| | | |
|--|------|------|
| Weighted-average assumptions used to determine net periodic benefit cost | | |
| Discount rate | 5.25 | 5.50 |
| Expected long-term return on scheme assets | 5.75 | 6.50 |
| Rate of salary increase | 3.50 | 3.50 |

The Group has used an expected return on scheme assets of 5.75% for 2004 (2003: 5.75%) based on the benchmark asset allocation and long-term return assumptions reflecting a conservative view of future expected returns at approximately 8% for equities and 4.6% for fixed income and cash.

43 SUMMARY OF DIFFERENCES BETWEEN HONG KONG AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES
(continued)

1. Retirement scheme costs (continued)

Scheme assets

The Company's defined benefit schemes weighted-average asset allocations at December 31, by asset category are as follows:

| | 2004 | 2003 |
|-------------------------|-------|-------|
| | % | % |
| Asset Category | | |
| Equity securities | 18 | 33 |
| Debt securities | 7 | 10 |
| Cash and currency hedge | 75 | 57 |
| | <hr/> | <hr/> |
| | 100 | 100 |
| | <hr/> | <hr/> |

As at December 31, 2004, the benchmark asset allocation was 35% for equities and 65% for fixed income and cash, while the approximate distribution was 18% equities and 82% for fixed income and cash.

The benchmark asset allocations are derived based on the Company's intention to settle the retirement benefit payable to members of the defined benefit schemes with the scheme assets by December 31, 2006 if assets are sufficient to cover the aggregate vested liability and accordingly, the schemes would be regarded as solvent at that date. They are also based on the lower rate of increase in liabilities going forward due to the freezing of service levels in the calculation of benefits under certain of the defined benefit schemes as described above.

At December 31, 2004 and 2003, the Group's defined benefit scheme assets included investments in related parties. These investments are insignificant to the total scheme assets.

43 SUMMARY OF DIFFERENCES BETWEEN HONG KONG AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES
(continued)

1. Retirement scheme costs (continued)

Contributions

No employer's contributions are expected to be paid to the schemes in 2005.

Estimated future benefit payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

| | HK\$ million |
|-------------------|--------------|
| 2005 | 118 |
| 2006 | 118 |
| 2007 | 122 |
| 2008 | 153 |
| 2009 | 145 |
| 2010 through 2014 | 1,005 |

m. Impairment of long-lived assets

As more fully described in note 2(h), under HK GAAP, if an indication of impairment exists, the asset's recoverable amount is estimated and an impairment loss is recognized in the income statement whenever the carrying value of an asset exceeds its recoverable amount. The recoverable amount of an asset is the greater of its net selling price and value in use.

Under HK GAAP, an impairment of long-lived assets is charged to the income statement as an expense unless it reverses a previous revaluation increase, in which case, it is charged directly against any related revaluation reserve to the extent the reduction does not exceed the amount held in the revaluation reserve in respect of the same item. Any excess will be charged to the income statement.

Under US GAAP, if the carrying value of a long-lived asset is less than its undiscounted sum of estimated future cash flows, the long-lived asset should be adjusted downward to the lower of carrying value and fair value less cost to sell, establishing a new cost basis. The new cost basis is not changed for subsequent recoveries in fair value.

During the year, the Group has made provision for impairment of fixed assets of HK\$29 million (2003: HK\$1,167 million, 2002: HK\$232 million) under both HK and US GAAPs, which is included in "Provisions for impairment losses" in the consolidated income statement. Details of provision for impairment of fixed assets made in 2004 and 2003 are set out in note 8. Provisions for impairment of fixed assets made in 2002 included provisions for fixed assets relating to the Internet Services business and for Powerb@se, the Group's Internet Data Centers infrastructure in Hong Kong under both HK and US GAAPs.

In addition, during the year, the Group has made no provision for impairment of intangible assets under HK GAAP (2003: HK\$351 million; 2002: Nil) and HK\$3,389 million under US GAAP (2003: HK\$351 million, 2002: HK\$4,703 million), which is included in "Provisions for impairment losses" in the consolidated income statement. For the provisions for impairment of intangible assets made under HK and US GAAPs, please refer to notes 22 and 43(b) above.

n. Derivative instruments

Under HK GAAP, there are no specific accounting standards governing the accounting for derivative instruments. As a result, the Company adopts the following accounting policies under HK GAAP:

- Derivative financial instruments are not recognized in financial statements;
- Premiums received or paid on written or purchased equity options are amortized over the terms of the options;
- Premiums received or paid on early terminations or amendments of contract terms of the financial instruments and derivatives and any unamortized balance of premiums received or paid on terminated or amended financial instruments or derivatives are recognized in the income statement in the year of termination or amendment;
- Interest income or expenses arising from the interest rate swap contracts are netted off against the related interest income or expenses applicable to the on-balance sheet items.

Under US GAAP, the Company adopts SFAS No. 133 "Accounting for Derivative Instruments and Hedge Activities", as amended by SFAS No. 138 "Accounting for Certain Derivative Instruments and Certain Hedging Activities", which requires all financial instruments and derivatives to be recognized on the balance sheet at fair value. The accounting for changes in fair value depends on whether the derivative instrument is designated and qualifies as a hedging relationship. The gain or loss on a derivative instrument designated and qualifying as a fair value hedging instrument as well as the offsetting loss or gain on the hedged item attributable to the hedged risk shall be recognized currently in income statement. The gain or loss on a derivative instrument designated and qualifying as a cash flow hedging instrument shall be reported as a component of other comprehensive income and reclassified into the income statement in the same period during which the hedged forecasted transaction affects the income statement. During the year ended December 31, 2004, the Company's derivative instruments are either not designated as a hedging relationship or do not qualify for hedge accounting under SFAS 133. Therefore, changes in fair value of the derivative instruments, which was a loss of HK\$335 million (2003: loss of HK\$644 million, 2002: gain of HK\$1,350 million), have been recognized in the income statement for the year ended December 31, 2004.

In 1999, the Group issued an option, to the minority shareholder of a subsidiary to enable the minority shareholder to exchange its shares in the subsidiary for a fixed number of shares to be issued by the Company. For US GAAP purposes, the transaction has been reflected as if the acquisition of the minority interest in a subsidiary operating in the Internet services business in the "Others" segment had occurred at the date of grant. This instrument was recorded based on the fair value at the date of grant and purchase accounting was applied to allocate value to the net assets acquired. Under HK GAAP, the option was not recognized in the financial statements until the minority shareholder exercised the options for exchange of shares in 2002. As a result of the change in estimated fair value of the Group's obligation under this instrument, a release of a part of provision amounting to approximately HK\$464 million was recorded under HK GAAP for the year ended December 31, 2002.

During 2002, the Group entered into certain equity swap contracts in relation to certain of the Group's investments in equity securities which have been classified as other investments and trading securities in the financial statements under HK GAAP and US GAAP respectively. Each of these equity swap contracts comprises a debt instrument (the host contract) and embedded derivatives that are indexed to the prices of the equity investments. There are no specific accounting standards governing equity swap contracts under HK GAAP. The transactions were considered a combination of a forward sale of the trading securities and a call option held by the counterparty. A deemed gain of HK\$10 million from the forward sales was recognized in the income statement for the year ended December 31, 2002. The premium received from writing the call options was amortized over the term of the contracts. Under US GAAP, the debt instrument is carried at cost less discount while the compound embedded derivatives are bifurcated from the host contract and are separately accounted for in the financial statements at their fair market value at each balance sheet date. As at December 31, 2004, the carrying amount of the debt instrument and the compound derivatives were HK\$202 million (2003: HK\$198 million) and HK\$57 million (2003: HK\$42 million) respectively.

43 SUMMARY OF DIFFERENCES BETWEEN HONG KONG AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES
(continued)

o. Cash flows under US GAAP

- i. Net cash flow from operating activities includes effect of cash flows from interest expense paid in respect of borrowings and dividend received from equity securities, and excludes effect of movements in certain non-current assets.
- ii. Net cash flow from investing activities includes effect of movements in certain non-current assets and excludes effect of cash flow from dividend received from equity securities.
- iii. Net cash flow from financing activities includes effect of cash flows from reclassification of bank loans and overdrafts repayable within three months as financing activities and excludes effect of cash flows from interest expense paid in respect of borrowings.
- iv. Cash and cash equivalents are short-term, highly liquid investments with original maturities of less than three months and are readily convertible to known amounts of cash. They exclude bank loans and overdrafts repayable within three months that are reflected as a component of cash equivalents under HK GAAP.

p. Loss on disposal of interest in RWC

As discussed in note 13(a), the Company disposed of its remaining 40% interest in RWC on June 28, 2002. Under HK GAAP, the disposal was recognized at the date of sale.

For US GAAP purposes, on first adoption of SFAS No. 142 on January 1, 2002, the goodwill recorded in RWC was tested and was found to be impaired. The Group's share of the impairment loss was HK\$3,399 million and was included in "Cumulative effect of a change in accounting principle, net of tax" in the income statement for the year ended December 31, 2002 with a corresponding reduction in the carrying value of the Group's investment in RWC. As a result of the reduction in carrying value, no loss on disposal was incurred under US GAAP when the Group's 40% interest in RWC was sold in June 2002.

q. Equity pick up of results of REACH

Under HK GAAP, no further equity pick up of the losses of REACH for the year ended December 31, 2004 has been recorded as the original investment in REACH and previous unsecured advances to REACH had been fully written off in 2003. Since the additional loan to REACH of approximately US\$155.45 million (approximately HK\$1,213 million) resulting from the purchase of the loan from the syndicate of banks in 2004 is fully secured, details of which are set out in note 3(c), no further equity pick up of the losses of REACH by the Group is allowed under HK GAAP.

Under US GAAP, regardless of whether the loan receivable from REACH is secured or not, equity pick up of the Group's share of the losses of REACH is required as long as the Group continues to have investments in loans to REACH.

An analysis of the Group's total interest in REACH under US GAAP as at December 31, 2004 is as follows:

| | 2004 HK\$ million | 2003 HK\$ million |
|--|----------------------|----------------------|
| Share of net assets, net of impairment | – | – |
| Loan receivable from a wholly-owned subsidiary of REACH (note 3(c)), net of impairment | 1,214 | – |
| Equity pick-up of loss | (136) | – |
| Equity pick-up of comprehensive income | 118 | – |
| | <hr/> | <hr/> |
| Total interest in REACH, net of impairment | 1,196 | – |
| | <hr/> | <hr/> |

r. Others

Included in others are certain guarantees received from a shareholder and other insignificant GAAP differences.

43 SUMMARY OF DIFFERENCES BETWEEN HONG KONG AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES
(continued)

s. Segment reporting

With the adoption under HK GAAP of SSAP 26 “Segment reporting” from January 1, 2001, the Group has reported business segment information as its primary reporting segment in accordance with its internal financial reporting. Segment information under HK GAAP includes data that can be directly attributable to a segment and those items that can be reasonably allocated.

Under US GAAP, segment information is based on the segmental operating results regularly reviewed by the Group’s chief operating decision maker applying accounting policies consistent with those used in preparation of the Group’s consolidated HK GAAP financial statements.

Segment information, including revenues and results for these segments for each of the three years ended December 31, 2004 are presented in note 5. The computation of segment results required by HK GAAP approximates measures of performance used internally by the chief operating decision maker and materially complies with US GAAP.

Please refer to note 5 for the Group’s other segment information required by the provisions of SFAS No. 131 “Segment Reporting”.

t. Disposal of PCCW Tower

Under US GAAP, the disposal by Partner Link of PCCW Tower as disclosed in note 41(c) will not be accounted for as a sale until the expiry of the rental guarantee given by Partner Link to the purchaser, details of which have been disclosed in note 19.

44 NEW US GAAP ACCOUNTING STANDARDS

a. In March 2004, the Emerging Issues Task Force (“EITF”), reached a consensus on EITF Issue No. 03-1 (“EITF 03-1”) “The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments”. EITF 03-1 addresses the meaning of other-than-temporary impairment and its application to investments in debt and equity securities accounted for under SFAS No. 115 “Accounting for certain Investments in Debt and Equity Securities” and to investments in equity securities accounted for using the cost method, as well as new disclosure requirements for investments that are deemed to be temporarily impaired. EITF 03-1 currently provides a multi-step model for determining whether an impairment of an investment is other-than-temporary, and requires an impairment charge to be recognized in earnings in the period in which an other-than-temporary impairment has occurred based on the difference between the adjusted cost basis of the investment and its fair value at the balance sheet date. EITF 03-1 requires certain quantitative and qualitative disclosures about unrealized losses pertaining to certain investments and beneficial interests, in addition to certain disclosures about cost method investments when the fair value of such investments is not currently estimable. While the disclosure requirements for specified debt and equity securities and cost method investments are effective for annual periods ending after December 15, 2003, the Financial Accounting Standards Board (“FASB”) has delayed the effective date for the application of multi-step measurement and recognition guidance until issuance of implementation guidance contained in FASB Staff Position EITF 03-1-1 “Effective Date of Paragraphs 10-20 of EITF Issue No. 03-1 “The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments””. The Group is currently assessing the impact of this statement on its results of operations, financial position and cash flows upon adoption and has not yet completed that assessment.

b. In November 2004, the FASB issued SFAS No. 151 “Inventory Costs – an amendment of ARB No. 43, Chapter 4”. SFAS No. 151 amends Accounting Research Bulletin No. 43, Chapter 4, to clarify that abnormal amounts of idle facility expense, freight, handling costs and wasted materials (spoilage) should be recognized as current-period charges. In addition, SFAS No. 151 requires that the allocation of fixed production overhead costs to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Group does not expect that the adoption of SFAS No. 151 will have a material impact on its results of operations, financial position and cash flows.

44 NEW US GAAP ACCOUNTING STANDARDS (continued)

- c.** In December 2004, the FASB issued SFAS No. 153 "Exchange of Non-monetary Assets – an amendment of APB Opinion No. 29". APB Opinion No. 29 "Accounting for Non-monetary Transactions" requires non-monetary exchanges of assets to be recorded at fair value with an exception for exchanges of similar productive assets, which can be recorded on a carryover basis. SFAS No. 153 amends APB Opinion No. 29 to eliminate the current exception and replaces it with a general exception for exchanges of non-monetary assets that do not have commercial substance. A non-monetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS No. 153 is effective for non-monetary asset exchanges that take place in fiscal periods beginning after June 15, 2005. The Group is currently assessing the impact of this statement on its results of operations, financial position and cash flows upon adoption and has not yet completed that assessment.
- d.** In December 2004, the FASB issued SFAS No. 123 (revised 2004) ("SFAS No. 123(R)") "Share-Based Payment". SFAS No. 123(R) replaces SFAS No. 123 "Accounting for Stock-Based Compensation", supersedes APB Opinion No. 25 "Accounting for Stock Issued to Employees" and amends SFAS No. 95 "Statement of Cash Flows". SFAS No. 123(R) requires all share-based awards to employees, including grants of employee stock options, to be recognized in the financial statements based on their grant-date fair values. The related compensation costs are to be recognized over the period during which an employee is required to provide service in exchange for the award. Excess tax benefits are to be recognized as an addition to paid-in-capital and reflected as financing cash inflows in the statement of cash flows. For public entities that do not file as small business issuers, SFAS No. 123(R) is effective for all awards granted after June 15, 2005, and to awards modified, repurchased, or cancelled after that date. The Group will adopt the modified prospective application transition method under the transition provisions of SFAS No. 123(R) to new and existing plans as of January 1, 2006. The grant-date fair values of unvested awards that are outstanding on the date of adoption will be charged to expense over their remaining vesting periods. The Group is currently assessing the impact of this statement on its results of operations, financial position and cash flows upon adoption and has not yet completed that assessment.

45 OTHER US GAAP DISCLOSURES

a. Derivatives

The Group adopted SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities", as amended by SFAS No. 138 "Accounting for Certain Derivative Instruments and Certain Hedging Activities". SFAS No. 133, as amended, establishes accounting and reporting standards for derivative instruments, and requires that all derivatives be recorded on the balance sheet at fair value. Additionally, the accounting for changes in fair value depends on whether the derivative instrument is designated and qualifies as part of a hedging relationship and, if so, the nature of hedging activity. Changes in the fair value of derivatives that do not qualify for hedge treatment, as well as the ineffective portion of a particular hedge, must be recognized currently in earnings. Upon adoption of SFAS No. 133, the cumulative transition adjustment was not significant.

As a result of the Group's funding activities, the Group is exposed to market risk resulting from changes in interest rates and changes in foreign currency exchange rates relative to the Hong Kong dollar. From time to time, the Group enters into financial instruments such as cross currency swaps, interest rate options, foreign currency forwards, interest rate or currency swaps, forward rate agreements and options to manage its exposures and market risks.

i. Interest rate swap contracts

The Group entered into interest rate swap contracts to manage its exposure for foreign currency denominated debt to changes in both interest rates and currency movements. At December 31, 2004, the total notional amount of interest rate swap contracts was HK\$48,407 million (2003: HK\$23,447 million).

The table below summarizes the notional amount and fair value of the Group's interest rate swap contracts in Hong Kong dollars as at December 31, 2004 and 2003. Foreign currency amounts are translated at rates current at the balance sheet date.

| | 2004 | | 2003 | |
|---------------------------------------|---------------------------------|----------------------------|---------------------------------|----------------------------|
| | Notional amount HK\$ million | Fair value HK\$ million | Notional amount HK\$ million | Fair value HK\$ million |
| Derivatives not designated as hedges: | | | | |
| Fixed-to-floating swaps | 9,407 | 462 | 9,407 | 417 |
| Fixed-to-fixed swaps | 35,100 | (637) | 12,090 | (180) |
| Floating-to-floating swaps | 3,900 | (13) | 1,950 | (24) |
| | <hr/> | | | |
| | 48,407 | (188) | 23,447 | 213 |
| | <hr/> | | | |

ii. Interest rate option agreements

Based on the Group's expectation of interest rate movements, it will enter into interest rate option agreements to lock-in interest rates considered favorable to future cash flow. At December 31, 2004, the total notional principal amount of such agreements was HK\$53 million (2003: HK\$68 million).

The table below summarizes the notional amount and fair value of the Group's interest rate option agreements in Hong Kong dollars as at December 31, 2004 and 2003. Foreign currency amounts are translated at rates current at the balance sheet date.

| | 2004 | | 2003 | |
|---------------------------------------|---------------------------------|----------------------------|---------------------------------|----------------------------|
| | Notional amount HK\$ million | Fair value HK\$ million | Notional amount HK\$ million | Fair value HK\$ million |
| Derivatives not designated as hedges: | | | | |
| Interest rate option | 53 | - | 68 | - |
| | <hr/> | | | |

45 OTHER US GAAP DISCLOSURES (continued)

a. Derivatives (continued)

iii. Foreign exchange forward contracts

Based on the Group's expectation of foreign exchange rate movements, the Group enters into foreign exchange forward contracts to manage its exposure to exchange rate fluctuations of foreign currency denominated debt. In structuring such transactions, the Group takes into account the fact that since October 17, 1983, the Hong Kong dollar has been officially linked to the US dollar at a rate of HK\$7.80 to US\$1.00. The contractual amount of the Group's foreign exchange forward contracts as at December 31, 2004 was HK\$1,090 million (2003: HK\$7,100 million).

The table below summarizes, by major currency, the contractual amounts and fair value of the Group's foreign exchange forward contracts in Hong Kong dollars to buy or sell foreign currencies at December 31, 2004 and 2003. Foreign currency amounts are translated at rates current at the balance sheet date.

| | 2004 | | 2003 | |
|---|---------------------------------|----------------------------|---------------------------------|----------------------------|
| | Notional amount HK\$ million | Fair value HK\$ million | Notional amount HK\$ million | Fair value HK\$ million |
| Derivatives not designated as hedges: | | | | |
| Buy United States dollars for Hong Kong dollars | 1,090 | (5) | 7,100 | (72) |

The highest, average and lowest amounts of foreign currency forward contracts outstanding during the year ended December 31, 2004 were approximately HK\$8,668 million (2003: HK\$7,100 million), HK\$4,795 million (2003: HK\$3,246 million) and HK\$1,102 million (2003: Nil), respectively.

iv. Equity swap and equity option contracts

During 2002, the Group entered into certain equity swap contracts in relation to certain of the Group's investments in equity securities which have been classified as trading securities in the financial statements under US GAAP. Each of these equity swap contracts comprises a debt instrument (the host contract) and embedded derivatives that are indexed to the prices of the equity investments. The debt instrument is carried at cost less discount while the compound embedded derivatives are bifurcated from the host contract and are separately accounted for in the financial statements at their fair market value at each balance sheet date. As at December 31, 2004, the carrying amount of the debt instrument and the compound derivatives were HK\$202 million (2003: HK\$198 million) and HK\$57 million (2003: HK\$42 million) respectively. The equity swap contracts have terms of up to five years from the date of the contracts and will mature in 2007.

v. Monitoring and control of financial instruments

The Group has established treasury policies, guidelines, and control procedures and uses a treasury reporting system to record and monitor its treasury position. The level of hedging is determined in light of commercial commitments and is reviewed regularly by the Executive Committee and senior finance executives. Counterparties to both forward exchange and interest rate contracts are major financial institutions and the Group does not require collateral or security on off balance sheet instruments. The Group continually monitors its positions and the credit rating of its counterparties and limits the amount of contracts with any one party. The Group does not consider that it has a significant exposure to risk from any individual counterparty or group of counterparties.

45 OTHER US GAAP DISCLOSURES (continued)

b. Concentration of credit risk and revenue

Credit risk represents the accounting loss that would be recognized at the reporting date if counterparties failed completely to perform as contracted. Concentrations of credit risk (whether on or off balance sheet) that arise from financial instruments exist for groups of customers or counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The Group does not have a significant exposure to any individual debtors or counterparties.

As a very substantial portion of the outstanding receivables is due from customers in Hong Kong, the Group does not have significant credit risk arising from receivables in relation to debtors located outside Hong Kong.

Local telephone services, retail international services and local data services accounted for approximately 23%, 11% and 19% of the Group's revenue under HK GAAP for the year ended December 31, 2004.

c. Fair value of financial instruments

The following table presents the carrying amounts and fair values of the Group's significant financial instruments at December 31, 2004 and 2003. SFAS No. 107, "Disclosures about Fair Value of Financial Instruments", defines the fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

| | 2004 | | 2003 | |
|------------------------------------|---------------------------------|----------------------------|---------------------------------|----------------------------|
| | Carrying amount HK\$ million | Fair value HK\$ million | Carrying amount HK\$ million | Fair value HK\$ million |
| Cash and cash equivalents | 3,509 | 3,509 | 5,547 | 5,547 |
| Held-to-maturity securities (Note) | 31 | N/A | 37 | N/A |
| Long-term unlisted investments | 388 | 388 | 528 | 528 |
| Long-term listed investments | — | — | 83 | 83 |
| Trading securities | 277 | 277 | 340 | 340 |
| Short-term borrowings | (10,417) | (10,714) | (922) | (922) |
| Long-term borrowings | (16,935) | (19,282) | (21,051) | (23,121) |
| Convertible note and bonds* | (3,884) | (3,936) | (13,803) | (14,594) |

Note: Due to the nature of held-to-maturity securities, it is not practicable to estimate their fair value as such exercise would require excessive cost.

* Balances include redemption premium on certain convertible bonds.

The following notes summarize the major methods and assumptions used in estimating the fair values of financial instruments.

Short-term financial instruments are valued at their carrying amounts included in the statement of financial position, which are reasonable estimates of fair value due to the relatively short period to maturity of the instruments. This approach applies to cash and cash equivalents and short-term borrowings.

The fair value of long-term borrowings is based on quoted market prices, present value calculations after considering risk, current interest rates, and remaining maturities. In addition, for convertible bonds, the Group also applies modeling techniques to estimate the fair value of the equity components of these instruments.

For unquoted securities, the reported fair value is estimated by the Group on the basis of financial and other information.

Rates currently available to the Group for non-current bank deposits and receivables with similar terms and remaining maturities are used to estimate the fair value of such instruments as the present value of expected cash flows.

The fair value of derivatives generally reflects the estimated amounts that the Group would receive or pay to terminate the contracts at the balance sheet date. Dealer quotes were used to value most of the Group's forward exchange contracts and interest rate swap contracts.

46 OTHER ADDITIONAL UNAUDITED DISCLOSURES**a. Post balance sheet events**

- i. On April 1, 2005, the Subscription as set out in note 41(a) was completed and CNC(BVI) became a substantial shareholder and connected person (as defined in the Listing Rules) of the Company.
- ii. On April 16, 2005, the Company agreed with Telstra and REACH on a new operating model under which REACH would operate as an outsourcer of telecommunications network services for the Group and the Telstra and its subsidiaries ("Telstra Group"). To implement this new operating model, PCCW Communications (Singapore) Pte Ltd ("PCCW Communications"), an indirect wholly-owned subsidiary of the Company, and Telstra each agreed to acquire indefeasible rights to use international undersea cable capacity of REACH and its subsidiaries ("Reach Group"), for which PCCW Communications and Telstra each paid Reach Global Networks Limited, a wholly-owned subsidiary of REACH, US\$157 million which was settled by way of set-off against, in the case of the Group, the equivalent amount of the outstanding amount of approximately US\$1,200 million owed to the Group by the Reach Group ("Shareholder Loan"), and not by way of new cash injections. In addition, interest of US\$6 million due by REACH to the Group was waived and US\$445 million of the remaining balance of the Shareholder Loan was capitalized by way of the issue of shares in REACH to Pacific Century Cable Holdings Limited, a wholly-owned subsidiary of the Company and holder of the Group's interest in REACH since its formation. Following the set-off and capitalization referred to above, REACH's aggregate indebtedness to the Group was reduced to US\$155 million.

PCCW Communications and Telstra also each assumed one half of REACH's committed future capital expenditure in order to support growth in their own retail services. PCCW Communications' share of this expenditure over the next 17-year period from March 2005 to 2022 is expected to be approximately US\$106 million. PCCW Communications and Telstra will only assume any additional future capital expenditure if such expenditure is approved by both PCCW Communications and Telstra.

Further, pursuant to the Reach Network Services Agreement dated April 16, 2005 between certain member of the Group, the Telstra Group and the Reach Group ("Reach Network Services Agreement"), REACH will provide to the Group and the Telstra Group certain outsourcing services in relation to the international undersea cable capacity allocated by way of the grant of indefeasible rights to use as described above.

As part of the arrangements relating to the establishment of a new operating model for REACH, the International Services Agreement was terminated pursuant to the provisions of the Reach Network Services Agreement and the Group's obligations under the capacity prepayment agreement have been satisfied under the Reach Debt and Asset Restructure Deed dated April 16, 2005 between certain members of the Group, the Telstra Group and the Reach Group.

- iii. On April 21, 2005, regarding the interest payments in dispute as set out in note 15, HKTC received formal notices of additional assessment and demand for tax for the years of assessment from 2000/01 to 2003/04 totalling HK\$240 million.

REACH LTD.

UNAUDITED CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2004 AND 2003

(in thousands of US dollars, except share and per share data)

| | 31.12.2004 | 31.12.2003 |
|---|-----------------------|-----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 81,878 | \$ 95,129 |
| Restricted cash (note 4) | 5,725 | 10,827 |
| Accounts receivable, less allowance of \$22,965 and \$26,018 as of 31 December 2004 and 2003, respectively | 111,694 | 108,498 |
| Amounts due from shareholders (note 18) | 42,857 | 45,369 |
| Prepaid expenses and other current assets (note 5) | 29,772 | 40,977 |
| Total current assets | \$ 271,926 | \$ 300,800 |
| Property, plant and equipment, net (note 6) | 371,388 | 395,786 |
| Goodwill, net (note 7) | – | – |
| Other intangible assets, net (note 8) | – | – |
| Restricted cash (note 4) | 10,000 | 50,000 |
| Debt issuance costs | 8,189 | 9,553 |
| Other assets (note 9) | 8,202 | 11,030 |
| Deferred tax assets (note 16) | 12,712 | 12,748 |
| TOTAL ASSETS | \$ 682,417 | \$ 779,917 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 237,148 | \$ 261,004 |
| Accruals and other payables | 118,996 | 119,521 |
| Level 3 acquisition accruals – current portion (note 1) | 8,884 | 11,036 |
| Capital lease obligations – current portion (note 10) | 53,612 | 39,087 |
| Other unsecured loan – current portion (note 11) | 1,247 | 1,109 |
| Deferred revenue – current portion | 40,745 | 14,446 |
| Interest payable | 7,842 | 7,471 |
| Income taxes payable | 8,459 | 14,454 |
| Total current liabilities | \$ 476,933 | \$ 468,128 |
| Long-term liabilities: | | |
| Bank loan (note 12) | \$ – | \$ 1,200,000 |
| Shareholders loans (note 12) | 1,200,000 | – |
| Level 3 acquisition accruals (note 1) | 38,805 | 46,488 |
| Capital lease obligations (note 10) | 89,168 | 70,237 |
| Other unsecured loan (note 11) | 768 | 1,921 |
| Provision for non-recoverable capital commitments (note 6) | – | 79,886 |
| Capacity purchase prepayments from shareholders (note 13) | 305,436 | 293,414 |
| Deferred revenue | 65,414 | 79,768 |
| Other liabilities (note 14) | – | 19,191 |
| Total long-term liabilities | \$ 1,699,591 | \$ 1,790,905 |
| Minority interests | \$ 10,000 | \$ 20,212 |
| Contingencies (note 17) | \$ – | \$ – |
| Shareholders' deficit: | | |
| Common shares (\$1 par value – 7,000,000,000 shares authorized; 5,000,000,000 shares issued and outstanding) | \$ 5,000,000 | \$ 5,000,000 |
| Deficit incurred upon combination (note 1) | (3,865,187) | (3,865,187) |
| Accumulated losses | (2,669,845) | (2,634,868) |
| Accumulated other comprehensive income | 30,925 | 727 |
| Total shareholders' deficit | \$ (1,504,107) | \$ (1,499,328) |
| TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIT | \$ 682,417 | \$ 779,917 |

See notes to unaudited consolidated financial statements.

REACH LTD.

UNAUDITED CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED 31 DECEMBER 2004 AND 2003

(in thousands of US dollars)

| | <u>2004</u> | <u>2003</u> |
|---|--------------------|-----------------------|
| Revenue | \$ 807,686 | \$ 901,960 |
| Operating expenses: | | |
| Direct cost of sales | \$ 543,131 | \$ 626,191 |
| Depreciation and amortization | 55,693 | 203,444 |
| Selling, general and administrative | 164,202 | 184,976 |
| Loss on disposal of leased and long-lived assets | 3,965 | 10,402 |
| Impairment write down on goodwill and long-lived assets and provision for non-recoverable capital commitments (note 15) | - | 2,664,841 |
| Reorganization and other costs | 4,355 | 13,605 |
| Total operating expenses | <u>\$ 771,346</u> | <u>\$ 3,703,459</u> |
| Operating income (loss) | \$ 36,340 | \$ (2,801,499) |
| Interest expense | (64,426) | (83,843) |
| Interest income | 1,169 | 2,536 |
| Loss before income taxes and minority interests | <u>\$ (26,917)</u> | <u>\$ (2,882,806)</u> |
| Income tax (expense) credit (note 16) | (8,272) | 53,399 |
| Loss before minority interests | <u>\$ (35,189)</u> | <u>\$ (2,829,407)</u> |
| Minority interests | 212 | 225 |
| Net loss | <u>\$ (34,977)</u> | <u>\$ (2,829,182)</u> |

See notes to unaudited consolidated financial statements.

REACH LTD.

UNAUDITED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
AND COMPREHENSIVE INCOME (LOSS)
FOR THE YEAR ENDED 31 DECEMBER 2004 AND 2003

(in thousands of US dollars, except share data)

| | Common shares | | Deficit incurred upon combination | Retained earnings / (Accumulated losses) | Accumulated other comprehensive (loss)/income | Total shareholders' equity / (deficit) | Total comprehensive income / (loss) |
|---|---------------|--------------|--|---|--|---|---|
| | Shares | Amount | | | | | |
| Balance at 31 December 2002 | 5,000,000,000 | \$ 5,000,000 | \$ (3,865,187) | \$ 194,314 | \$ (33,212) | \$ 1,295,915 | |
| Net loss | - | - | - | (2,829,182) | - | (2,829,182) | \$ (2,829,182) |
| Foreign currency translation adjustment | - | - | - | - | 20,961 | 20,961 | 20,961 |
| Change in fair value of derivative instruments | | | | | | | |
| - interest rate swap contracts | - | - | - | - | 13,462 | 13,462 | 13,462 |
| - forward exchange contracts | - | - | - | - | (484) | (484) | (484) |
| Total comprehensive loss | | | | | | | \$ (2,795,243) |
| Balance at 31 December 2003 | 5,000,000,000 | \$ 5,000,000 | \$ (3,865,187) | \$ (2,634,868) | \$ 727 | \$ (1,499,328) | |
| Net loss | - | - | - | (34,977) | - | (34,977) | \$ (34,977) |
| Foreign currency translation adjustment | - | - | - | - | 10,535 | 10,535 | 10,535 |
| Change in fair value of derivative instruments | | | | | | | |
| - interest rate swap contracts | - | - | - | - | 10,061 | 10,061 | 10,061 |
| - forward exchange contracts | - | - | - | - | 472 | 472 | 472 |
| Transfer of ineffective portion of fair value of interest rate swap contracts into earnings | - | - | - | - | 9,130 | 9,130 | 9,130 |
| Total comprehensive loss | | | | | | | \$ (4,779) |
| Balance at 31 December 2004 | 5,000,000,000 | \$ 5,000,000 | \$ (3,865,187) | \$ (2,669,845) | \$ 30,925 | \$ (1,504,107) | |

See notes to unaudited consolidated financial statements.

REACH LTD.

UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2004 AND 2003

(in thousands of US dollars)

| | <u>2004</u> | <u>2003</u> |
|--|--------------------|--------------------|
| Cash flows from operating activities: | | |
| Net loss | \$ (34,977) | \$ (2,829,182) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Depreciation and amortization | 55,693 | 203,444 |
| Amortization of debt issuance costs | 1,364 | 2,241 |
| Minority interests | (212) | (225) |
| Deferred income tax expense (credit) | 36 | (66,299) |
| Loss on disposal of leased assets | - | 10,402 |
| Loss on disposal of property, plant and equipment | 3,965 | 409 |
| Impairment write down on goodwill and long-lived assets and provision for non-recoverable capital commitments | - | 2,664,841 |
| Accrued time value on capacity purchase prepayments from shareholders | 12,022 | 7,414 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (3,196) | 3,861 |
| Amounts due from shareholders | 2,512 | 105,593 |
| Prepaid expenses and other current assets | 18,011 | 2,425 |
| Accounts payable | (23,856) | 23,084 |
| Accruals and other payables | (12,720) | (45,519) |
| Level 3 acquisition accruals | (9,835) | (17,104) |
| Interest payable | 371 | 473 |
| Deferred revenue | 11,945 | 4,392 |
| Income taxes payable | (5,995) | (3,172) |
| Net cash provided by operating activities | <u>\$ 15,128</u> | <u>\$ 67,078</u> |
| Cash flows from investing activities: | | |
| Purchase of property, plant and equipment | \$ (38,377) | \$ (58,941) |
| Proceeds from disposal of property, plant and equipment | 3,341 | 576 |
| Purchase of minority interests | (9,633) | - |
| Net (increase) decrease in restricted cash | (4,898) | (12) |
| Net cash used in investing activities | <u>\$ (49,567)</u> | <u>\$ (58,377)</u> |
| Cash flows from financing activities: | | |
| Capacity purchase prepayments from shareholders | \$ - | \$ 286,000 |
| Repayment of bank borrowings | - | (300,000) |
| Deposit released from (pledged to) a bank for loan facility | 50,000 | (50,000) |
| Capital lease payments | (27,797) | (29,674) |
| (Repayment of) proceeds from other unsecured loan | (1,015) | 3,030 |
| Net cash provided by (used in) financing activities | <u>\$ 21,188</u> | <u>\$ (90,644)</u> |
| Net decrease in cash and cash equivalents | <u>\$ (13,251)</u> | <u>\$ (81,943)</u> |
| Cash and cash equivalents at beginning of the year | 95,129 | 177,072 |
| Cash and cash equivalents at end of the year | <u>\$ 81,878</u> | <u>\$ 95,129</u> |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION: | | |
| Interest paid | \$ 50,625 | \$ 74,547 |
| Income taxes paid | <u>\$ 14,231</u> | <u>\$ 15,668</u> |

(in thousands of US dollars, except share and per share data)

1. ORGANIZATION AND NATURE OF OPERATIONS

Reach Ltd. is a private limited company incorporated in Bermuda. The principal activities of Reach Ltd. and its subsidiaries (collectively the "Company") include the provision of global wholesale communications. The Company was established by PCCW Limited ("PCCW") and Telstra Corporation Limited ("Telstra") as described below.

The PCCW and Telstra Contributions

Pursuant to the Transfer Agreements entered into between the Company and PCCW and Telstra on 13 October 2000, the global wholesale communication businesses and assets previously operated and owned by PCCW and Telstra (the "PCCW and Telstra Contributions") were contributed into the Company. In return the Company issued 2,500,000,000 common shares to each of PCCW and Telstra and paid cash of \$1,125,000 and \$375,000 to PCCW and Telstra, respectively. In addition, in accordance with the Transfer Agreements, the Company paid \$25,000 to Telstra for certain costs incurred associated with the contribution of the businesses and assets made by Telstra to the Company.

Pursuant to Accounting Principles Board ("APB") Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock" and following the SEC Observer comments related to Financial Accounting Standard Board's Emerging Issues Task Force ("EITF") Issue 98-4, "Accounting by a Joint Venture for Businesses Received at Its Formation", the Company accounted for the PCCW and Telstra Contributions using joint venture accounting. The businesses and assets contributed by PCCW and Telstra were recorded by the Company, upon the completion of the contributions, at the carrying values of these businesses and assets previously recorded in the respective books of PCCW and Telstra prior to the completion of contributions. The difference between the total value of the shares issued and cash consideration paid by the Company and the aggregate carrying values of the businesses and assets contributed by PCCW and Telstra of \$3,865,187 was recorded as a deficit incurred upon combination as a component of the shareholders' equity. The operations of the assets and businesses contributed were recorded in the accompanying consolidated financial statements from the date of combination.

The Company is jointly and equally owned by PCCW and Telstra. Neither shareholder can control the Board of Directors nor dominate decision making over the financial and operating policies of the Company.

The Level 3 Acquisition

Effective 30 November 2001 ("Acquisition Date"), the Company acquired the North Asian and Trans-Pacific Cable operations from the Level 3 Companies (the "Level 3 acquisition") a telecommunication carrier. The Company assumed certain liabilities of \$ 90,592 on behalf of Level 3 ("Level 3 acquisition accruals"), which included an accrual for long-term operating lease contracts entered into by Level 3, future committed guarantee payments to two joint venture partners in Korea and Taiwan and future restoration costs expected to be incurred on certain leased spaces, in exchange for the net assets of Level 3. In addition, Level 3 committed to pay cash consideration of \$50,178 to the Company as partial settlement of these assumed liabilities. The Company received the cash consideration in the year ended 31 December 2002.

(in thousands of US dollars, except share and per share data)

1. ORGANIZATION AND NATURE OF OPERATIONS - continued

The Level 3 Acquisition - continued

The transaction has been accounted for as a purchase and, accordingly, the results of operations of Level 3 are included in the accompanying financial statements from the Acquisition Date. Assets and liabilities acquired were recorded at their fair market values at the date of acquisition.

As required under the provisions of Statement of Financial Accounting Standards ("SFAS") No. 141, net assets and consideration received in excess of purchase price totalling \$382,302 was allocated to property, plant and equipment. The fair value of the assets and liabilities acquired by the Company was based on management's best estimates of after-tax net cash flows.

The outstanding balance of the Level 3 acquisition accrual was \$47,689 and \$57,524 at 31 December 2004 and 2003, respectively.

Organizational Structure

A summary of the principal subsidiaries is as follows:

| <u>Principal subsidiaries</u> | <u>Place of incorporation</u> | <u>Principal activity</u> | <u>Percentage of ownership as at 31 December 2004</u> |
|--------------------------------------|-------------------------------|--|---|
| Reach Global Services Limited | Hong Kong | Provision of connectivity services | 100% |
| Reach Networks Hong Kong Limited | Hong Kong | Provision of connectivity services | 100% |
| Reach Global Networks Limited | Bermuda | Asset ownership and provision of connectivity services | 100% |
| Reach Finance Limited | Hong Kong | Financing vehicle | 100% |
| Reach Services Australia Pty Limited | Australia | Provision of intra-group management services | 100% |
| Reach Cable Networks Limited | Hong Kong | Provision of connectivity services | 100% |

(in thousands of US dollars, except share and per share data)

2. BASIS OF PRESENTATION

The consolidated financial statements have been prepared on a going concern basis which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business.

As set out in detail in note 24 – “Post Balance Sheet Event”, the Company, PCCW and Telstra have agreed on a new operating model for the Company under which the Company will operate as a provider of outsourced telecommunications network services for PCCW and its subsidiaries (the “PCCW Group”) and Telstra and its subsidiaries (the “Telstra Group”), that took effect on 1 March 2005. In addition, a series of debt and asset restructuring transactions took place that included the partial settlement of the shareholders’ loans and the full settlement of the capacity purchase prepayment accounts. After the debt and asset restructuring transactions, the financial position of the Company has been significantly improved. With the new operating model in place, management believes that the Company can generate sufficient funds to meet its obligations in the normal course of business.

(in thousands of US dollars, except share and per share data)

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements of the Company are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Principle of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries. All significant intercompany transactions and balances are eliminated on consolidation.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Foreign currency

The Company has chosen the United States dollar as its reporting currency. For subsidiaries that prepare their financial statements in currencies other than the United States dollar, assets and liabilities are translated at the exchange rate at the balance sheet date, equity accounts are translated at historical exchange rates, and revenues, expenses, gains and losses are translated at the weighted average rates of exchange prevailing during the period. Translation adjustments resulting from this process are recorded in accumulated other comprehensive income or loss within shareholders' equity.

For those foreign entities that maintain their accounting records in a currency other than their functional currency, such accounts are remeasured into the entity's functional currency prior to translation to the United States dollar. Monetary assets and liabilities are remeasured using the exchange rates at the balance sheet date, nonmonetary assets and liabilities and equity accounts are remeasured using historical exchange rates, and revenues, expenses, gains and losses are remeasured using weighted average exchange rates for the period. The resulting remeasurement gains and losses are included in the statement of operations.

Transactions in foreign currencies during the period are translated at the rates ruling on the dates of transactions. All foreign exchange gains of \$1,289 and losses of \$1,371 in 2004 and 2003, respectively, are included in the statement of operations.

(in thousands of US dollars, except share and per share data)

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES - continued

Cash and cash equivalents

Cash and cash equivalents include highly liquid investments with maturities of three months or less when purchased that are readily convertible into cash and are not subject to significant risk from fluctuations in interest rates.

Property, plant and equipment

Property, plant and equipment, which include amounts under capitalized leases, are recorded at cost less accumulated depreciation. Depreciation is provided on a straight-line basis over the estimated useful lives of the respective assets, with the exception of assets acquired through capital leases and leasehold improvements, which are depreciated over the lesser of their estimated useful lives or the term of the lease. Estimated useful lives of property, plant and equipment are as follows:

| | |
|---|------------------------------------|
| Buildings | 50 years or term of lease, if less |
| Exchange equipment | 6 to 10 years |
| Transmission plant and equipment | 10 to 20 years |
| Other property, plant and equipment and leasehold improvements | 3 to 16 years |

Indefeasible right-of-use investments ("IRUs") acquired, which are treated as capital leases, are capitalized as property, plant and equipment and amortized over their estimated useful lives, not to exceed 15 years even in those cases where the right of use has been acquired for a longer period of time because management believes that, due to anticipated advances in technology, the Company's IRUs are not likely to be productive assets beyond 15 years.

The Company constructs certain of its transmission plant and equipment. In addition to costs under the construction contract, internal costs directly related to the construction of such facilities, including interest and salaries of certain employees, are capitalized. No depreciation is charged on construction in progress until the assets are operational.

Major enhancements of property, plant and equipment are capitalized, while expenditures for repairs and maintenance are expensed as incurred.

Upon retirement or disposal of property, plant and equipment, the related cost and accumulated depreciation are deducted from the accounts and the difference between the estimated net disposal proceeds and the carrying amount of the asset is recognized as a component of operating income on the date of retirement or disposal.

(in thousands of US dollars, except share and per share data)

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES - continued

Capitalization of interest

The Company capitalized interest costs based upon the cost of capital projects in progress. Capitalized interest of \$866 had been added to the cost of the underlying assets in 2003 and was amortized over the respective useful lives of the assets. No interest has been capitalized in the current year. Amortization expense relating to capitalized interest for 2003 was \$787. No such amortization expense incurred in the current year.

Goodwill

Goodwill and other indefinite – life intangible asset balances are tested for impairment annually during the fourth quarter in conjunction with the budgeting process. Fair value was determined using a discounted cash flow methodology. Under the impairment review at the end of 2003 using the discounted cash flow methodology, a full impairment write down on the carrying value of the goodwill was deemed to be required. As such an impairment write down on the goodwill of \$1,777,635 was made and included in the statement of operations in 2003.

Other intangible assets

Intangible assets consist primarily of trademarks arising from business combinations and are recorded at cost less accumulated amortization. Amortization is calculated using the straight-line method over the estimated useful lives of 10 years.

(in thousands of US dollars, except share and per share data)

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES - continued

Impairment of long-lived assets

The Company evaluates its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to future undiscounted net cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

Under the impairment review at the end of 2003, it was noted that the carrying amount of the long-lived assets may not be recoverable. As a result, impairment write downs of \$20,206 and \$787,114 had been made against other intangible assets and property, plant and equipment, respectively and which had been included in 2003 statement of operations. No impairment write down has been made in the current year.

Income taxes

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of operations as it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items that are never taxable or deductible.

The Company accounts for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities and their respective tax bases as well as operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are established when it is more likely than not that some or all of the deferred tax assets will not be realized.

Deferred tax assets and liabilities are classified as current or noncurrent based on the classification of assets and liabilities to which timing differences relate, or anticipated timing of reversal if they are not associated with any balance sheet items.

(in thousands of US dollars, except share and per share data)

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES - continued

Revenue recognition

The Company records revenue for voice and data services at the time of customer usage after deducting sales allowances, duties and taxes. Revenue received in advance is recorded as deferred revenue until the services are rendered.

The Company sells capacity on its network to other telecommunication providers. Sales of capacity are accounted for as either sales-type leases or operating leases depending upon the terms of the transaction. Revenue related to sales of capacity that meet the criteria of a sales-type lease and for which title transfers to the lessee at the end of the lease term are recognized at the requested activation date of the capacity to the customer. If the requirements for sales-type lease accounting are not met or if title is not transferred, revenue is recognized over the term of the agreement on a straight-line basis.

Interest income

Interest income from bank deposits and interest bearing notes is accrued on a time-apportioned basis on the principal outstanding and the applicable rate. Any discount or premium from interest bearing notes is amortized over the life of the notes so as to achieve a constant rate of return.

Retirement plan costs

For defined benefit pension plans, the Company accrues costs of the pension benefits earned by the employees during the period as well as interest on projected benefit obligations based on actuarial assumptions. Prior service costs and credits resulting from changes in plan benefits are amortized over the average remaining service period of the employees expected to receive benefits.

For defined contribution plans, the Company and its subsidiaries records its obligations in respect of service in a particular period as an expense of that period.

Reorganization and start-up costs

Costs incurred in connection with the formation of the Company such as start-up cost, organization costs and reorganization costs are expensed as incurred.

Debt issuance costs

Costs incurred in connection with issuing debt securities or other borrowings are deferred and amortized to interest expense over the term of the related debt. The accumulated amortization of debt issuance costs was \$11,487 and \$10,123 in 2004 and 2003, respectively. Accordingly, amortization expense in 2004 and 2003 was \$1,364 and \$2,241, respectively.

(in thousands of US dollars, except share and per share data)

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES - continued

Comprehensive income

SFAS No. 130, "Reporting Comprehensive Income", requires that an enterprise report by major components and as a single total the change in net assets from non-owner sources statement of comprehensive income (loss). For 2004 and 2003, comprehensive income (loss) has been included within the consolidated statement of shareholders' equity.

Stock-based compensation

The Company accounts for the stock options granted to employees using the intrinsic value method under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees".

Fair value disclosures

The carrying amounts of cash and cash equivalents, restricted cash, accounts receivable, amounts due from shareholders, accounts payable, accruals and other payables approximate fair value due to the short-term maturity of these instruments. Because the shareholders loans bear interest at a floating rate, the carrying amount of the shareholders loans approximates fair value.

Derivative instruments

The Company uses derivative financial instruments to reduce its exposure to adverse fluctuations in interest rates and foreign currency exchange rates. The Company has established policies and procedures for risk management and the approval, reporting and monitoring of derivative financial instrument activities. The Company does not enter into derivative financial instruments for trading or speculative purpose.

The Group accounts for its derivative financial instruments in accordance with the provisions of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended. In April 2004, the Financial Accounting Standard Board ("FASB") issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" the provisions of which have been adopted. Under SFAS No. 133, as amended, all derivatives are recognized at fair value as either assets or liabilities in the balance sheet. Changes in the fair values of derivative instruments not used as hedges are recognized in earnings immediately. Changes in the fair values of derivative instruments used effectively as hedges are recognized either in earnings for hedges of changes in fair value or in other comprehensive income (loss) for hedges of changes in cash flows. The ineffective portion of a derivative's change in fair value is immediately recognized in earnings.

(in thousands of US dollars, except share and per share data)

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES - continued

Recently Issued Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payments" or SFAS 123R. This statement eliminates the option to apply the intrinsic value measurement provisions of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" to stock compensation awards issued to employees. Rather, SFAS 123R requires companies to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide services in exchange for the award--the requisite service period (usually the vesting period). SFAS 123R applies to all awards granted after the required effective date and to awards modified, repurchased, or cancelled after that date. SFAS 123R will be effective for our fiscal year beginning January 1, 2006. We do not anticipate that the adoption of this statement will have a material effect on our financial position or results of operations.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets - an amendment of APB Opinion No. 29" ("SFAS 153"), which amends Accounting Principles Board Opinion No. 29, "Accounting for Nonmonetary Transactions" to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. SFAS 153 is effective for nonmonetary assets exchanges occurring in fiscal periods beginning after June 15, 2005. We do not anticipate that the adoption of this statement will have a material effect on our financial position or results of operations.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004 AND 2003

(in thousands of US dollars, except share and per share data)

4. RESTRICTED CASH

At the balance sheet date, the Company has placed certain deposits with banks as a pledge for the following purposes:

| | <u>31.12.2004</u> | <u>31.12.2003</u> |
|---|-------------------|-------------------|
| In respect of the syndicated bank loan facility | \$ - | \$ 50,000 |
| In respect of certain obligations under the terms of the shareholders' agreement for the Korean investments | 10,000 | 10,000 |
| In respect of general banking facility | 5,000 | - |
| In respect of other operational requirements | 725 | 827 |
| | <hr/> | <hr/> |
| Total restricted cash | \$ 15,725 | \$ 60,827 |
| Current portion | (5,725) | (10,827) |
| | <hr/> | <hr/> |
| Non-current portion | \$ 10,000 | \$ 50,000 |
| | <hr/> | <hr/> |

5. PREPAID EXPENSES AND OTHER CURRENT ASSETS

| | <u>31.12.2004</u> | <u>31.12.2003</u> |
|---|-------------------|-------------------|
| Prepaid expenses | \$ 11,818 | \$ 22,785 |
| Deposits | 2,599 | 2,156 |
| Other receivables | 14,513 | 15,666 |
| Derivative instruments – forward exchange contracts | 842 | 370 |
| | <hr/> | <hr/> |
| | \$ 29,772 | \$ 40,977 |
| | <hr/> | <hr/> |

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004 AND 2003

(in thousands of US dollars, except share and per share data)

6. PROPERTY, PLANT AND EQUIPMENT

| | <u>31.12.2004</u> | <u>31.12.2003</u> |
|---|-------------------|-------------------|
| Property, plant and equipment consist of the following: | | |
| Leasehold land and buildings | \$ 58,513 | \$ 58,198 |
| Exchange equipment | 108,159 | 108,470 |
| Transmission plant and equipment | 1,338,658 | 1,319,500 |
| Other plant, equipment and leasehold improvements | 146,776 | 138,676 |
| Projects under construction | 29,619 | 53,435 |
| | <hr/> | <hr/> |
| Total | \$ 1,681,725 | \$ 1,678,279 |
| Less: Accumulated depreciation and amortization and impairment write down | (1,310,337) | (1,282,493) |
| | <hr/> | <hr/> |
| Property, plant and equipment, net | \$ 371,388 | \$ 395,786 |
| | <hr/> | <hr/> |

Depreciation expense charged to operating income for the year was \$55,693 (2003: \$200,384).

Under the impairment review at the end of 2003, it was noted that the carrying amounts of the property, plant and equipment may not be recoverable. As a result, an impairment write down of \$787,114 was made at 31 December 2003 against their carrying amounts. No impairment write down is required for the current year.

During the year, cable capacities amounting to \$96,231 have been capitalized as leased assets under the committed capital lease agreements. In 2003, a provision for non-recoverable capital commitment of \$79,886 was made against these committed cable capacities. Upon the capitalization, this provision has been reversed against the cost of the leased assets with the net cost of \$16,345 recorded under property, plant and equipment.

Property, plant and equipment includes equipment leased under capital leases with a cost of \$297,208 and \$269,327 and accumulated depreciation and impairment write down of \$237,940 and \$230,024 at 31 December 2004 and 2003, respectively.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004 AND 2003

(in thousands of US dollars, except share and per share data)

7. GOODWILL, NET

| | <u>31.12.2004</u> | <u>31.12.2003</u> |
|--------------------------------|-------------------|-------------------|
| Goodwill | \$ - | \$ 1,866,068 |
| Less: Accumulated amortization | - | (88,433) |
| Impairment write down | - | (1,777,635) |
| Goodwill, net | <u>\$ -</u> | <u>\$ -</u> |

Under the impairment review at the end of 2003, it was considered that the goodwill may not be recoverable. As a result, a full impairment write down of \$1,777,635 was made as at 31 December 2003.

8. OTHER INTANGIBLE ASSETS, NET

| | <u>31.12.2004</u> | <u>31.12.2003</u> |
|--------------------------------|-------------------|-------------------|
| Trademarks | \$ - | \$ 29,103 |
| Less: Accumulated amortization | - | (8,897) |
| Impairment write down | - | (20,206) |
| Trademarks, net | <u>\$ -</u> | <u>\$ -</u> |

Amortization expense charged to the statement of operations for the year was \$Nil (2003: \$3,060).

Under the impairment review at the end of 2003, it was considered that the above intangible assets may not be recoverable. As a result, a full impairment write down of \$20,206 was made as at 31 December 2003 against their carrying value.

9. OTHER ASSETS

The balance represents the non-current portion of certain prepaid expenditures.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004 AND 2003

(in thousands of US dollars, except share and per share data)

10. LEASING ARRANGEMENTS

Capital leases

The Company leases certain transmission plant and equipment under capital leases. The capital lease obligations outstanding as of 31 December 2004 related to the financing of certain transmission plant and equipment and amounted to \$142,780 (2003: \$109,324). Future minimum lease payments under capital lease obligations are as follows:

| | <u>31.12.2004</u> |
|---|-------------------|
| Period ended 31 December: | |
| 2005 | \$ 68,169 |
| 2006 | 45,199 |
| 2007 | 9,433 |
| 2008 | 9,418 |
| 2009 | 9,131 |
| Thereafter | 56,551 |
| | <hr/> |
| Total minimum lease payments | \$ 197,901 |
| Less: amounts representing interest | (55,121) |
| | <hr/> |
| Present value of minimum lease payments | \$ 142,780 |
| Current portion | (53,612) |
| | <hr/> |
| Long-term portion | \$ 89,168 |
| | <hr/> |

Operating leases as lessor

The Company leases certain building facilities to outside parties which are accounted for as operating leases. Rental income under these types of agreements were \$1,414 and \$1,598 in 2004 and 2003, respectively. Future minimum lease receipts under non-cancellable operating leases agreements are as follows:

| | <u>31.12.2004</u> |
|---------------------------|-------------------|
| Period ended 31 December: | |
| 2005 | \$ 1,004 |
| 2006 | 345 |
| 2007 | 284 |
| 2008 | 258 |
| 2009 | 258 |
| Thereafter | 237 |
| | <hr/> |
| Total rental income | \$ 2,386 |
| | <hr/> |

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004 AND 2003

(in thousands of US dollars, except share and per share data)

10. LEASING ARRANGEMENTS – continued

Operating leases as lessee

The Company leases certain offices and equipment under operating leases. Rental expenses under operating leases for 2004 and 2003 were \$26,551 and \$28,523, respectively.

Future minimum lease payments under non-cancellable operating lease agreements not recorded in the financial statements were as follows:

| | <u>31.12.2004</u> |
|---------------------------|-------------------|
| Period ended 31 December: | |
| 2005 | \$ 23,768 |
| 2006 | 13,138 |
| 2007 | 11,222 |
| 2008 | 8,845 |
| 2009 | 9,208 |
| Thereafter | 11,491 |
| | <hr/> |
| Total | \$ 77,672 |
| | <hr/> |

11. OTHER UNSECURED LOAN

The other loan is unsecured, bears interest at a rate of 6.9% per annum and is repayable by monthly instalments in the following years:

| | <u>31.12.2004</u> |
|---------------------------|-------------------|
| Period ended 31 December: | |
| 2005 | \$ 1,247 |
| 2006 | 768 |
| | <hr/> |
| Current portion | \$ 2,015 |
| | (1,247) |
| | <hr/> |
| Long-term portion | \$ 768 |
| | <hr/> |

(in thousands of US dollars, except share and per share data)

12. BANK AND SHAREHOLDERS LOANS

At the beginning of 2003, the bank loan amounted to US\$1,500,000 which represented a syndicated term loan facility bearing interest at LIBOR plus applicable margin as defined in the Syndicated Term Loan Facility Agreement dated 12 January 2001 ("Original Facility Agreement"). The loan was unsecured and was repayable in three instalments.

The Original Facility Agreement contained restrictive covenants. The covenants related to interest and debt coverage as defined in the Original Facility Agreement.

During 2003, the Company and the syndicate banks initiated a discussion on the possible amendment and restatement of the Original Facility Agreement ("Loan Amendment and Restatement").

On 15 April 2003, Reach Ltd., Reach Finance Limited and the banks signed the Amendment and Restatement Agreement. Under the terms of the Amendment and Restatement Agreement, the Original Facility Agreement was amended and restated ("Amended and Restated Facility Agreement") as at the Date of Amendment (as defined in the Amendment and Restatement Agreement being the day on which the conditions precedent to that Agreement were satisfied or waived) which occurred on 25 April 2003. On this date the Company made a partial repayment of the loan in the amount of \$300,000. The remaining balance of \$1,200,000 is repayable on 31 December 2010 (subject to the cash sweep provisions contained in the Amended and Restated Facility Agreement that requires the Company to repay a certain amount of the loan balance and utilize a certain amount of capacity purchase prepayments from shareholders when there is Cash Surplus as defined in the Amended and Restated Facility Agreement). The amended term loan facility is secured by floating charges over certain of the Company's assets and bears interest at a rate of LIBOR plus 2.5% per annum. The interest rate will increase to LIBOR plus 3.5% per annum effective from 1 January 2008 if the outstanding loan balance is not reduced to \$900,000 or less by that date. There are no financial ratio covenant provisions in the Amended and Restated Facility Agreement.

The terms of the Amendment and Restatement Agreement are not considered to be substantially different from the Original Facility Agreement and consequently the Amended and Restated Facility Agreement is considered an extension of the original loan. The Company continues to defer and amortize the carrying value of the deferred financing costs related to the Original Facility Agreement over the revised term of the Amended and Restated Facility Agreement. The Company recorded an additional \$1,458 of costs with third parties other than the syndicate banks related to the Loan Amendment and Restatement in 2003. These costs were expensed and included in the accompanying consolidated statement of operations as reorganization costs.

On 17 June 2004, PCCW and Telstra agreed to jointly buy the Company's bank loan of \$1,200,000 from the syndicate of banks for approximately \$310,900 in aggregate in consideration for, inter alia, the complete release of all of the obligations of the Company, and certain related parties of the Company, to the syndicate of banks. The consideration has been paid in equal proportions by the shareholders of the Company.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004 AND 2003

(in thousands of US dollars, except share and per share data)

12. BANK AND SHAREHOLDERS LOANS – continued

Immediately upon the completion of the debt acquisition by the shareholders which took place on 18 June 2004, the bank loan of the Company became shareholders' loans ("Shareholders Loans"). The Shareholders Loans will be repayable on 31 December 2010. Interest on the loan was suspended for the period from the completion date of the debt acquisition up to 17 December 2004. The interest charge resumed on 17 December 2004 at a rate of LIBOR plus 2.5% and is payable on a monthly basis.

Interest expense incurred on the loans for the year was \$22,817 (2003: \$42,468). The weighted average interest rate of the loans for the year (excluding the interest suspension period) was approximately 3.7% (2003: 3.2%) per annum.

In addition, the shareholders have provided jointly and equally a \$50,000 revolving working capital loan facility ("Working Capital Loan") to the Company for general working capital purposes. The Working Capital Loan is secured by floating charge of certain assets of the Company, repayable in full on 31 December 2007 and bears interest at a rate of LIBOR plus 2.5% .

During the period and as at the balance sheet date, the Company has not drawn any balance of the Working Capital Loan.

13. CAPACITY PURCHASE PREPAYMENTS FROM SHAREHOLDERS

| | <u>2004</u> | <u>2003</u> |
|--|-------------|-------------|
| Balance at beginning of the year | \$ 293,414 | \$ – |
| Amount prepaid by shareholders during the year | – | 286,000 |
| Time value accrued on the unutilized balance | 12,022 | 7,414 |
| | <hr/> | <hr/> |
| Balance at the balance sheet date | \$ 305,436 | \$ 293,414 |
| | <hr/> | <hr/> |

In relation to the Amended and Restated Facility Agreement, the Company signed a Capacity Prepayment Agreement ("CP Agreement") with its two shareholders on 15 April 2003, pursuant to which the two shareholders had made prepayments to the Company totalling \$286,000 ("Prepayment") for their future capacity purchases. The utilization of the Prepayment is subject to the cash sweep provisions in the Amended and Restated Facility Agreement. The unutilized balance of the Prepayment will increase based on a formula as set out in the CP Agreement which is calculated with reference to LIBOR plus 2.5% . Time value accrued on the Prepayment of \$12,022 and \$7,414 has been included in interest expenses in 2004 and 2003, respectively.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004 AND 2003

(in thousands of US dollars, except share and per share data)

14. OTHER LIABILITIES

The Company has entered into certain interest rate swap contracts to effectively convert the interest rate on a portion of the bank loan with principal amounts of \$675,000 from variable rates to fixed rates. These instruments are considered as effectively hedging against the changes in cash flows of interest payments under the bank loan. The unrealized losses in the fair value of the interest rate swap contracts of \$19,191 was recorded as an element of comprehensive income (loss) in the consolidated statements of shareholders' equity and the other liabilities in the balance sheet as at 31 December 2003.

Upon the debt acquisition by the two shareholders and the temporary interest suspension, the hedging of the outstanding interest rate swap contracts was considered as ineffective, therefore the then unrealized loss in the fair value of the interest rate swap contracts of \$9,130 was charged to the current year earnings from the comprehensive income (loss) in the consolidated statements of shareholders' equity, with the subsequent changes in the fair value recognized in earnings.

At the balance sheet date, the unrealized loss in the fair value of the outstanding interest rate contracts of \$1,549 was included in accruals and other payables under current liabilities.

15. IMPAIRMENT WRITE DOWN ON GOODWILL AND LONG-LIVED ASSETS AND PROVISION FOR NON-RECOVERABLE CAPITAL COMMITMENTS

| | <u>2004</u> | <u>2003</u> |
|---|-------------|---------------------|
| Impairment write down on goodwill | \$ - | \$ 1,777,635 |
| Impairment write down on intangible assets | - | 20,206 |
| Impairment write down on property, plant and equipment | - | 787,114 |
| Provision for non-recoverable committed capital contracts | - | 79,886 |
| | <u>\$ -</u> | <u>\$ 2,664,841</u> |

The Company's goodwill and long-lived assets were tested for impairment at the balance sheet dates. Due to the increased competition in the global wholesale communications industry, prices for services have been declining at a significant rate for a number of years. When the impairment testing was performed in the years prior to 2003, it was anticipated that the rate of decline would slow down in 2003 and that prices would increase gradually in subsequent years, therefore no impairment write down was considered necessary in those years. However, prices continued to fall throughout 2003. As a result the Company revised its long term forecast for operating profits and cash flow downwards. Based on this, impairment write downs on goodwill, intangible assets and property, plant and equipment were made at \$1,777,635, \$20,206 and \$787,114, respectively in 2003. No impairment write down is considered necessary for 2004.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004 AND 2003

(in thousands of US dollars, except share and per share data)

16. INCOME TAXES

Reach Ltd. is an exempted company incorporated in Bermuda with limited liability. As such, it is exempt from any corporate income taxes. All income tax liabilities are derived from subsidiaries.

The Company operates globally and is subject to tax in various local jurisdictions. Based on the current business concentration, the Company's taxation exposures principally arise in Hong Kong and Australia whose statutory corporate income tax rates are 17.5% (2003: 17.5%) and 30% (2003: 30%), respectively.

The current and deferred components of the income taxes expense (credit) are as follows:

| | <u>2004</u> | <u>2003</u> |
|-----------------------------|-----------------|--------------------|
| Current | \$ 8,236 | \$ 12,900 |
| Deferred | 36 | (66,299) |
| Income tax (credit) expense | <u>\$ 8,272</u> | <u>\$ (53,399)</u> |

Significant components of the Company's deferred taxation are as follows:

| | <u>2004</u> | <u>2003</u> |
|---|-------------------|-------------------|
| Deferred tax assets | | |
| Tax loss available | \$ 118,313 | \$ 104,430 |
| Excess of depreciation over tax allowance | 32,460 | 37,681 |
| Expenditures not currently deductible | 3,281 | 4,455 |
| Others | 1,641 | 214 |
| Gross deferred tax assets | <u>\$ 155,695</u> | <u>\$ 146,780</u> |
| Allowance made for tax benefit | (139,403) | (128,963) |
| Deferred tax assets | <u>\$ 16,292</u> | <u>\$ 17,817</u> |
| Deferred tax liabilities | | |
| Excess of tax allowances over depreciation | \$ 1,617 | \$ 1,916 |
| Prepaid expenses recognized as costs for tax purposes | 1,433 | 2,453 |
| Others | 530 | 700 |
| Deferred tax liabilities | <u>\$ 3,580</u> | <u>\$ 5,069</u> |
| Net deferred tax assets | <u>\$ 12,712</u> | <u>\$ 12,748</u> |

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004 AND 2003

(in thousands of US dollars, except share and per share data)

16. INCOME TAXES – continued

Reconciliations of the applicable statutory rate to the effective tax rate are as follows:

| | <u>2004</u> | <u>2003</u> |
|--|----------------|-------------|
| Applicable statutory rate in Hong Kong | 17.5% | 17.5% |
| Effect on the change of statutory tax rate | –% | (0.2%) |
| Non-deductible impairment write down on goodwill and long-lived assets | –% | (11.3%) |
| Non-deductible loan interest paid | (11.9%) | (0.2%) |
| Non-deductible costs | (7.4%) | – % |
| Tax losses not utilized | (33.5%) | (1.7%) |
| Difference on statutory rates of other tax jurisdictions | 3.3% | (2.1%) |
| Other permanent differences | 1.3% | (0.1%) |
| Effective tax rate | <u>(30.7%)</u> | <u>1.9%</u> |

17. COMMITMENTS AND CONTINGENCIES

(a) Capital expenditure purchase commitments in respect of property, plant and equipment

Total capital expenditure purchase commitments contracted for at 31 December 2004 were \$4,987. These amounts will be payable within the coming year.

(b) Contingency:

In August 2001, Webpages Directories Limited (“Webpages”), an independent third party, filed a claim of approximately \$1,795 plus interest and legal fees against Reach Cable Networks Limited (“RCNL”), a wholly owned subsidiary of the Company, Globalnet Consulting Limited and Globalnet Telecommunications International Limited (“Globalnet”) for losses as a result of disconnection of certain telecommunication services provided by Globalnet who had purchased the telecommunication services from RCNL and the unlawful custodian of some computer servers maintained by RCNL. As Globalnet was in the process of voluntary liquidation, RCNL disconnected all services rendered to Globalnet.

No provision has been made in the financial statements for this case as, in the event that the Company incurs any liability as a result of this claim, such liability would fall within the indemnity given by Level 3 Communications Inc in favour of the Company.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004 AND 2003

(in thousands of US dollars, except share and per share data)

18. RELATED PARTY TRANSACTIONS

During 2004 and 2003, the Company conducted the following transactions with its shareholders:

| | <u>2004</u> | <u>2003</u> |
|---|-------------------|-------------------|
| Capacity purchase prepayment made by shareholders – see note 13 | \$ – | \$ 286,000 |
| Revenue earned from shareholders in the normal course of operations: | | |
| – International voice | \$ 174,384 | \$ 193,531 |
| – Data | 94,310 | 90,011 |
| – Other | 7,575 | 9,191 |
| | <u>\$ 276,269</u> | <u>\$ 292,733</u> |
| Cost of sales charged by shareholders to the Company: | | |
| – International voice | \$ 43,083 | \$ 52,163 |
| – Data | 4,645 | 5,004 |
| – Transmission cost | 10,300 | 12,259 |
| | <u>\$ 58,028</u> | <u>\$ 69,426</u> |
| Operating expenses charged by shareholders to the Company | \$ 16,852 | \$ 21,374 |
| Time value accrued on the capacity purchase prepayment made by shareholders | \$ 12,022 | \$ 7,414 |
| Interest accrued on shareholders term loans | \$ 3,292 | \$ – |

The amounts due from shareholders of \$42,857 and \$45,369 in 2004 and 2003, respectively, are unsecured and non-interest bearing, of which \$24,108 and \$23,431, respectively, were trade related balances.

(in thousands of US dollars, except share and per share data)

19. STOCK-BASED COMPENSATION

In 2001, the Company granted its employees certain share options of the Company. The exercise of the options is dependent on the success of an initial public offering ("IPO") of the Company in the future. The exercise price is set at a discount of 10% to 15% of the amount payable for a share of the Company on a successful IPO, subject to relevant Stock Exchange rules and the underwriters' requirements at the time of the IPO.

As at 31 December 2004, the total outstanding options granted by the Company to the employees of the Company and its subsidiaries was approximately 66,064,000. The options are exercisable not more than 10 years after the date of grant. As of the balance sheet date, successful completion of an IPO is not probable and it is not practical to estimate the exercise price of the share options and thus, no compensation expense relating to options granted has been recognized through 31 December 2004.

20. CONCENTRATION OF CREDIT RISK

Financial instruments which potentially subject the Company to credit risk consist primarily of cash, cash equivalents, trade receivables and amounts due from shareholders.

The Company maintains cash and cash equivalents with various major financial institutions. The Company limits the amount of credit exposure with any one financial institution and believes that no significant concentration of credit risk exists with respect to cash investments.

Trade receivables and amounts due from shareholders subject the Company to the potential for credit risk with its shareholders and customers in the global wholesale communication industry. Although this concentration could affect the Company's overall exposure to credit risk, management believes that the Company is exposed to minimal risk since the majority of its business is conducted with major companies within the industry. The Company performs periodic credit evaluations of its customers' financial condition and generally does not require collateral for its accounts receivables.

21. SIGNIFICANT CUSTOMERS

The two significant customers in terms of revenue and accounts receivable are also the shareholders of the Company. These two customers accounted for 14.3% and 19.9% of the Company's revenue in 2004 and 14.7% and 17.7% of the Company's revenue in 2003, and they also accounted for 22.3% and 5.0% of the Company's accounts receivable in 2004 and 18.9% and 8.7% of the Company's accounts receivable in 2003.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004 AND 2003

(in thousands of US dollars, except share and per share data)

22. STAFF RETIREMENT PLANS

The Company maintained defined benefit pension plans ("DB Plans"). The assets of the plans were held separately from those of the Company in funds under the control of independent trustees.

During the year, the Company has closed all its DB Plans. Upon the closure of the DB Plans, all the benefit obligations accruing to the staff of \$32,094 have been transferred from the DB Plans to another separately administrated defined contribution plans for the staff. The Company is not required to make any payment to the DB Plans during the year and there was no unfunded liability of the plans. Upon the plans closure, the Company received a surplus of assets distribution of \$250 from the DB Plans and that has been recorded as a gain in the current year's earning.

Distribution of plan assets

| | |
|---|-----------|
| Fair value of the plan assets upon the closure | \$ 32,344 |
| Transfer of benefit obligations to another defined contribution pension plans for the staff | (32,094) |
| | <hr/> |
| Surplus of assets distributed to the Company upon the plans' closure | \$ 250 |
| | <hr/> |

The following tables summarized benefit costs, as well as the benefit obligations, plan assets, fund status and assumptions associated with the plans in 2003.

| | <u>2003</u> |
|---|-------------|
| <u>Changes in benefit obligation</u> | |
| Projected benefit obligation at beginning of year | \$ 59,711 |
| Net service cost | 1,527 |
| Interest cost | 2,786 |
| Actual employee contributions | 257 |
| Actual benefit payments | (2,720) |
| Actuarial gain | (2,703) |
| Decrease due to FAS 88 events * | (24,717) |
| | <hr/> |
| Benefit obligation at end of year | \$ 34,141 |
| | <hr/> |

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004 AND 2003

(in thousands of US dollars, except share and per share data)

22. STAFF RETIREMENT PLANS – continued

| | <u>2003</u> |
|--|-------------|
| <u>Changes in plan assets</u> | |
| Fair value of plan assets at beginning of year | \$ 49,025 |
| Actual return on plan assets | 8,598 |
| Employer contribution | 3,498 |
| Employee contribution | 257 |
| Benefits paid | (2,720) |
| Decrease due to FAS 88 events * | (25,189) |
| | <hr/> |
| Fair value at end of the year | \$ 33,469 |
| | <hr/> |
| Fund status | \$ (718) |
| Unrecognized net actuarial loss | 388 |
| Unamortized prior service cost | – |
| Unamortized transition obligation | – |
| | <hr/> |
| Accrued pension cost | \$ (330) |
| | <hr/> |

* The FAS 88 events refer to the events below which occurred during the year:

- i) Certain members were made redundant or left service through the voluntary separation program.
- ii) On 1 September 2003, all members of defined benefit schemes were transferred to the Company's defined contribution schemes with their benefits in respect of service before that date remaining unchanged.

| | <u>2003</u> |
|---|-------------|
| Weighted average actuarial assumptions: | |
| Discount rate | 5.25% |
| Expected return on plan assets | 5.75% |
| Rate of compensation increase | 0% – 3.5% |

The components of the net pension cost for 2003 were as follows:

| | <u>2003</u> |
|---------------------------------|-------------|
| Gross service cost | \$ 1,784 |
| Expected employee contributions | (257) |
| | <hr/> |
| Net service cost | \$ 1,527 |
| Interest cost | 2,786 |
| Expected return on plan assets | (2,728) |
| Amortization of actuarial loss | 265 |
| | <hr/> |
| | \$ 1,850 |
| | <hr/> |

(in thousands of US dollars, except share and per share data)

22. STAFF RETIREMENT PLANS – continued

Major category allocation of plan assets in 2003 was as follows:

| | Actual and target allocation |
|-------------------|--|
| Equity securities | 0% |
| Debt securities | 0% |
| Cash | 100% |
| | <hr style="border-top: 1px solid black;"/> |
| | 100% |

23. RECLASSIFICATION

Certain amounts previously reported in 2003 have been reclassified to conform to the 2004 presentation.

24. POST BALANCE SHEET EVENT

Subsequent to the balance sheet date, on 16 April 2005 the Company, PCCW and Telstra entered into agreements giving effect to a new operating model for the Company under which the Company will operate as an outsourcer of telecommunications network services for the PCCW Group and the Telstra Group. The Company has ceased to pursue sales of data services to third parties. Data services are sold directly by the PCCW Group and the Telstra Group. The Company will continue to provide voice and satellite services to the PCCW Group, Telstra Group and third parties.

To implement the new operating model, the PCCW Group and the Telstra Group acquired indefeasible rights to use the Company's international undersea cable capacity (the "IRU") on the terms described below.

A number of agreements have been entered into by members of the Company, the PCCW Group and the Telstra Group in connection with the establishment of the new operating model with an effective date of 1 March 2005. The material agreements are the Reach Debt and Asset Restructuring Deed, the Capacity Allocation Agreement and the Reach Network Services Agreement. The principal terms of these agreements are set out below.

(in thousands of US dollars, except share and per share data)

24. POST BALANCE SHEET EVENT – continued

Reach Debt and Asset Restructuring Deed dated 16 April 2005

In consideration for the allocation of the IRU pursuant to the Capacity Allocation Agreement (further details of which are set out below), each of the PCCW Group and the Telstra Group will pay the Company \$157,000, which will be settled as follows:

For the PCCW Group

- i) \$155,000 will be applied as repayment of part of the outstanding principal of shareholder's loan owing to the PCCW Group by the Company at the same amount; and
- ii) \$2,000 will be applied as payment of the accrued interest on the shareholder's loan owing to the PCCW Group.

For the Telstra Group

- i) \$155,000 will be applied as repayment of the capacity purchase prepayment balance maintained by the Telstra Group at the same amount; and
- ii) \$2,000 will be applied as payment of the accrued interest on the shareholder's loan owing to the Telstra Group.

Both the PCCW Group and the Telstra Group agreed to waive their rights to receive further interest accruing on the shareholders' loans owing from the Company in excess of the \$2,000 each described above.

In addition, the Company issued to each of PCCW and Telstra 445,000,000 new ordinary shares of the Company at par value of \$1 each in settlement of the following obligations and balances:

For the PCCW Group

- i) \$290,000 will be settled against part of the outstanding principal of shareholder's loan owing to the PCCW Group by the Company at the same amount; and
- ii) \$155,000 will be settled against the capacity purchase prepayment balance maintained by the PCCW Group at the same amount.

For the Telstra Group

The whole \$445,000 will be settled against part of the outstanding principal of the shareholder's loan owing to the Telstra Group at the same amount.

After the above transactions, the capacity purchase prepayment balances from the PCCW Group and the Telstra Group will be fully settled. The principal of each of the shareholder's loan from the PCCW Group and the Telstra Group will be reduced from \$600,000 to \$155,000.

(in thousands of US dollars, except share and per share data)

24. POST BALANCE SHEET EVENT – continued

Capacity Allocation Agreement (the “CAA”) dated 16 April 2005

Pursuant to the CAA, the Company will allocate the international undersea cable capacity currently held by the Company by way of granting indefeasible rights to use in relation to such capacity to each of the PCCW Group and the Telstra Group. Each of the PCCW Group and the Telstra Group will pay the Company \$157,000 to be applied against certain obligations owed by the Company as described above in detail. The PCCW Group and the Telstra Group will also each assume one half of the Company’s committed future capital expenditure. Each shareholder’s undertaking on this capital expenditure over the period from March 2005 to December 2022 is expected to be approximately \$106,000.

The Company’s operations and maintenance costs associated with the international undersea cable capacity allocated by way of the IRU will be recovered by the Company from the PCCW Group and the Telstra Group pursuant to the terms of the Reach Network Services Agreement as set out below.

Reach Network Services Agreement (the “RNSA”) dated 16 April 2005

Pursuant to the RNSA, the Company will provide to the PCCW Group and the Telstra Group telecommunications and other outsourcing services. These services will be provided on a “cost plus” basis in accordance with typical outsourcing arrangements.

The Company will continue to provide voice services to third party customers on commercial terms. Satellite services will not be subject to the outsourcing model but will continue to be provided to the PCCW Group, the Telstra Group and third parties on commercial terms.

The management consider that under the new operating model, the Company’s cost base and structure can be streamlined and it will become more cost effective. With the debt and asset restructuring set out above, the Company’s financial position has been stabilised and strengthened.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of Reach Ltd.:

We have audited the accompanying consolidated balance sheet of Reach Ltd. and its subsidiaries (the "Company") as of 31 December 2003 and 2002 and the related consolidated statements of operations, shareholders' equity and comprehensive income/loss and cash flows for the year ended 31 December 2003 and 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2003 and 2002, and the results of its operations and its cash flows for the year ended 31 December 2003 and 2002 in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company had net losses and net operating cash outflows and, as of 31 December 2003, had negative working capital. These factors, among others, raise substantial doubt about its ability to continue as a going concern. The arrangements entered into by management concerning these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As described in Note 3 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets", effective 1 January 2002.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
4 May 2004, except for Note 25, as to which the date is 24 June 2004

REACH LTD.

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2003 AND 2002

(in thousands of US dollars, except share and per share data)

| | 31.12.2003 | 31.12.2002 |
|---|--------------------|---------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 95,129 | \$ 177,072 |
| Restricted cash (note 4) | 10,827 | 10,815 |
| Accounts receivable, less allowance of \$26,018 and \$29,910 as of 31 December 2003 and 2002, respectively | 108,498 | 117,260 |
| Amounts due from shareholders (note 19) | 45,369 | 150,962 |
| Prepaid expenses and other current assets (note 5) | 40,977 | 36,397 |
| Total current assets | 300,800 | 492,506 |
| Property, plant and equipment, net (note 7) | 395,786 | 1,295,144 |
| Goodwill, net (note 8) | - | 1,777,635 |
| Other intangible assets, net (note 9) | - | 23,266 |
| Restricted cash (note 4) | 50,000 | - |
| Assets held for sale (note 6) | - | 18,020 |
| Debt issuance costs | 9,553 | 11,794 |
| Other assets (note 10) | 11,030 | 24,541 |
| Deferred tax assets (note 17) | 12,748 | - |
| TOTAL ASSETS | \$ 779,917 | \$ 3,642,906 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 261,004 | \$ 244,958 |
| Accruals and other payables | 119,521 | 160,358 |
| Level 3 acquisition accruals - current portion (note 1) | 11,036 | 12,730 |
| Capital lease obligations - current portion (note 11) | 39,087 | 44,094 |
| Other unsecured loan - current portion (note 12) | 1,109 | - |
| Deferred revenue - current portion | 14,446 | 13,584 |
| Interest payable | 7,471 | 13,498 |
| Income taxes payable | 14,454 | 17,626 |
| Total current liabilities | 468,128 | 506,848 |
| Long-term liabilities: | | |
| Bank loan (note 13) | 1,200,000 | 1,500,000 |
| Level 3 acquisition accruals (note 1) | 46,488 | 61,898 |
| Capital lease obligations (note 11) | 70,237 | 95,366 |
| Other unsecured loan (note 12) | 1,921 | - |
| Provision for non-recoverable capital commitments (note 18(a)) | 79,886 | - |
| Capacity purchase prepayments from shareholders (note 14) | 293,414 | - |
| Deferred revenue | 79,768 | 76,238 |
| Other liabilities (note 15) | 19,191 | 32,653 |
| Deferred income taxes (note 17) | - | 53,551 |
| Total long-term liabilities | 1,790,905 | 1,819,706 |
| Minority interests | 20,212 | 20,437 |
| Contingencies (note 18) | - | - |
| Shareholders' (deficit) equity: | | |
| Common shares (\$1 par value - 7,000,000,000 shares authorized; 5,000,000,000 shares issued and outstanding) | 5,000,000 | 5,000,000 |
| Deficit incurred upon combination (note 1) | (3,865,187) | (3,865,187) |
| (Accumulated losses) Retained earnings | (2,634,868) | 194,314 |
| Accumulated other comprehensive income (loss) | 727 | (33,212) |
| Total shareholders' (deficit) equity | (1,499,328) | 1,295,915 |
| TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIT / EQUITY | \$ 779,917 | \$ 3,642,906 |

See notes to consolidated financial statements.

REACH LTD.

CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED 31 DECEMBER 2003 AND 2002

(in thousands of US dollars)

| | 2003 | 2002 |
|---|----------------|--------------|
| Revenue | \$ 901,960 | \$ 1,263,339 |
| Operating expenses: | | |
| Direct cost of sales | 626,191 | 631,708 |
| Depreciation and amortization | 203,444 | 160,669 |
| Selling, general and administrative | 184,976 | 208,408 |
| Loss on disposal of leased assets | 10,402 | - |
| Impairment write down on goodwill and long-lived assets and provision for non-recoverable capital commitments (note 16) | 2,664,841 | - |
| Reorganization and other costs | 13,605 | 5,000 |
| Total operating expenses | 3,703,459 | 1,005,785 |
| Operating (loss) income | (2,801,499) | 257,554 |
| Interest expense | (83,843) | (75,773) |
| Interest income | 2,536 | 3,401 |
| (Loss) income before income taxes and minority interests | (2,882,806) | 185,182 |
| Income tax credit (expense) (note 17) | 53,399 | (38,948) |
| (Loss) income before minority interests | (2,829,407) | 146,234 |
| Minority interests | 225 | 292 |
| Net (loss) income | \$ (2,829,182) | \$ 146,526 |

See notes to consolidated financial statements.

REACH LTD.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
AND COMPREHENSIVE INCOME (LOSS)
FOR THE YEAR ENDED 31 DECEMBER 2003 AND 2002

(in thousands of US dollars, except share data)

| | Common shares | | Deficit incurred upon combination | Retained earnings / (Accumulated losses) | Accumulated other comprehensive (loss)/income | Total shareholders' (deficit) / equity | Total comprehensive income / (loss) |
|---|---------------|--------------|---|---|--|---|---|
| | Shares | Amount | | | | | |
| Balance at 31 December 2001 | 5,000,000,000 | \$ 5,000,000 | \$ (3,865,187) | \$ 47,788 | \$ (6,919) | \$ 1,175,682 | |
| Net income | - | - | - | 146,526 | - | 146,526 | \$ 146,526 |
| Foreign currency translation adjustment | - | - | - | - | 5,505 | 5,505 | 5,505 |
| Change in fair value of derivative instruments | | | | | | | |
| - interest rate swap contracts | - | - | - | - | (32,653) | (32,653) | (32,653) |
| - forward exchange contracts | - | - | - | - | 855 | 855 | 855 |
| Total comprehensive income | | | | | | | \$ 120,233 |
| Balance at 31 December 2002 | 5,000,000,000 | \$ 5,000,000 | \$ (3,865,187) | \$ 194,314 | \$ (33,212) | \$ 1,295,915 | |
| Net loss | - | - | - | (2,829,182) | - | (2,829,182) | \$ (2,829,182) |
| Foreign currency translation adjustment | - | - | - | - | 20,961 | 20,961 | 20,961 |
| Change in fair value of derivative instruments | | | | | | | |
| - interest rate swap contracts | - | - | - | - | 13,462 | 13,462 | 13,462 |
| - forward exchange contracts | - | - | - | - | (484) | (484) | (484) |
| Total comprehensive loss | | | | | | | \$ (2,795,243) |
| Balance at 31 December 2003 | 5,000,000,000 | \$ 5,000,000 | \$ (3,865,187) | \$ (2,634,868) | \$ 727 | \$ (1,499,328) | |

See notes to consolidated financial statements.

REACH LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2003 AND 2002

(in thousands of US dollars)

| | 2003 | 2002 |
|--|----------------|------------|
| Cash flows from operating activities: | | |
| Net (loss) income | \$ (2,829,182) | \$ 146,526 |
| Adjustments to reconcile net (loss) income to net cash provided by operating activities: | | |
| Depreciation and amortization | 203,444 | 160,669 |
| Amortization of debt issuance costs | 2,241 | 4,262 |
| Minority interests | (225) | (292) |
| Deferred income taxes | (66,299) | (8,456) |
| Loss on disposal of leased assets | 10,402 | - |
| Loss on disposal of property, plant and equipment | 409 | - |
| Impairment write down on goodwill and long-lived assets and provision for non-recoverable capital commitments | 2,664,841 | - |
| Accrued time value on capacity purchase prepayments from shareholders | 7,414 | - |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 3,861 | 95,903 |
| Amounts due from shareholders | 105,593 | (65,874) |
| Prepaid expenses and other current assets | 2,425 | (62,752) |
| Accounts payable | 23,084 | (41,189) |
| Accruals and other payables | (45,519) | 28,567 |
| Level 3 acquisition accruals | (17,104) | (15,964) |
| Interest payable | 473 | 7,830 |
| Deferred revenue | 4,392 | 10,453 |
| Income taxes payable | (3,172) | (1,828) |
| Net cash provided by operating activities | 67,078 | 257,855 |
| Cash flows from investing activities: | | |
| Purchase of property, plant and equipment | (58,941) | (171,809) |
| Proceeds from disposal of property, plant and equipment | 576 | - |
| Net cash received from The Level 3 Acquisition (note 1) | - | 50,178 |
| (Increase) decrease in restricted cash | (12) | 5,748 |
| Net cash used in investing activities | (58,377) | (115,883) |
| Cash flows from financing activities: | | |
| Capacity purchase prepayments from shareholders | 286,000 | - |
| Repayment of bank borrowings | (300,000) | - |
| Deposit pledged to a bank for loan facility | (50,000) | - |
| Capital lease payments | (29,674) | (79,620) |
| Proceeds from other unsecured loan | 3,030 | - |
| Net cash used in financing activities | (90,644) | (79,620) |
| Net (decrease) increase in cash and cash equivalents | (81,943) | 62,352 |
| Cash and cash equivalents at beginning of the year | 177,072 | 114,720 |
| Cash and cash equivalents at end of the year | \$ 95,129 | 177,072 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION: | | |
| Interest paid | \$ 74,547 | 67,217 |
| Income taxes paid | \$ 15,668 | 49,232 |

(in thousands of US dollars, except share and per share data)

1. ORGANIZATION AND NATURE OF OPERATIONS

Reach Ltd is a private limited company incorporated in Bermuda. The principal activities of Reach Ltd and its subsidiaries (collectively the "Company") include the provision of global wholesale communications. The Company were established by PCCW Limited ("PCCW") and Telstra Corporation Limited ("Telstra") as described below.

The PCCW and Telstra Contributions

Pursuant to the Transfer Agreements entered into between the Company and PCCW and Telstra on 13 October 2000, the global wholesale communication businesses and assets previously operated and owned by PCCW and Telstra (the "PCCW and Telstra Contributions") were contributed into the Company. In return the Company issued 2,500,000,000 common shares to each of PCCW and Telstra and paid cash of \$1,125,000 and \$375,000 to PCCW and Telstra, respectively. In addition, in accordance with the Transfer Agreements, the Company paid \$25,000 to Telstra for certain costs incurred associated with the contribution of the businesses and assets made by Telstra to the Company.

Pursuant to Accounting Principles Board ("APB") Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock" and following the SEC Observer comments related to Financial Accounting Standard Board's Emerging Issues Task Force ("EITF") Issue 98-4, "Accounting by a Joint Venture for Businesses Received at Its Formation", the Company accounted for the PCCW and Telstra Contributions using joint venture accounting. The businesses and assets contributed by PCCW and Telstra were recorded by the Company, upon the completion of the contributions, at the carrying values of these businesses and assets previously recorded in the respective books of PCCW and Telstra prior to the completion of contributions. The difference between the total value of the shares issued and cash consideration paid by the Company and the aggregate carrying values of the businesses and assets contributed by PCCW and Telstra of \$3,865,187 was recorded as a deficit incurred upon combination as a component of the shareholders' equity. The operations of the assets and businesses contributed were recorded in the accompanying consolidated financial statements from the date of combination.

The Company is jointly and equally owned by PCCW and Telstra. Neither shareholder can control the Board of Directors nor dominate decision making over the financial and operating policies of the Company.

The Level 3 Acquisition

Effective 30 November 2001 ("Acquisition Date"), the Company acquired the North Asian and Trans-Pacific Cable operations from the Level 3 Companies (the "Level 3 acquisition") a telecommunication carrier. The Company assumed certain liabilities of \$ 90,592 on behalf of Level 3 ("Level 3 acquisition accruals"), which included an accrual for long-term operating lease contracts entered into by Level 3, future committed guarantee payments to two joint venture partners in Korea and Taiwan and future restoration costs expected to be incurred on certain leased spaces, in exchange for the net assets of Level 3. In addition, Level 3 committed to pay cash consideration of \$50,178 to the Company as partial settlement of these assumed liabilities. The Company received the cash consideration in the year ended 31 December 2002.

(in thousands of US dollars, except share and per share data)

1. ORGANIZATION AND NATURE OF OPERATIONS - continued

The Level 3 Acquisition - continued

The transaction has been accounted for as a purchase and, accordingly, the results of operations of Level 3 are included in the accompanying financial statements from the Acquisition Date. Assets and liabilities acquired were recorded at their fair market values at the date of acquisition.

As required under the provisions of Statement of Financial Accounting Standards ("SFAS") No. 141, net assets and consideration received in excess of purchase price totalling \$382,302 was allocated to property, plant and equipment. The fair value of the assets and liabilities acquired by the Company was based on management's best estimates of after-tax net cash flows.

The outstanding balance of the Level 3 acquisition accrual was \$57,524 and \$74,628 at 31 December 2003 and 2002, respectively.

Organizational Structure

A summary of the principal subsidiaries is as follows:

| <u>Principal subsidiaries</u> | <u>Place of incorporation</u> | <u>Principal activity</u> | <u>Percentage of ownership as at 31 December 2003</u> |
|-----------------------------------|-------------------------------|--|---|
| Reach Global Services Ltd. | Hong Kong | Provision of connectivity services | 100% |
| Reach Networks Hong Kong Ltd. | Hong Kong | Provision of connectivity services | 100% |
| Reach Global Networks Ltd. | Bermuda | Asset ownership and provision of intra-group management services | 100% |
| Reach Finance Ltd. | Hong Kong | Financing vehicle | 100% |
| Reach Services Australia Pty Ltd. | Australia | Provision of intra-group management services | 100% |
| Reach Cable Networks Ltd. | Hong Kong | Provision of connectivity services | 100% |

(in thousands of US dollars, except share and per share data)

2. BASIS OF PRESENTATION

The consolidated financial statements have been prepared on a going concern basis which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the financial statements, during the year ended 31 December 2003, the Company incurred a net loss of \$2,829,182 and, as of that date, the Company's current liabilities exceeded its current assets by \$167,328. These factors among others indicate uncertainty regarding the Company's ability to continue as a going concern for a reasonable period of time.

The Company, the syndicate of banks who are parties to the Syndicated Term Loan Facility Agreement dated 12 January 2001 as amended and restated by the Amendment and Restatement Agreement dated 15 April 2003, and the Company's shareholders have had various discussions and will hold a formal meeting on 6 May 2004 regarding the banking facility currently available to the Company. The timeframe for the resolution of these discussions is uncertain at this time. If the Company is unable to obtain any additional financing, or refinancing, or otherwise restructure its financing arrangements, as may be required, the Company's ability to continue as a going concern is uncertain.

The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. The Company's continuation as a going concern is dependent upon its ability to generate sufficient cash flow to meet its obligations on a timely basis, to comply with the terms and covenants of its financing agreements and to obtain additional financing, or refinancing, or otherwise restructure its financing arrangements, as may be required. Although management continues to pursue these plans, there is no assurance that the Company will be successful in obtaining any additional financing, or refinancing or otherwise restructure its financing arrangements, as may be required, on terms acceptable to the Company.

Subsequent to the balance sheet date, on 17 June 2004, the shareholders agreed certain refinancing arrangements with the syndicate of banks and the Company. Details of the arrangements have been set out in note 25 to the financial statements.

REACH LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003 AND 2002

(in thousands of US dollars, except share and per share data)

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements of the Company are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S.GAAP").

Principle of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries. All significant intercompany transactions and balances are eliminated on consolidation.

Use of Estimates

The preparation of financial statements in conformity with U.S.GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Foreign currency

The Company has chosen the United States dollar as its reporting currency. For subsidiaries that prepare their financial statements in currencies other than the United States dollar, assets and liabilities are translated at the exchange rate at the balance sheet date, equity accounts are translated at historical exchange rates, and revenues, expenses, gains and losses are translated at the weighted average rates of exchange prevailing during the period. Translation adjustments resulting from this process are recorded in accumulated other comprehensive income or loss within shareholders' equity.

For those foreign entities that maintain their accounting records in a currency other than their functional currency, such accounts are remeasured into the entity's functional currency prior to translation to the United States dollar. Monetary assets and liabilities are remeasured using the exchange rates at the balance sheet date, nonmonetary assets and liabilities and equity accounts are remeasured using historical exchange rates, and revenues, expenses, gains and losses are remeasured using weighted average exchange rates for the period. The resulting remeasurement gains and losses are included in the statement of operations.

Transactions in foreign currencies during the period are translated at the rates ruling on the dates of transactions. All foreign exchange losses of \$1,371 and gains of \$956 in 2003 and 2002, respectively, are included in the statement of operations.

(in thousands of US dollars, except share and per share data)

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES - continued

Cash and cash equivalents

Cash and cash equivalents include highly liquid investments with maturities of three months or less when purchased that are readily convertible into cash and are not subject to significant risk from fluctuations in interest rates.

Property, plant and equipment

Property, plant and equipment, which include amounts under capitalized leases, are recorded at cost less accumulated depreciation. Depreciation is provided on a straight-line basis over the estimated useful lives of the respective assets, with the exception of assets acquired through capital leases and leasehold improvements, which are depreciated over the lesser of their estimated useful lives or the term of the lease. Estimated useful lives of property, plant and equipment are as follows:

| | |
|---|------------------------------------|
| Buildings | 50 years or term of lease, if less |
| Exchange equipment | 6 to 10 years |
| Transmission plant and equipment | 10 to 20 years |
| Other property, plant and equipment and leasehold improvements | 3 to 16 years |

Indefeasible right-of-use investments ("IRUs") acquired, which are treated as capital leases, are capitalized as property, plant and equipment and amortized over their estimated useful lives, not to exceed 15 years even in those cases where the right of use has been acquired for a longer period of time because management believes that, due to anticipated advances in technology, the Company's IRUs are not likely to be productive assets beyond 15 years.

The Company constructs certain of its transmission plant and equipment. In addition to costs under the construction contract, internal costs directly related to the construction of such facilities, including interest and salaries of certain employees, are capitalized. No depreciation is charged on construction in progress until the assets are operational.

Major enhancements of property, plant and equipment are capitalized, while expenditures for repairs and maintenance are expensed as incurred.

Upon retirement or disposal of property, plant and equipment, the related cost and accumulated depreciation are deducted from the accounts and the difference between the estimated net disposal proceeds and the carrying amount of the asset is recognized as a component of operating income on the date of retirement or disposal.

(in thousands of US dollars, except share and per share data)

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES - continued

Capitalization of interest

The Company capitalized interest costs based upon the cost of capital projects in progress during the year. Capitalized interest of \$866 and \$3,536 in 2003 and 2002, respectively has been added to the cost of the underlying assets during the year and is amortized over the respective useful lives of the assets, amortization expense relating to capitalized interest for the year was \$787 and \$676 for 2003 and 2002, respectively.

Goodwill

Effective 1 January 2002, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets", which establishes new standards for goodwill acquired in a business combination and other intangible assets, eliminates amortization of existing goodwill and other indefinite – life intangible assets, and requires annual evaluation of goodwill and other indefinite – life intangible assets for impairment. In addition, amounts relating to acquired workforce were no longer considered a separate intangible asset. The Company no longer amortizes goodwill, which includes acquired workforce.

As required by SFAS No. 142, goodwill and other indefinite – life intangible asset balances are tested for impairment annually during the fourth quarter in conjunction with the budgeting process. Fair value was determined using a discounted cash flow methodology in 2002 and no impairment was identified. Under the impairment review at the end of 2003 using the same discounted cash flow methodology, a full impairment write down on the carrying value of the goodwill is deemed to be required. As such an impairment write down on the goodwill of \$1,777,635 has been made and included in the current year's statement of operations.

Other intangible assets

Intangible assets consist primarily of trademarks arising from business combinations and are recorded at cost less accumulated amortization. Amortization is calculated using the straight-line method over the estimated useful lives of 10 years.

Impairment of long-lived assets

The Company evaluates its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to future undiscounted net cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

Under the impairment review at the end of 2003, it was noted that the carrying amount of the long-lived assets may not be recoverable. As a result, impairment write downs of \$20,206 and \$787,114 have been made against other intangible assets and property, plant and equipment, respectively and which have been included in the current year's statement of operations.

(in thousands of US dollars, except share and per share data)

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES - continued

Income taxes

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of operations as it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items that are never taxable or deductible.

The Company accounts for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities and their respective tax bases as well as operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are established when it is more likely than not that some or all of the deferred tax assets will not be realized.

Deferred tax assets and liabilities are classified as current or noncurrent based on the classification of assets and liabilities to which timing differences relate, or anticipated timing of reversal if they are not associated with any balance sheet items.

Revenue recognition

The Company records revenue for voice and data services at the time of customer usage after deducting sales allowances, duties and taxes. Revenue received in advance is recorded as deferred revenue until the services are rendered.

The Company sells capacity on its network to other telecommunication providers. Sales of capacity are accounted for as either sales-type leases or operating leases depending upon the terms of the transaction. Revenue related to sales of capacity that meet the criteria of a sales-type lease and for which title transfers to the lessee at the end of the lease term are recognized at the requested activation date of the capacity to the customer. If the requirements for sales-type lease accounting are not met or if title is not transferred, revenue is recognized over the term of the agreement on a straight-line basis.

Interest income

Interest income from bank deposits and interest bearing notes is accrued on a time-apportioned basis on the principal outstanding and the applicable rate. Any discount or premium from interest bearing notes is amortized over the life of the notes so as to achieve a constant rate of return.

(in thousands of US dollars, except share and per share data)

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES - continued

Retirement plan costs

For defined benefit pension plans, the Company accrues costs of the pension benefits earned by the employees during the period as well as interest on projected benefit obligations based on actuarial assumptions. Prior service costs and credits resulting from changes in plan benefits are amortized over the average remaining service period of the employees expected to receive benefits.

For defined contribution plans, the Company and its subsidiaries records its obligations in respect of service in a particular period as an expense of that period.

Reorganization and start-up costs

Costs incurred in connection with the formation of the Company such as start-up cost, organization costs and reorganization costs are expensed as incurred.

Debt issuance costs

Costs incurred in connection with issuing debt securities or other borrowings are deferred and amortized to interest expense over the term of the related debt. The accumulated amortization of debt issuance costs was \$10,123 and \$7,882 in 2003 and 2002, respectively. Accordingly, amortization expense in 2003 and 2002 was \$2,241 and \$4,262, respectively.

Comprehensive income

SFAS No. 130, "Reporting Comprehensive Income", requires that an enterprise report by major components and as a single total the change in net assets from non-owner sources statement of comprehensive income (loss). For 2003 and 2002, comprehensive income has been included within the consolidated statement of shareholders' equity.

Stock-based compensation

The Company accounts for the stock options granted to employees using the intrinsic value method under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees".

Fair value disclosures

The carrying amounts of cash and cash equivalents, restricted cash, accounts receivable, amounts due from shareholders, accounts payable, accruals and other payables approximate fair value due to the short-term maturity of these instruments. Because the long-term bank loan bears interest at a floating rate, the carrying amount of the long-term bank loan approximates fair value.

(in thousands of US dollars, except share and per share data)

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES - continued

Derivative instruments

The Company uses derivative financial instruments to reduce its exposure to adverse fluctuations in interest rates and foreign currency exchange rates. The Company has established policies and procedures for risk management and the approval, reporting and monitoring of derivative financial instrument activities. The Company does not enter into derivative financial instruments for trading or speculative purpose.

The Group accounts for its derivative financial instruments in accordance with the provisions of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended. In April 2003, the Financial Accounting Standard Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" the provisions of which have been adopted. Under SFAS No. 133, as amended, all derivatives are recognized at fair value as either assets or liabilities in the balance sheet. Changes in the fair values of derivative instruments not used as hedges are recognized in earnings immediately. Changes in the fair values of derivative instruments used effectively as hedges are recognized either in earnings for hedges of changes in fair value or in other comprehensive income (loss) for hedges of changes in cash flows. The ineffective portion of a derivative's change in fair value is immediately recognized in earnings.

Recently Issued Accounting Pronouncements

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity". The Statement establishes standards for how an issuer classifies and measures certain financial instruments. This Statement is effective for financial instruments entered into or modified after 31 May 2003, and otherwise is effective at the beginning of the first interim period beginning after 15 June 2003. The Statement requires that certain financial instruments that, under previous guidance, could be accounted for as equity be classified as liabilities, or assets in some circumstances. This Statement does not apply to features embedded in a financial instrument that is not a derivative in its entirety. The Statement also requires disclosures about alternative ways of settling the instruments and the capital structure of entities whose shares are mandatorily redeemable. The Company believes the adoption of SFAS No.150 will not have a material impact on its results of operation or financial position.

In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities - An Interpretation of Accounting Research Bulletin No. 51". FIN No. 46 requires a primary beneficiary to consolidate a variable interest entity, or VIE, if it has a VIE that will absorb a majority of the entity's expected losses if they occur, receive a majority of the entity's expected residual returns if they occur, or both. FIN No. 46 is effective for the Company for the year ending 31 December 2004. The Company does not expect that the adoption of this interpretation, and related amendments, will have a significant impact on our financial position and results of operations.

(in thousands of US dollars, except share and per share data)

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES - continued

Recently Issued Accounting Pronouncements - continued

In November 2002, the FASB issued FASB Interpretation, or FIN, No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others". The interpretation elaborates on the existing disclosure requirements for most guarantees, including loan guarantees such as standby letters of credit. It also clarifies that at the time a company issues a guarantee, the company must recognize an initial liability for the fair value, or market value, of the obligations it assumes under the guarantee and must disclose that information in its interim and annual financial statements. The provisions related to recognizing a liability at inception of the guarantee for the fair value of the guarantor's obligations does not apply to product warranties or to guarantees accounted for as derivatives. The initial recognition and initial measurement provisions apply on a prospective basis to guarantees issued or modified after 31 December 2002. We believe the adoption of recognition and initial measurement requirements of FIN No. 45 does not have a material effect on our financial condition and results of operations.

In November 2002, the FASB Emerging Issues Task Force, or EITF, reached a consensus on EITF No. 00-21, "Revenue Arrangements with Multiple Deliverables", related to the timing of revenue recognition for arrangements in which goods or services or both are delivered separately in a bundled sales arrangement. The EITF requires that when the deliverables included in this type of arrangement meet certain criteria, they should be individually accounted for as separate units of accounting. This may result in a difference in the timing of revenue recognition but will not result in a change in the total amount of revenue recognized in a bundled sales arrangement. The allocation of revenue to the separate deliverables is based on the relative fair value of each item. If the fair value is not available for the delivered items, a residual method must then be used. This method requires the full fair value amount to be allocated to the undelivered items. This would result in a discount, if any, being allocated to the delivered items. This consensus is effective for bundled sales arrangements entered into in fiscal periods beginning after 15 June 2003. We do not believe that the consensus will have a significant impact on our results of operations, financial position and cash flows.

REACH LTD.

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(in thousands of US dollars, except share and per share data)

4. RESTRICTED CASH

At the balance sheet date, the Company has placed certain deposits with banks as a pledge for the following purposes:

| | <u>31.12.2003</u> | <u>31.12.2002</u> |
|---|-------------------|-------------------|
| In respect of the syndicated bank loan facility | \$ 50,000 | \$ - |
| In respect of certain obligations under the terms of the shareholders' agreement for the Korean investments | 10,000 | 10,000 |
| In respect of other operational requirements | 827 | 815 |
| Total restricted cash | <u>\$ 60,827</u> | <u>\$ 10,815</u> |
| Current portion | (10,827) | (10,815) |
| Non-current portion | <u>\$ 50,000</u> | <u>\$ -</u> |

5. PREPAID EXPENSES AND OTHER CURRENT ASSETS

| | <u>31.12.2003</u> | <u>31.12.2002</u> |
|---|-------------------|-------------------|
| Prepaid expenses | \$ 22,785 | \$ 11,458 |
| Deposits | 2,156 | 4,035 |
| Other receivables | 15,666 | 20,049 |
| Derivative instruments – forward exchange contracts | 370 | 855 |
| | <u>\$ 40,977</u> | <u>\$ 36,397</u> |

(in thousands of US dollars, except share and per share data)

6. ASSETS HELD FOR SALE

During 2002, the Company decided to sell certain assets relating to its cable network business and intended to sell them within a year of making the decision to sell these assets. Accordingly, the Company reclassified the \$18,020 carrying value of these assets as assets held for sale.

In 2003, as no sale of these assets was executed, the assets held for sale were reclassified back to property, plant and equipment. Depreciation of \$1,862, which included \$587 for depreciation not charged in 2002 while the assets were classified as assets held for sale, was charged to the current operating loss as a result of this reclassification.

7. PROPERTY, PLANT AND EQUIPMENT

| | 31.12.2003 | 31.12.2002 |
|---|------------|--------------|
| Property, plant and equipment consist of the following: | | |
| Leasehold land and buildings | \$ 58,198 | \$ 81,372 |
| Exchange equipment | 108,470 | 92,929 |
| Transmission plant and equipment | 1,319,500 | 1,196,190 |
| Other plant, equipment and leasehold improvements | 138,676 | 118,740 |
| Projects under construction | 53,435 | 89,488 |
| Total | 1,678,279 | 1,578,719 |
| Less: Accumulated depreciation and amortization | (495,379) | (283,575) |
| Impairment write down | (787,114) | - |
| Property, plant and equipment, net | \$ 395,786 | \$ 1,295,144 |

Depreciation expense charged to operating income for the year was \$200,384 (2002: \$157,619).

Under the impairment review at the end of 2003, it is noted that the carrying amounts of the property, plant and equipment may not be recoverable. As a result, an impairment write down of \$787,114 has been made at 31 December 2003 against their carrying amounts.

Property, plant and equipment includes equipment leased under capital leases with a cost of \$269,327 and \$264,225 and accumulated depreciation and impairment write down of \$230,024 and \$56,551 at 31 December 2003 and 2002, respectively.

REACH LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(in thousands of US dollars, except share and per share data)

8. GOODWILL, NET

| | <u>31.12.2003</u> | <u>31.12.2002</u> |
|--------------------------------|-----------------------------|-----------------------------|
| Goodwill | \$ 1,866,068 | \$ 1,866,068 |
| Less: Accumulated amortization | (88,433) | (88,433) |
| Impairment write down | (1,777,635) | - |
| | <u> </u> | <u> </u> |
| Goodwill, net | \$ - | \$ 1,777,635 |
| | <u> </u> | <u> </u> |

Under the impairment review at the year end of 2003, it is considered that the goodwill may not be recoverable. As a result, a full impairment write down of \$1,777,635 has been made as at 31 December 2003.

9. OTHER INTANGIBLE ASSETS, NET

| | <u>31.12.2003</u> | <u>31.12.2002</u> |
|--------------------------------|-----------------------------|-----------------------------|
| Trademarks | \$ 29,103 | \$ 29,103 |
| Less: Accumulated amortization | (8,897) | (5,837) |
| Impairment write down | (20,206) | - |
| | <u> </u> | <u> </u> |
| Trademarks, net | \$ - | \$ 23,266 |
| | <u> </u> | <u> </u> |

Amortization expense charged to the statement of operations for the year was \$3,060 (2002: \$3,050).

Under the impairment review at the end of 2003, it is considered that the above intangible assets may not be recoverable. As a result, a full impairment write down of \$20,206 has been made as at 31 December 2003 against their carrying value.

10. OTHER ASSETS

| | <u>31.12.2003</u> | <u>31.12.2002</u> |
|----------------|-----------------------------|-----------------------------|
| Prepayments | \$ 11,030 | \$ 23,750 |
| Other deposits | - | 791 |
| | <u> </u> | <u> </u> |
| | \$ 11,030 | \$ 24,541 |
| | <u> </u> | <u> </u> |

(in thousands of US dollars, except share and per share data)

11. LEASING ARRANGEMENTS

Capital leases

The Company leases certain transmission plant and equipment under capital leases. The capital lease obligations outstanding as of 31 December 2003 related to the financing of certain transmission plant and equipment and amounted to \$109,324 (2002: \$139,460). Future minimum lease payments under capital lease obligations are as follows:

| | <u>31.12.2003</u> |
|---|-------------------|
| Period ended 31 December: | |
| 2004 | \$ 49,012 |
| 2005 | 21,348 |
| 2006 | 9,802 |
| 2007 | 9,779 |
| 2008 | 9,765 |
| Thereafter | 66,291 |
| | <u>165,997</u> |
| Total minimum lease payments | 165,997 |
| Less: amounts representing interest | (56,673) |
| | <u>109,324</u> |
| Present value of minimum lease payments | 109,324 |
| Current portion | (39,087) |
| | <u>70,237</u> |
| Long-term portion | \$ 70,237 |

Operating leases as lessor

The Company leases certain building facilities to outside parties which are accounted for as operating leases. Rental income under these types of agreements were \$1,598 and \$3,442 in 2003 and 2002, respectively. Future minimum lease receipts under non-cancellable operating leases agreements are as follows:

| | <u>31.12.2003</u> |
|---------------------------|-------------------|
| Period ended 31 December: | |
| 2004 | \$ 1,193 |
| 2005 | 1,114 |
| 2006 | 46 |
| | <u>2,353</u> |
| Total rental income | \$ 2,353 |

REACH LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(in thousands of US dollars, except share and per share data)

11. LEASING ARRANGEMENTS - continued

Operating leases as lessee

The Company leases certain offices and equipment under operating leases. Rental expenses under operating leases for 2003 and 2002 were \$28,523 and \$12,250, respectively.

Future minimum lease payments under non-cancellable operating lease agreements not recorded in the financial statements were as follows:

| | <u>31.12.2003</u> |
|---------------------------|-------------------|
| Period ended 31 December: | |
| 2004 | \$ 24,999 |
| 2005 | 18,470 |
| 2006 | 13,670 |
| 2007 | 13,064 |
| 2008 | 12,298 |
| Thereafter | 33,011 |
| | <hr/> |
| Total | 115,512 |
| | <hr/> |

12. OTHER UNSECURED LOAN

The other loan is unsecured, bears interest at a rate of 6.9% per annum and is repayable by monthly instalments in the following years:

| | <u>31.12.2003</u> | <u>31.12.2002</u> |
|---------------------------|---------------------|-------------------|
| Period ended 31 December: | | |
| 2004 | \$ 1,109 | \$ - |
| 2005 | 1,189 | - |
| 2006 | 732 | - |
| | <hr/> | <hr/> |
| Current portion | \$ 3,030 (1,109) | \$ - - |
| | <hr/> | <hr/> |
| Long-term portion | \$ 1,921 | - |
| | <hr/> | <hr/> |

(in thousands of US dollars, except share and per share data)

13. BANK LOAN

At the beginning of the year, the bank loan amounted to US\$1,500,000 which represented a syndicated term loan facility bearing interest at LIBOR plus applicable margin as defined in the Syndicated Term Loan Facility Agreement dated 12 January 2001 ("Original Facility Agreement"). The loan was unsecured and was repayable in three instalments.

The Original Facility Agreement contained restrictive covenants. The covenants related to interest and debt coverage as defined in the Original Facility Agreement.

During the year, the Company and the syndicate banks initiated a discussion on the possible amendment and restatement of the Original Facility Agreement ("Loan Amendment and Restatement").

On 15 April 2003, Reach Ltd, Reach Finance Limited and the banks signed the Amendment and Restatement Agreement. Under the terms of the Amendment and Restatement Agreement, the Original Facility Agreement was amended and restated ("Amended and Restated Facility Agreement") as at the Date of Amendment (as defined in the Amendment and Restatement Agreement being the day on which the conditions precedent to that Agreement were satisfied or waived) which occurred on 25 April 2003. On this date the Company made a partial repayment of the loan in the amount of \$300,000. The remaining balance of \$1,200,000 is repayable on 31 December 2010 (subject to the cash sweep provisions contained in the Amended and Restated Facility Agreement that requires the Company to repay certain amount of the loan balance and utilize certain amount of capacity purchase prepayments from shareholders when there is Cash Surplus as defined in the Amended and Restated Facility Agreement). The amended term loan facility is secured by floating charges over certain of the Company's assets and bears interest at a rate of LIBOR plus 2.5% per annum. The interest rate will increase to LIBOR plus 3.5% per annum effective from 1 January 2008 if the outstanding loan balance is not reduced to \$900,000 or less by that date. There are no financial ratio covenant provisions in the Amended and Restated Facility Agreement.

The terms of the Amendment and Restatement Agreement are not considered to be substantially different from the Original Facility Agreement and consequently the Amended and Restated Facility Agreement is considered an extension of the original loan. The Company continues to defer and amortize the carrying value of the deferred financing costs related to the Original Facility Agreement over the revised term of the Amended and Restated Facility Agreement. The Company recorded an additional \$1,458 of costs with third parties other than the syndicate banks related to the Loan Amendment and Restatement during the period. These costs were expensed and included in the accompanying consolidated statement of operations as reorganization costs. Interest expense incurred on this bank loan for the year was \$42,468 (2002: \$45,158). The weighted average interest rate of the bank loan for the year was approximately 3.2% (2002: 3.0%) per annum.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003 AND 2002

(in thousands of US dollars, except share and per share data)

14. CAPACITY PURCHASE PREPAYMENTS FROM SHAREHOLDERS

| | 2003 | 2002 |
|--|------------|------|
| Amount prepaid by shareholders | \$ 286,000 | \$ - |
| Time value accrued on the unutilized balance | 7,414 | - |
| Balance at the balance sheet date | \$ 293,414 | \$ - |

In relation to the Amended and Restated Facility Agreement, the Company signed a Capacity Prepayment Agreement ("CP Agreement") with its two shareholders on 15 April 2003, pursuant to which the two shareholders have made prepayments to the Company totalling \$286,000 ("Prepayment") for their future capacity purchases. The utilization of the Prepayment is subject to the cash sweep provisions in the Amended and Restated Facility Agreement. The unutilized balance of the Prepayment will increase based on a formula as set out in the CP Agreement which is calculated with reference to LIBOR plus 2.5%. During the year, the time value accrued on the Prepayment was \$7,414 which has been included in interest expense.

15. OTHER LIABILITIES

The Company has entered into certain interest rate swap contracts to effectively convert the interest rate on a portion of the bank loan with principal amounts of \$675,000 from variable rates to fixed rates. These instruments are considered as effectively hedging against the changes in cash flows of interest payments under the bank loan. The unrealized losses in the fair value of the interest rate swap contracts of \$19,191 and \$32,653 were recorded as an element of comprehensive income (loss) in the consolidated statements of shareholders' equity and the other liabilities in the balance sheet as at 31 December 2003 and 31 December 2002, respectively.

16. IMPAIRMENT WRITE DOWN ON GOODWILL AND LONG-LIVED ASSETS AND PROVISION FOR NON-RECOVERABLE CAPITAL COMMITMENTS

| | 2003 | 2002 |
|---|--------------|------|
| Impairment write down on goodwill | \$ 1,777,635 | \$ - |
| Impairment write down on intangible assets | 20,206 | - |
| Impairment write down on property, plant and equipment | 787,114 | - |
| Provision for non-recoverable committed capital contracts | 79,886 | - |
| | \$ 2,664,841 | \$ - |

The Company's goodwill and long-lived assets were tested for impairment at the balance sheet dates. Due to the increased competition in the global wholesale communications industry, prices for services have been declining at a significant rate for a number of years. When the impairment testing was performed in 2002, it was anticipated that the rate of decline would slow down in 2003 and that prices would increase gradually in subsequent years, therefore no impairment write down was considered necessary in 2002. However, prices continued to fall throughout 2003. As a result the Company revised its long term forecast for operating profits and cash flow downwards. Based on this, impairment write downs on goodwill, intangible assets and property, plant and equipment were made at \$1,777,635, \$20,206 and \$787,114, respectively in 2003.

(in thousands of US dollars, except share and per share data)

17. INCOME TAXES

Reach Ltd is an exempted company incorporated in Bermuda with limited liability. As such, it is exempt from any corporate income taxes. All income tax liabilities are derived from subsidiaries.

The Company operates globally and is subject to tax in various local jurisdictions. Based on the current business concentration, the Company's taxation exposures principally arise in Hong Kong and Australia whose statutory corporate income tax rates are 17.5% (2002: 16%) and 30% (2002: 30%), respectively.

The current and deferred components of the income taxes expense are as follows:

| | 2003 | 2002 |
|-----------------------------|-------------|-----------|
| Current | \$ 12,900 | \$ 47,404 |
| Deferred | (66,299) | (8,456) |
| Income tax (credit) expense | \$ (53,399) | \$ 38,948 |

Significant components of the Company's deferred taxation are as follows:

| | 2003 | 2002 |
|---|------------|-------------|
| Deferred tax assets | | |
| Tax loss available | \$ 104,430 | \$ 72,839 |
| Excess of depreciation over tax allowance | 37,681 | 173 |
| Expenditures not currently deductible | 4,455 | 3,833 |
| Others | 214 | - |
| Gross deferred tax assets | 146,780 | 76,845 |
| Allowance made for tax benefit | (128,963) | (72,839) |
| Deferred tax assets | \$ 17,817 | \$ 4,006 |
| Deferred tax liabilities | | |
| Excess of tax allowances over depreciation | \$ 1,916 | \$ 55,571 |
| Prepaid expenses recognized as costs for tax purposes | 2,453 | 927 |
| Others | 700 | 1,059 |
| Deferred tax liabilities | \$ 5,069 | \$ 57,557 |
| Net deferred tax assets (liabilities) | \$ 12,748 | \$ (53,551) |

(in thousands of US dollars, except share and per share data)

17. INCOME TAXES - continued

Reconciliations of the applicable statutory rate to the effective tax rate are as follows:

| | | |
|---|---------|--------|
| Applicable statutory rate in Hong Kong | 17.5% | 16.0% |
| Effect on the change of statutory tax rate | (0.2%) | -% |
| Non-deductible impairment write down on goodwill and long-lived assets | (11.3%) | -% |
| Non-deductible loan interest paid | (0.2%) | 4.9% |
| Tax losses not utilized | (1.7%) | 4.5% |
| Difference on statutory rates of other tax jurisdictions | (2.1%) | (2.6%) |
| Other permanent differences | (0.1%) | (1.7%) |
| | 1.9% | 21.1% |
| Effective tax rate | 1.9% | 21.1% |

18. COMMITMENTS AND CONTINGENCIES

(a) Capital expenditure purchase commitments in respect of property, plant and equipment

Total capital expenditure purchase commitments contracted for at 31 December 2003 were \$109,530, such amounts will be payable as follows:

| | | |
|----------------------------------|----|---------|
| Period ended 31 December: | | |
| 2004 | \$ | 39,174 |
| 2005 | | 35,178 |
| 2006 | | 35,178 |
| | | 109,530 |
| Total | \$ | 109,530 |

Included in the above commitments are the capital commitments of \$105,534 in relation to the purchase of certain cable capacities, of which \$79,886 were assessed as non-recoverable in the future. Therefore a provision for non-recoverable capital commitments at the same amount has been made and which has been charged to the current year's statement of operation. The capital expenditure purchase commitments not recorded in the financial statements were \$29,644.

(in thousands of US dollars, except share and per share data)

18. COMMITMENTS AND CONTINGENCIES - continued

(b) Contingency:

In August 2001, Webpages Directories Limited ("Webpages"), an independent third party, filed a claim of approximately \$1,795 plus interest and legal fees against Reach Cable Networks Limited ("RCNL"), a wholly owned subsidiary of the Company, Globalnet Consulting Limited and Globalnet Telecommunications International Limited ("Globalnet") for losses as a result of disconnection of certain telecommunication services provided by Globalnet who had purchased the telecommunication services from RCNL and the unlawful custodian of some computer servers maintained by RCNL. As Globalnet was in the process of voluntary liquidation, RCNL disconnected all services rendered to Globalnet.

No provision has been made in the financial statements for this case as, in the event that the Company incurs any liability as a result of this claim, such liability would fall within the indemnity given by Level 3 Communications Inc in favour of the Company.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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19. RELATED PARTY TRANSACTIONS

During 2003 and 2002, the Company conducted the following transactions with its shareholders:

| | 2003 | 2002 |
|---|------------|------------|
| Capacity purchase prepayment made by shareholders – see note 13 | \$ 286,000 | \$ - |
| Revenue earned from shareholders in the normal course of operations: | | |
| - International voice | \$ 193,531 | \$ 277,079 |
| - Data | 90,011 | 324,115 |
| - Other | 9,191 | 6,206 |
| | \$ 292,733 | \$ 607,400 |
| Cost of sales charged by shareholders to the Company: | | |
| - International voice | \$ 52,163 | \$ 45,482 |
| - Data | 5,004 | 2,817 |
| - Transmission cost | 12,259 | 13,106 |
| | \$ 69,426 | \$ 61,405 |
| Operating expenses charged by shareholders to the Company | \$ 21,374 | \$ 24,515 |
| Time value accrued on the capacity purchase prepayment made by shareholders | \$ 7,414 | \$ - |

The amounts due from shareholders of \$45,369 and \$150,962 in 2003 and 2002, respectively, are unsecured and non-interest bearing, of which \$23,431 and \$111,852, respectively, were trade related balances.

20. STOCK-BASED COMPENSATION

In 2001, the Company granted its employees certain share options of the Company. The exercise of the options is dependent on the success of an initial public offering ("IPO") of the Company in the future. The exercise price is set at a discount of 10% to 15% of the amount payable for a share of the Company on a successful IPO, subject to relevant Stock Exchange rules and the underwriters' requirements at the time of the IPO.

As at 31 December 2003, the total outstanding options granted by the Company to the employees of the Company and its subsidiaries was approximately 102,672,000. The options are exercisable not more than 10 years after the date of grant. As of the balance sheet date, successful completion of an IPO is not probable and it is not practical to estimate the exercise price of the share options and thus, no compensation expense relating to options granted has been recognized through 31 December 2003.

(in thousands of US dollars, except per share amounts)

21. CONCENTRATION OF CREDIT RISK

Financial instruments which potentially subject the Company to credit risk consist primarily of cash, cash equivalents, trade receivables and amounts due from shareholders.

The Company maintains cash and cash equivalents with various major financial institutions. The Company limits the amount of credit exposure with any one financial institution and believes that no significant concentration of credit risk exists with respect to cash investments.

Trade receivables and amounts due from shareholders subject the Company to the potential for credit risk with its shareholders and customers in the global wholesale communication industry. Although this concentration could affect the Company's overall exposure to credit risk, management believes that the Company is exposed to minimal risk since the majority of its business is conducted with major companies within the industry. The Company performs periodic credit evaluations of its customers' financial condition and generally does not require collateral for its accounts receivables.

22. SIGNIFICANT CUSTOMERS

The two significant customers in terms of revenue and accounts receivable are also the shareholders of the Company. These two customers accounted for 14.7% and 17.7% of the Company's revenue in 2003 and 15.7% and 32.2% of the Company's revenue in 2002, and they also accounted for 18.9% and 8.7% of the Company's accounts receivable in 2003 and 19.7% and 33.9% of the Company's accounts receivable in 2002.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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23. STAFF RETIREMENT PLANS

The Company maintains defined benefit pension plans. The assets of the plans are held separately from those of the Company in funds under the control of independent trustees. The following tables summarize benefit costs, as well as the benefit obligations, plan assets, fund status and assumptions associated with the plans.

| | 2003 | 2002 |
|---|------------------|------------------|
| <u>Changes in benefit obligation</u> | | |
| Projected benefit obligation at beginning of year | \$ 59,711 | \$ 65,641 |
| Adjustment to 2001 balance | - | 7 |
| Net service cost | 1,527 | 2,678 |
| Interest cost | 2,786 | 4,513 |
| Actual employee contributions | 257 | 397 |
| Actual benefit payments | (2,720) | (10,341) |
| Actuarial gain | (2,703) | (3,184) |
| Decrease due to FAS 88 events * | (24,717) | - |
| | <u>\$ 34,141</u> | <u>\$ 59,711</u> |
| <u>Changes in plan assets</u> | | |
| Fair value of plan assets at beginning of year | \$ 49,025 | \$ 60,404 |
| Adjustment on the balance of 2001 | - | (318) |
| Actual return on plan assets | 8,598 | (3,502) |
| Employer contribution | 3,498 | 2,384 |
| Employee contribution | 257 | 398 |
| Benefits paid | (2,720) | (10,341) |
| Decrease due to FAS 88 events * | (25,189) | - |
| | <u>\$ 33,469</u> | <u>\$ 49,025</u> |
| Fund status | \$ (718) | \$ (10,684) |
| Unrecognized net actuarial loss | 388 | 11,469 |
| Unamortized prior service cost | - | - |
| Unamortized transition obligation | - | - |
| | <u>\$ (330)</u> | <u>\$ 785</u> |

* The FAS 88 events refer to the events below which occurred during the year:

- i) Certain members were made redundant or left service through the voluntary separation program.
- ii) On 1 September 2003, all members of defined benefit schemes were transferred to the Company's defined contribution schemes with their benefits in respect of service before that date remaining unchanged.

REACH LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(in thousands of US dollars, except share and per share data)

23. STAFF RETIREMENT PLANS - continued

| | <u>2003</u> | <u>2002</u> |
|---|-------------|-------------|
| Weighted average actuarial assumptions: | | |
| Discount rate | 5.25% | 5.5% |
| Expected return on plan assets | 5.75% | 6.5% |
| Rate of compensation increase | 0% - 3.5% | 3.5% |

The components of the net pension cost for 2003 and 2002 are as follows:

| | <u>2003</u> | <u>2002</u> |
|---------------------------------|-----------------|-----------------|
| Gross service cost | \$ 1,784 | \$ 3,102 |
| Expected employee contributions | (257) | (424) |
| Net service cost | 1,527 | 2,678 |
| Interest cost | 2,786 | 4,513 |
| Expected return on plan assets | (2,728) | (4,836) |
| Amortization of actuarial loss | 265 | 382 |
| | <u>\$ 1,850</u> | <u>\$ 2,737</u> |

Major category allocation of plan assets is as follows:

| | <u>Actual allocation</u> | | <u>Target</u> |
|-------------------|--------------------------|-------------|-------------------|
| | <u>2003</u> | <u>2002</u> | <u>allocation</u> |
| Equity securities | 0% | 68% | 0% |
| Debt securities | 0% | 20% | 0% |
| Cash | 100% | 12% | 100% |
| | <u>100%</u> | <u>100%</u> | <u>100%</u> |

The defined benefit schemes will be closed in August 2004. Under the current best estimate, no payment is expected to be made during 2004 for the employer's contribution.

24. RECLASSIFICATION

Certain amounts previously reported in 2002 have been reclassified to conform to the 2003 presentation.

(in thousands of US dollars, except share and per share data)

25. POST BALANCE SHEET EVENT

On 17 June 2004, PCCW and Telstra agreed to jointly buy the Company's bank loan of \$1,200,000 from the syndicate of banks for approximately \$310,900 in aggregate in consideration for, inter alia, the complete release of all of the obligations of the Company, and certain related parties of the Company, to the syndicate of banks. The consideration has been paid in equal proportions by the shareholders of the Company.

Immediately upon the completion of the debt acquisition by the shareholders which took place on 18 June 2004, the bank loan of the Company became a shareholders loan ("Shareholders Loan"). The Shareholders Loan will be repayable on 31 December 2010. Interest on the loan may be suspended for up to six months from the completion date on the debt acquisition and no decision has been made between the shareholders and the Company as to the appropriate basis on which interest on the Shareholders Loan should be calculated following that six months period.

In addition, it is proposed that the shareholders will together provide jointly and equally a \$50,000 revolving working capital loan facility ("Working Capital Loan") to the Company for general working capital purposes. The Working Capital Loan will be repayable in full on 31 December 2007 and bears interest at a rate of LIBOR plus 2.5%.

The Company will provide security to secure the Shareholders Loan and the Working Capital Loan. Such security will be in the form of guarantees by the Company and charges over certain assets of the Company.

As a result of the refinancing arrangements set out above, the uncertainties surrounding the Company's ability to continue as a going concern have been alleviated.

EXHIBITS INDEX

| Exhibit Number | Description | Sequentially Numbered Page |
|-------------------|--|----------------------------------|
| 1. | Memorandum and Articles of Association of PCCW, as amended. | |
| 4. (p) | Equitable Mortgage Amendment Deed dated April 16, 2005 between PCCHL, PCCW and Telstra. | |
| 4. (t) | Domestic Connectivity Agreement Amendment Agreement dated April 16, 2005 between HKTC and Reach Networks. | |
| 4. (mm) | Facility Letter dated July 13, 2004 between Standard Chartered Bank (HK) Ltd (as issuing bank), HKTC (as applicant) and PCCW (as beneficiary) relating to a guarantee facility of up to HK\$780 million. | |
| 4. (nn) | Deed of Charge Over Deposit Account dated July 13, 2004 between HKTC (as chargor), Standard Chartered Bank (HK) Ltd (as issuing bank and account bank) and PCCW (as beneficiary) relating to a guarantee facility of up to HK\$780 million. | |
| 4. (oo) | Placing Agreement dated October 28, 2004 between Asia Motion Limited (as vendor) and Lehman Brothers Asia Limited (as placing agent) relating to the placing of 118,000,000 ordinary shares of PCPD at HK\$2.18 per PCPD share. | |
| 4. (pp) | Subscription Agreement dated October 28, 2004 between Asian Motion Limited and PCPD relating to the subscription of 118,000,000 new ordinary shares of PCPD at HK\$2.18 per PCPD share. | |
| 4. (qq) | Block Trade Agreement dated November 30, 2004 between Asia Motion Limited (as seller) and Deutsche Bank AG, Hong Kong Branch (as contracting principal) relating to the placing of 450,000,000 ordinary shares of PCPD at HK\$2.48 per PCPD share. | |
| 4. (rr) | Agreement for Sale and Purchase dated December 21, 2004 between Partner Link Investments Limited (as vendor) and Richly Leader Limited (as purchaser) relating to the sale of PCCW Tower. | |
| 4. (ss) | Subscription Agreement dated January 19, 2005 between China Netcom Group Corporation (BVI) Limited, China Network Communications Group Corporation and PCCW relating to the subscription of 1,343,571,766 new ordinary shares in PCCW at HK\$5.90 per share. | |
| 4. (tt) | Supplemental Agreement dated February 7, 2005 among the parties to the Subscription Agreement (referred to in Exhibit (ss)). | |

4. (uu) Deed of Rental Guarantee dated February 7, 2005 between Partner Link Investments Limited (as vendor), Ipswich Holdings Limited (as guarantor) and Richly Leader Limited (as purchaser) relating to the guarantee of a minimum monthly rental of HK\$13,338,000 per month to the purchaser for five years.
 4. (vv) Deed of Assignment dated March 14, 2005 among China Netcom Group Corporation (BVI) Limited, China Netcom Corporation (BVI) Limited, China Network Communications Group Corporation and PCCW pursuant to which China Netcom Group Corporation (BVI) Limited assigned its rights under the Subscription Agreement (referred to in Exhibit (ss)) to China Netcom Corporation (BVI) Limited.
 4. (ww) Reach Network Services Agreement dated April 16, 2005 among Reach, Reach Global, Reach Networks, Telstra, Hong Kong CSL Limited, PCCW Communications, HKTC and PCCW relating to the supply by Reach of international connectivity services.
 4. (xx) Capacity Allocation Agreement dated April 16, 2005 among Reach Global, Telstra, PCCW Communications and PCCW relating to the granting by Reach Global of indefeasible rights to use Reach's undersea cable capacity.
 4. (yy) Reach Debt and Asset Restructure Deed dated April 16, 2005 among Telstra, Telstra Holdings Pty Limited, Telstra Holdings (Bermuda) No. 1 Limited, PCCHL, HKTC, PCCW Communications, various members of the Reach Group and PCCW relating to the restructuring of debt owed by Reach to its shareholders.
 4. (zz) Reach Shareholders (Variation) Agreement No. 6 dated April 16, 2005 entered into by Telstra, Telstra Holdings Pty Limited, Telstra Holdings (Bermuda) No. 1 Limited, PCCW, PCCHL and Reach relating to Reach Shareholders Agreement dated October 13, 2000.
 8. List of Subsidiaries.
 12. Certifications required by Rule 13a-14(a) (17 CFR 240.13a-14(a)) or Rule 15d-14(a) (17 CFR 240.15d-14(a)).
 13. Certifications required by Rule 13a-14(b) (17 CFR 240.13a-14(b)) or Rule 15d-14(b) (17 CFR 240.15d-14(b)) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350).
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MEMORANDUM
(Incorporating all changes made on or before 7th January, 2003)

AND

ARTICLES OF ASSOCIATION

(As adopted by Special Resolution passed on 20th September, 1994 and amended by
Special Resolutions passed on 7th January, 2003 and 19th May, 2004)

OF

PCCW LIMITED

Incorporated the 24th day of April, 1979

ORDINARY RESOLUTION

OF

PCCW LIMITED

(Incorporated in Hong Kong with limited liability)

Passed on March 16, 2005

At the Extraordinary General Meeting of the Company duly convened and held in the Conference Room, 14th Floor, PCCW Tower, TaiKoo Place, 979 King's Road, Quarry Bay, Hong Kong on Wednesday, March 16, 2005 at 11:00 a.m., the following resolution was duly passed as Ordinary Resolution:

"THAT:

- (A) the authorised share capital of the Company be increased from HK\$1,600,000,000 to HK\$2,500,000,000 by the creation of 3,600,000,000 new ordinary shares of HK\$0.25 each, such shares to rank pari passu in all respects with the existing ordinary shares of HK\$0.25 each in the issued capital of the Company;
- (B) the allotment and issue by the Directors of 1,343,571,766 new ordinary shares of HK\$0.25 each in the capital of the Company (as increased pursuant to paragraph (A) above) at a price of HK\$5.90 per share pursuant to and on the terms set out in the subscription agreement dated January 19, 2005 entered into between the Company, China Netcom Group Corporation (BVI) Limited and China Network Communications Group Corporation (a copy of which has been produced to this Meeting marked "A" and initialled by the Chairman of this Meeting for the purpose of identification) be approved; and
- (C) the granting of the Anti-Dilution Rights (as defined and described in the circular to shareholders of the Company dated February 14, 2005) to China Network Communications Group Corporation and the issue of new shares of the Company, any securities convertible into or exchangeable into shares of the Company, and/or any warrants or other rights to subscribe for shares of the Company on exercise from time to time of the Anti-Dilution Rights by China Network Communications Group Corporation be approved, confirmed and ratified."

(SD.) YUEN TIN FAN

Yuen Tin Fan
Chairman of the Meeting

THE COMPANIES ORDINANCE (CHAPTER 32)

SPECIAL RESOLUTION
OF
PCCW LIMITED

Passed on May 19, 2004

At an Extraordinary General Meeting of the Company duly convened and held in the Conference Room, 14th Floor, PCCW Tower, TaiKoo Place, 979 King's Road, Quarry Bay, Hong Kong on Wednesday, May 19, 2004 at 11:55 a.m., the following resolution was duly passed as a Special Resolution:

"THAT the share premium account of the Company be and the same is hereby cancelled."

(SD.) SO CHAK KWONG, JACK

So Chak Kwong, Jack
Chairman of the Meeting

THE COMPANIES ORDINANCE (CHAPTER 32)

SPECIAL RESOLUTION
OF
PCCW LIMITED

Passed on May 19, 2004

At an Annual General Meeting of the Company duly convened and held in the Conference Room, 14th Floor, PCCW Tower, TaiKoo Place, 979 King's Road, Quarry Bay, Hong Kong on Wednesday, May 19, 2004 at 11:00 a.m., the following resolution was duly passed as a Special Resolution:

"THAT the articles of association of the Company be and are hereby amended in the following manner:

- (A) By deleting the existing definition of "associate" set out in Article 2 and replacing it with the following:
- "associate" has the meaning ascribed to it in the Listing Rules;"
- (B) By replacing the reference in Article 78(b) to "the Securities (Clearing Houses) Ordinance of Hong Kong" with "the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)".
- (C) By adding the following new Article 82A after the existing Article 82:
- "82A. Where any shareholder is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted."
- (D) By adding the following as a new sub-paragraph (e) to Article 93:
- "(e) An alternate Director shall not be, nor be deemed to be, the agent of the Director appointing him and the latter shall not be vicariously liable for any tort committed by the former."
- (E) (1) By deleting existing Articles 100(g) and 100(h) in their entirety and substituting therefor the following new Articles 100(g) and 100(h):
- "(g) A Director who, to his knowledge, is interested or has an associate who is interested, in any way, whether directly or indirectly, in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest or the interest of his associate at the meeting of the Board at which the question of entering into the contract or arrangement is first taken into consideration if he knows his interest or the interest of his associate then exists; or in any other case at the first meeting of the Board after he knows that he or his associate is or has become so interested. For this purpose, a general notice to the Board by a Director to the effect that:-
- (i) he or any of his associates is a member of a specified company or firm and is to be regarded as interested in any contract or arrangement which may after the date of the notice be made with that company or firm; or

(ii) he or any of his associates is to be regarded as interested in any contract or arrangement which may after the date of the notice be made with a specified person who is connected with him or them,

shall be deemed to be a sufficient declaration of interest in relation to any such contract or arrangement; provided that no such notice shall be effective unless either it is given at a meeting of the Board or the Director takes reasonable steps to secure that it is brought up and read at the next Board meeting after it is given.

(h) Save as otherwise provided by the Articles, a Director shall not vote (nor be counted in the quorum) on any resolution of the Board in respect of any contract, arrangement or proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters namely:-

(i) any contract or arrangement for the giving to such Director or any of his associates of any security or indemnity in respect of money lent by him or them or obligations incurred or undertaken by him or them for the benefit of the Company and any of its subsidiaries;

(ii) any contract or arrangement for the giving by the Company of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or any of his associates has himself or themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;

(iii) any contract or arrangement by a Director or any of his associates to subscribe for shares, debentures or other securities of the Company issued or to be issued pursuant to any offer or invitation to members or debenture holders of the Company or any class thereof, and which does not provide in respect of any Directors or any of his associates as such any privilege or advantage not accorded to any other members or debenture holders of the Company or any class thereof or to the public or any sections thereof;

(iv) any contract or arrangement concerning an offer of the shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or any of his associates is or is to be interested as a participant in the underwriting or sub-underwriting of the offer;

(v) any contract or arrangement in which the Director or any of his associates is interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his or their interest in shares or debentures or other securities of the Company;

(vi) any contract, arrangement or proposal concerning any company in which the Director or any of his associates is interested only, whether directly or indirectly, as an officer or executive or shareholder or in which the Director or any of his associates is beneficially interested in shares of that company, provided that he, together with any of his associates, is not beneficially interested in 5 per cent. or more of the equity share capital of such company (whether his interest is derived through any third company) or of the voting rights available to members of such company;

(vii) any proposal or arrangement concerning the benefit of employees of the Company or its subsidiaries including the adoption, modification or operation of a pension fund or retirement, death or disability benefits scheme which relates to directors (and their associates) and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director or any of his associates who may be employees of the Company as such any privilege or advantage not accorded to the employees to which such scheme or fund relates;

(viii) any proposal or arrangement concerning the adoption, modification or operation of any share scheme involving the issue or grant of options over shares or other securities by the Company to, or for the benefit of the employees of the Company or of any of its

subsidiaries, under which the Director or any of his associates who may be employees of the Company or any of its subsidiaries may benefit."; and

(2) by inserting, in brackets, the words "including, for these purposes, the interest of any of his associates" after the word "interest" in the second line of Article 100(k).

(F) By deleting the existing Article 102 in its entirety and substituting therefor with the following new Article 102:

"102. No person, other than a retiring Director, shall, unless recommended by the Directors for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been given to the Company in each case, during the period (being a period of at least seven days) commencing on the day after despatch of the notice of general meeting at which elections to the office of Director are to be considered and ending on the day that falls seven days before the date of the general meeting (both days inclusive)."

(G) By replacing the word "special" with the word "ordinary" in the first sentence of Article 104 and adding the following as a final sentence to the said Article 104:

"Special notice, in accordance with the Companies Ordinance, shall be required in relation to any meeting at which such an ordinary resolution is to be considered."

(H) By replacing the reference in Article 176(a) to "paragraph (c) of the proviso to Section 165 of the Ordinance" with "sub-section (2) of Section 165 of the Ordinance".

(SD.) SO CHAK KWONG, JACK

So Chak Kwong, Jack
Chairman of the Meeting

THE COMPANIES ORDINANCE (CHAPTER 32)

SPECIAL RESOLUTION
OF
PCCW LIMITED

Passed on January 7, 2003

At an Extraordinary General Meeting of the Company duly convened and held in the Conference Room, 14th Floor, PCCW Tower, TaiKoo Place, 979 King's Road, Quarry Bay, Hong Kong on Tuesday, January 7, 2003 at 9:30 a.m., the following resolution was duly passed as a Special Resolution:

"THAT the Articles of Association of the Company be and are hereby amended in the following manner:

- (A) By adding the following new definition immediately before the definition of "these Articles" in Article 2:

"Annual Report" shall include a consolidated profit and loss account for the period, in the case of the first account, since the incorporation of the Company and, in any other case, since the preceding account, together with a consolidated balance sheet as at the date to which the consolidated profit and loss account is made up and a Directors' report with respect to the consolidated profit or loss of the Company for the period covered by the profit and loss account and the state of the Company's affairs as at the end of such period, and an Auditors' report on such accounts prepared pursuant to Article 158;

- (B) By adding the following new definition immediately after the definition of "the Companies Ordinance" in Article 2:

"Corporate Communication" shall mean any information issued or to be issued by the Company to its members for their information or action and shall have the meaning ascribed to it in the Listing Rules and shall include but not be limited to:

- (1) the Annual Report;
- (2) the interim report;
- (3) the summary financial report;
- (4) notice of meetings;
- (5) listing documents; and
- (6) any circulars or other documents required by the Listing Rules to be sent to the Company's members.

- (C) By adding the following new definitions immediately after the definition of "dollars" in Article 2:

"electronic communication" shall mean any Corporate Communication sent by electronic means;

"electronic means" shall mean the transmission of any Corporate Communication from the Company

in any form through any medium (including but not limited to electronic mail or publication on the Company's website, or publication on the Company's computer network or publication on the website of The Stock Exchange of Hong Kong Limited or the website of any stock exchange on which any securities of the company are listed and/or permitted to be dealt in);

"Electronic Signature" shall mean an electronic symbol or process attached to or logically associated with an electronic communication and executed or adopted by a person with the intent to sign the electronic communication;

"Listing Rules" shall mean the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited as amended from time to time;

(D) By adding the following new definition immediately after the definition of "shareholders" in Article 2:

"summary financial report" shall have the meaning as set out under section 2(1) of the Companies Ordinance;

(E) By adding the following wording at the end of the definition of "writing or printing" in Article 2:

and, only where used in connection with a notice served by the Company by electronic means on members or other persons entitled to receive notices hereunder, shall also include a record maintained through an electronic medium which is accessible in visible form so as to be useable for subsequent reference;

(F) By deleting the words "HK\$2 (or such higher amount as shall for the time being be approved by The Stock Exchange of Hong Kong Limited) for every certificate after the first or such lesser sum as the Board shall from time to time determine," in Article 15 and substituting therefor with the following wording:

such amount prescribed by The Stock Exchange of Hong Kong Limited or such lesser sum as the Board shall from time to time determine for every share certificate after the first,

(G) By deleting the words "HK\$2 (or such higher amount as shall for the time being be approved by The Stock Exchange of Hong Kong Limited)" in Article 19 and substituting therefor with the following wording:

such amount as shall for the time being be prescribed by The Stock Exchange of Hong Kong Limited

(H) By adding the following wording into Article 27 after the words "and once at least in both an English language newspaper in English and a Chinese language newspaper in Chinese":

and/or, subject to the Listing Rules, in the manner in which notices may be served by the Company as herein provided.

(I) By deleting the words "HK\$2 (or such higher amount as shall for the time being be approved by The Stock Exchange of Hong Kong Limited) or such lesser sum as the Board may from time to time require" in Article 39 and substituting therefor with the following wording:

such amount as shall for the time being be prescribed by The Stock Exchange of Hong Kong Limited or such lesser sum as the Board shall from time to time require

(J) By deleting both occurrences of the words "without charge" from Article 42.

(K) By deleting the words "adopting of the accounts and balance sheet and the reports of the Directors and Auditors and other documents required to be annexed to the balance sheet" in Article 68 and substituting therefor with the words "adopting of the Annual Report and other documents required to be annexed to the Annual Report" in Article 68.

(L) By deleting the existing Article 71 in its entirety and substituting therefor with the following new Article 71:

The Chairman of the Board shall take the chair at every general meeting, or if at any general meeting such Chairman shall not be present within fifteen minutes after the time appointed for holding such meeting or is unwilling to act or is absent from Hong Kong or has given notice to the Company of his intention not to attend the meeting, a Deputy Chairman of the Board shall take the chair at such general meeting, or if there be no such Chairman or Deputy Chairman present at the meeting, any Director present shall take the chair

at the relevant general meeting, and if no Director be present within fifteen minutes after the time appointed for holding the meeting, or if all Directors present decline to take the chair, then the members present and entitled to vote shall choose one of their own number to be Chairman of that meeting.

(M) By adding the following new Articles 101A, 101B and 101C after the existing Article 101:

101A. At each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three, then the number nearest to but not greater than one-third) shall retire from office. Any Director retiring at a meeting pursuant to this Article 101A shall retain office until the close or adjournment of the meeting.

101B. Any Director who wishes to retire and not to offer himself for re-election shall be included for the purposes of determining the number of the Directors to retire at any annual general meeting pursuant to the preceding Article 101A. Any further Directors so to retire shall be those of the other Directors subject to retirement by rotation who have been longest in office since their last election or appointment and so that as between persons who became or were last elected Directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot. A retiring Director shall be eligible for election.

101C. The Company at the annual general meeting at which a Director retires in accordance with these Articles may fill up the vacated office by electing a person thereto, and in default of such election by the Company, the retiring Director shall be deemed to have been re-elected and shall, if willing, continue in office until the next annual general meeting and so on from year to year until his place is filled, unless:

- (a) it is expressly resolved at such meeting not to fill up such vacated office; or
- (b) a resolution for the re-election of such Director shall have been put to the meeting and lost; or
- (c) such Director has given notice in writing to the Company that he is unwilling to be re-elected.

(N) By deleting the existing Article 120 in its entirety and substituting therefor with the following new Article 120:

The Board may elect a Chairman and one or more Deputy Chairman for their meetings and determine the period of which the Chairman and any of the Deputy Chairmen are to hold office; but if at any meeting the Chairman is not present, or is unwilling so to act within five minutes after the time appointed for holding the same, the Deputy Chairman or any one of them (if more than one Deputy Chairman has been appointed), shall be the Chairman of that meeting; or if no such Chairman is elected and/or no Deputy Chairman is present or is willing so to act within five minutes after the time appointed for holding the same, the Directors present may choose one of their number to be Chairman for that meeting.

(O) By deleting the existing Article 122 in its entirety and substituting therefor with the following new Article 122:

A Director may and, on request of a Director, the Secretary shall, at any time summon a meeting of the Board. Notice thereof shall be given to each Director either in writing or by telephone or by facsimile at the facsimile number from time to time notified to the Company by such Director or by telex or telegram at the address from time to time notified to the Company by such Director or by electronic mail at the electronic mail address from time to time notified to the Company by such Director or in such other manner as the Board may from time to time determine. Provided however that notice need not be given to any Director for the time being absent from Hong Kong. A Director may waive notice of any meeting and any such waiver may be prospective or retrospective.

(P) By including the following wording at the end of Article 123:

Questions arising at any meeting of a committee of the Board shall be decided by a majority of votes and in case of an equality of votes the chairman of such meeting shall have a second or casting vote.

(Q) By deleting the existing Article 127 in its entirety and substituting therefor with the following new Article

127:

Unless otherwise determined by the Board, two Directors shall form a quorum for any meeting of a committee of the Board. A committee may elect a chairman of its meetings. If no such chairman is elected, or if at any meeting the chairman is not present within five minutes after the time appointed for holding the same, the members present may choose one of their number to be chairman of the meeting. A committee may meet and adjourn as its members think proper.

(R) By deleting the existing Articles 161(a) and 161(b) in their entirety and substituting therefor with the following new Articles 161(a) and 161(b):

- 161 (a) The Board shall from time to time in accordance with the provisions of the Ordinance cause to be prepared and to be laid before the members of the Company at every annual general meeting, the Annual Report and/or the summary financial report which complies with Section 141CF(1) of the Companies Ordinance and such other reports and accounts as may be required by law.
- (b) Every Annual Report shall be signed pursuant to the provisions of the Ordinance and copies of those documents (including but not limited to the Annual Report and/or the summary financial report) which are to be laid before the members of the Company at an annual general meeting shall not less than 21 days before the date of the annual general meeting be made available in printed form and/or using electronic means whether in the English language only, in the Chinese language only or in both the English language and the Chinese language and at the same time as the notice of an annual general meeting to every member of the Company, every holder of debentures of the Company, every person registered under Article 45 and every other person entitled to receive notices of general meetings of the Company in compliance with the Listing Rules and any applicable law, rules or regulations, provided that the Company shall not be required to make available those documents to any person of whose address the Company is not aware or to more than one of the joint holders of any shares or debentures whether in printed form or by electronic means. In the case of those documents being made available in printed form, such documents will be sent by post to the registered addresses of those entitled to receive them as set out above.

(S) By adding the following new Article 161(c) in its entirety after the new Article 161(b):

Where a member, in accordance with the Listing Rules and any applicable law, rules or regulations has consented to treat the publication of the Annual Report or the summary financial report as set out in Article 161(a) using electronic means or has consented to receiving the summary financial report instead of the Annual Report, as discharging the Company's obligation under the Listing Rules and any applicable law, rules or regulations to send a copy of such relevant financial documents, then publication by the Company, in accordance with the Listing Rules and any applicable law, rules or regulations, using electronic means of such relevant financial documents and/or receipt by such member of the summary financial report at least 21 days before the date of the relevant general meeting, shall, in relation to each such member, be deemed to discharge the Company's obligations under Article 161(a) provided that any person who is otherwise entitled to such financial documents of the Company may, if he so requires, by notice in writing served on the Company, demand that the Company sends to him, a complete printed copy of the Annual Report or the summary financial report not previously requested by him.

(T) By deleting the existing Article 165 in its entirety and substituting therefor with the following new Article 165:

Any notice or document or any Corporate Communication to be given or issued under these Articles shall be in writing, and may be served by the Company and/or by the Board on any member either personally or by sending it through the post in a prepaid letter, envelope or wrapper addressed to such member at his registered address as appearing in the register or (in the case of notice) by advertisement published in both an English language newspaper in English and a Chinese language newspaper in Chinese or by any electronic means in compliance with these Articles and the Listing Rules and any applicable law, rules or regulations provided that the Company has obtained the member's prior express positive confirmation in writing to receive or otherwise have made available to him notices and documents to be given or issued to him by the Company by such electronic means. In the case of joint holders of a share, all notices shall be given to that holder for the time being whose name stands first in the register and notice so given shall be sufficient notice to all the joint holders.

- (U) By deleting the first and second sentence of Article 166 and substituting therefor with the following wording:

A member shall be entitled to have notice served on him at any address within Hong Kong or by any electronic means in compliance with these Articles, legislation and the Listing Rules and any applicable law, rules or regulations. Any member whose registered address is outside Hong Kong may notify the Company in writing of an address in Hong Kong which for the purpose of service of notice shall be deemed to be his registered address.

- (V) By adding the following wording at the end of Article 167:

Any notice or document or Corporate Communication sent by electronic mail shall be deemed to have been served at the time when such notice or document or Corporate Communication is transmitted provided no notification is received by the Company that such notice or document has not reached its recipient. Any notice or document or Corporate Communication which the Company has made available to any member by publication on its own website or computer network or the website of The Stock Exchange of Hong Kong Limited shall be deemed to have been served on the day on which such publication is made.

- (W) By deleting the existing Article 168 in its entirety and substituting therefor with the following new Article 168:

A notice or document or Corporate Communication may be given by the Company to the person or persons entitled to a share in consequence of the death, mental disorder or bankruptcy of a member in the manner set out in Article 165 in which the same might have been given if the death, mental disorder or bankruptcy had not occurred.

- (X) By deleting the words "Any notice or document delivered or sent by post or left at the registered address of any member in pursuance of these presents" at the beginning of Article 170 and substituting therefor with the following:

Any notice or document or Corporate Communication delivered or sent by post or left at the registered address of any member or made available by electronic means in compliance with these Articles, legislation and the Listing Rules and any applicable law, rules or regulations.

- (Y) By deleting the existing Article 171 in its entirety and substituting therefor with the following new Article 171:

- 171 (a) The signature to any notice to be given by the Company may be written or printed by means of facsimile or where relevant, by Electronic Signature.
- (b) Subject to the Listing Rules and any applicable laws, rules and regulations, any notice or document, including but not limited to the documents referred to in Article 161 and any Corporate Communication, may be given in the English language only, in the Chinese language only or in both the English language and the Chinese language provided that the Company has obtained the relevant member's prior express positive confirmation in writing to receive or otherwise have made available to him such notices or documents in either the English language only or the Chinese language only or in both the English language and the Chinese language and provided further that such member may, if he so requires, by notice in writing served on the Company, demand at any time that the Company sends or makes available to him any notice or document or Corporate Communication in the language not previously provided to him."

(SD.) YUEN TIN FAN

Yuen Tin Fan
Chairman of the Meeting

THE COMPANIES ORDINANCE (CHAPTER 32)

ORDINARY RESOLUTION
OF
PCCW LIMITED

Passed on January 7, 2003

At an Extraordinary General Meeting of the Company duly convened and held in the Conference Room, 14th Floor, PCCW Tower, TaiKoo Place, 979 King's Road, Quarry Bay, Hong Kong on Tuesday, January 7, 2003 at 9:30 a.m., the following resolution was duly passed as an Ordinary Resolution:

"THAT subject to and conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in, the shares of the Company in their consolidated form, every five issued and unissued shares of HK\$0.05 each in the capital of the Company as at the date on which this resolution is passed be and is hereby consolidated into one share of HK\$0.25 in the capital of the Company with effect from January 8, 2003 and that the board of directors of the Company be authorised to do all things and execute all documents in connection with or incidental to such consolidation."

(SD.) YUEN TIN FAN

Yuen Tin Fan
Chairman of the Meeting

[CR LOGO]

COMPANIES ORDINANCE
(CHAPTER 32)

CERTIFICATE OF INCORPORATION
ON CHANGE OF NAME

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I hereby certify that

Pacific Century CyberWorks Limited

having by special resolution changed its name, is now incorporated under the
name of

PCCW Limited

Issued by the undersigned on 9 August 2002.

(SD.) MISS R. CHEUNG

for Registrar of Companies
Hong Kong

THE COMPANIES ORDINANCE (Chapter 32)

SPECIAL RESOLUTION
OF
PACIFIC CENTURY CYBERWORKS LIMITED

Passed on July 31, 2002

I, being a Director of the above Company, hereby certify that at an Extraordinary General Meeting of the Company duly convened and held in the Conference Room, 14th Floor, PCCW Tower, TaiKoo Place, 979 King's Road, Quarry Bay, Hong Kong on Wednesday, July 31, 2002 at 10:30 a.m., the following was duly passed as a Special Resolution:-

SPECIAL RESOLUTION

"THAT subject to the approval of the Registrar of Companies in Hong Kong, the name of the Company be changed to "PCCW Limited" with effect from the date of issue of the relevant certificate of incorporation on change of name."

(SD.) YUEN TIN FAN

Yuen Tin Fan
Director

[CR LOGO]

COMPANIES ORDINANCE
(CHAPTER 32)

CERTIFICATE OF INCORPORATION
ON CHANGE OF NAME

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I hereby certify that

Pacific Century CyberWorks Limited

having by special resolution changed its name, is now incorporated under the
name of

Pacific Century CyberWorks Limited

Issued by the undersigned on 13 December 2000.

(SD.) MISS R. CHEUNG

for Registrar of Companies
Hong Kong

THE COMPANIES ORDINANCE (Chapter 32)

COMPANY LIMITED BY SHARES

SPECIAL RESOLUTION
OF
PACIFIC CENTURY CYBERWORKS LIMITED

Passed on 5 December 2000

At the Extraordinary General Meeting of the Company duly convened and held in the Conference Room, 14th Floor, Hongkong Telecom Tower, TaiKoo Place, 979 King's Road, Quarry Bay, Hong Kong on Tuesday, 5 December 2000 at 11:00 a.m., the following was duly passed as a Special Resolution:-

SPECIAL RESOLUTION

"THAT, subject to the approval of the Registrar of Companies in Hong Kong, the name of the Company be changed to "Pacific Century CyberWorks Limited" with effect from the date of issue of the relevant certificate of incorporation on change of name."

(SD.) LI TZAR KAI, RICHARD

Li Tzar Kai, Richard
Chairman

PACIFIC CENTURY CYBERWORKS LIMITED
(Incorporated in Hong Kong with limited liability)

ORDINARY RESOLUTION

Passed on the 22nd day of June 2000

At an Extraordinary General Meeting of the Company duly convened and held at Chater Rooms III & IV, Basement I, The Ritz-Carlton, 3 Connaught Road Central, Hong Kong on Thursday, 22 June 2000 at 12:00 noon, the following resolution was duly passed as Ordinary Resolution:

"THAT

- (a) the acquisition of the entire issued share capital of Cable & Wireless HKT Limited ("HKT") to be effected by means of a scheme of arrangement under Section 166 of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) on and subject to the terms set out in the scheme of arrangement (the "Scheme") in the form of the print which has been produced to this Meeting and signed by the Chairman for the purposes of identification, with any modification thereof or addition thereto or condition as may be approved by the High Court of the Hong Kong Special Administrative Region of the People's Republic of China (the "Court"), and all actions of the Company necessary to give effect thereto, be and they are hereby approved; and
- (b) conditional upon the Scheme becoming effective in accordance with its terms by delivery to and registration by, the Registrar of Companies in Hong Kong, of an office copy of the Order of the Court sanctioning the Scheme together with the minute containing the particulars required by Section 61 of the Companies Ordinance, the allotment and issue by the Company of not more than 13,410,000,000 ordinary shares of HK\$0.05 in the capital of the Company to those persons so entitled pursuant to the Scheme be and it is hereby approved;

AND THAT the Directors of the Company be and they are hereby authorised to implement the matters referred to in the preceding paragraphs (a) and (b) of this resolution and to do all such acts and things as may be necessary or desirable for and on behalf of the Company to give effect thereto."

(SD.) YUEN TIN FAN

Yuen Tin Fan
Chairman of the Meeting

[CR LOGO]

COMPANIES ORDINANCE
(CHAPTER 32)

CERTIFICATE OF INCORPORATION
ON CHANGE OF NAME

I hereby certify that

TRICOM HOLDINGS LIMITED

having by special resolution changed its name, is now incorporated under the
name of

Pacific Century CyberWorks Limited

Issued by the undersigned on 13 August 1999.

(SD.) MISS R. CHEUNG

for Registrar of Companies
Hong Kong

Company No. 69030

THE COMPANIES ORDINANCE (CHAPTER 32)

SPECIAL RESOLUTION
OF
TRICOM HOLDINGS LIMITED

Passed on 29th day of July 1999

I, being the Secretary of the abovenamed Company, hereby certified that at an Extraordinary General Meeting of the abovenamed Company held on 29th July, 1999, the following resolution was duly passed as a Special Resolution:

"THAT

the name of the Company be changed to:

Pacific Century CyberWorks Limited

(SD.) CHU MEE LAI, HELEN

SECRETARY

Dated: 6th August, 1999

TRICOM HOLDINGS LIMITED
(Incorporated in Hong Kong with limited liability)

ORDINARY RESOLUTIONS

Passed on 29th day of July 1999

At an Extraordinary General Meeting of the Company duly convened and held at Coral Room II, 3rd Floor, Furama Hotel Hong Kong, 1 Connaught Road, Central, Hong Kong on Thursday, the 29th day of July, 1999 at 10:00 a.m., the following resolutions were duly passed as Ordinary Resolutions:-

1 "THAT:

- (a) the Placing (as defined and described in the listing document (the "Listing Document") dated 7th July, 1999 and despatched to shareholders of the Company, a copy of which has been produced to this meeting marked "A" and signed by the chairman of the meeting for the purpose of identification) pursuant to the Placing Underwriting Agreement and the Placing Underwriting Supplemental Agreement (both as defined and described in the Listing Document), copies of which have been produced to this meeting marked "B" and "C" respectively and signed by the chairman of the meeting for the purposes of identification, be and is hereby approved;
- (b) the Acquisition (as defined and described in the Listing Document) pursuant to the Acquisition Agreement and the Acquisition Supplemental Agreement (both also as defined and described in the Listing Document), copies of which have been produced to this meeting marked "D" and "E" respectively and signed by the chairman of the meeting for the purpose of identification, be and is hereby approved;
- (c) the three two-year rental guarantees given by Pacific Century Regional Developments Limited ("PCRD"), being a company incorporated in Singapore with limited liability, relating to Tower A, Tower B and the 6-storey commercial podium of the Pacific Century Place under the Acquisition detailed in the Acquisition Agreement as amended by the Acquisition Supplemental Agreement, which in aggregate amount to not less than US\$24,538,370 per annum and if fulfilled by PCRD, will constitute a connected transaction for the Company under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and will require approval by the Company's shareholders, be and is hereby approved; and
- (d) the directors of the Company from time to time (the "Directors") be and are hereby authorised to take all steps necessary or expedient in their opinion to implement and/or give effect to the Placing, the terms of the Placing Underwriting Agreement and the Placing Underwriting Supplemental Agreement and to the Acquisition, the terms of the Acquisition Agreement and the Acquisition Supplemental Agreement, including (without limitation) the allotment and issue of the Placing Shares (also as defined in the Listing Document) and the Consideration Shares (also as defined in the Listing Document), the issue of the Convertible Bonds (as defined in the Listing Document) and the allotment and issue of Consolidated Shares (as defined in the Listing Document) pursuant to the exercise of the subscription right attaching to the Convertible Bonds, credited as fully paid, to (i) PCRD (as defined in Ordinary Resolution no. 1 set out in the notice convening the Extraordinary General Meeting at which this Resolution is proposed) and (ii) Pacific Century Group Holdings Limited ("PCG"), being a company incorporated in the British Virgin Islands with limited liability and the controlling shareholder of PCRD (or their respective nominees) in accordance with the terms and provisions of the Acquisition Agreement and the Acquisition Supplemental Agreement.

2. "THAT subject to the passing of Ordinary Resolution no. 1 set out in the notice convening the Extraordinary General Meeting at which this Resolution is proposed, the authorised share capital of the Company be and is hereby increased from HK\$30,000,000 to HK\$1,600,000,000 by the creation of 157,000,000,000 new shares of HK\$0.01 each."

3. "THAT subject to the passing of Ordinary Resolution no. 1 set out in the notice convening the Extraordinary General Meeting at which this Resolution is proposed, the waiver pursuant to Note 1 of the Notes on dispensations from Rule 26 of the Hong Kong Code on Takeovers and Mergers waiving any obligation on the part of PCRD and PCG (both as defined in Ordinary Resolution no. 1 set out in the notice convening the Extraordinary General Meeting at which this Resolution is proposed) and parties acting in concert with either of them to make a mandatory general offer for all the shares in the capital of the Company which would otherwise arise as a result of the allotment and issue of the Consideration Shares (as defined in Ordinary Resolution no. 1 set out in the notice convening the Extraordinary General Meeting at which this Resolution is proposed) to PCRD and PCG (both as defined in the Ordinary Resolution no. 1 set out in the notice convening the Extraordinary General Meeting at which this Resolution is proposed), pursuant to the Acquisition referred to in Ordinary Resolution no. 1 set out in the notice convening the Extraordinary General Meeting at which this Resolution is proposed, be and is hereby approved.
4. "THAT subject to the passing of Ordinary Resolution no. 1 set out in the notice convening the Extraordinary General Meeting at which this Resolution is proposed, the Disposals (as defined and described in the Listing Document referred to in Ordinary Resolution no. 1 set out in the notice convening the Extraordinary General Meeting at which this Resolution is proposed) pursuant to the Asset Disposal Agreement, the Asset Disposal Supplemental Agreement, the Indebtedness Disposal Agreement and the Indebtedness Disposal Supplemental Agreement (each as defined and described in the Listing Document), copies of which have been produced to this meeting marked "F", "G", "H" and "I" respectively, and the Special Deal Consent (as defined in the Listing Document), be and are hereby approved."
5. "THAT subject to the passing of Ordinary Resolutions no. 1 to no. 4 set out in the notice convening the Extraordinary General Meeting at which this Resolution is proposed,
 - (a) the Company's issued and unissued shares of HK\$0.01 each be consolidated on the basis of every five issued shares being consolidated into one Consolidated Share (as defined in the Listing Document referred to in Ordinary Resolution no. 1 set out in the notice convening the Extraordinary General Meeting at which this Resolution is proposed) and every five unissued share being consolidated into one Consolidated Share (as defined in Ordinary Resolution no. 1 set out in the notice convening the Extraordinary General Meeting at which this Resolution is proposed);
 - (b) all of the Consolidated Shares (as defined in the Ordinary Resolution no. 1 set out in the notice convening the Extraordinary General Meeting at which this Resolution is proposed) shall rank pari passu in all respects and have the rights and privileges and be subject to the restrictions contained in the articles of association of the Company;
 - (c) any fractional entitlements to Consolidated Shares shall be aggregated and sold for the benefit of the Company by a person appointed by the Directors; and
 - (d) the Directors be authorised generally to do all things necessary or expedient in their opinion to effect and implement any of the foregoing.
6. "THAT
 - (a) subject to:
 - (i) the passing of Ordinary Resolutions no. 1 to no. 5 set out in the notice convening the Extraordinary General Meeting at which this Resolution is proposed; and
 - (ii) paragraphs (b) and (c) of this Resolution, the Directors be and are hereby granted an unconditional general mandate to allot, issue and deal with additional shares in the capital of the Company and to allot, issue or grant securities convertible into such shares, or options, warrants or similar rights to subscribe for any shares in the Company or such convertible securities and to make or grant offers, agreements and options in respect thereof;
 - (b) such mandate shall not extend beyond the Relevant Period save that the Directors may during the Relevant Period make or grant offers, agreements and options which might require the exercise of such power after the end of the Relevant Period;

- (c) "THAT the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors pursuant to paragraph (a) above, otherwise than pursuant to:
- (i) a rights issue;
 - (ii) the exercise of rights of subscription or conversion under the terms of any warrants issued by the Company or any securities which are convertible into shares of the Company;
 - (iii) the exercise of the subscription rights under any option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company; or
 - (iv) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the articles of association of the Company, shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue immediately following the issue and allotment of the Placing Shares and the Consideration Shares (each as defined in Ordinary Resolution no. 1 set out in the notice convening the Extraordinary General Meeting at which this Resolution is proposed);
- (d) for the purpose of this Resolution:

"Relevant Period" means the period from the passing of this Resolution up to:

- (i) the conclusion of the next Annual General Meeting of the Company;
- (ii) the expiration of the period within which the next Annual General Meeting of the Company is required by any applicable law or the articles of association of the Company to be held; and
- (iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in general meeting,

whichever is the earliest; and

"rights issue" means an offer of shares open for a period fixed by the Directors to holders of shares on the register on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory outside Hong Kong); and

- (e) the general mandate granted to the Directors to exercise the powers of the Company to allot, issue and otherwise deal with additional shares and other securities of the Company pursuant to the ordinary resolution passed by the shareholders of the Company at the Annual General Meeting held on 25th June, 1999 be and is hereby revoked".

7. "THAT

- (a) subject to:

- (i) the passing of Ordinary Resolutions no. 1 to no. 6 set out in the notice convening the Extraordinary General Meeting at which this Resolution is proposed; and
- (ii) paragraph (b) of this Resolution,

the Directors be and are hereby granted an unconditional general mandate to repurchase on The Stock Exchange of Hong Kong Limited ("Stock Exchange"), or any other stock exchange on which the securities of the Company may be listed and recognised by the Securities and Futures Commission of Hong Kong and the Stock Exchange for this purpose, securities in the Company and that the exercise by the Directors of all powers of the Company to repurchase such securities, subject to and in accordance with all applicable laws and the requirements of the Listing Rules or of any

other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved;

(b) the aggregate nominal amount of shares of the Company which may be repurchased by the Company pursuant to the approval in paragraph (a) above during the Relevant Period shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue immediately following the issue and allotment of the Consideration Shares and the Placing Shares (each as defined in Ordinary Resolution no. 1 set out in the notice convening the Extraordinary General Meeting at which this Resolution is proposed);

(c) for the purpose of this Resolution:

"Relevant Period" means the period from the passing of this Resolution up to:

- (i) the conclusion of the next Annual General Meeting of the Company;
- (ii) the expiration of the period within which the next Annual General Meeting of the Company is required by any applicable law or the articles of association of the Company to be held; and
- (iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in general meeting,

whichever is the earliest; and

(d) the general mandate granted to the Directors to exercise the powers of the Company to repurchase securities of the Company pursuant to the ordinary resolution passed by the shareholders at the Annual General Meeting held on 25th June, 1999 be and is hereby revoked".

8. "THAT subject to the passing of Ordinary Resolution no. 7 set out in the notice convening the Extraordinary General Meeting at which this Resolution is proposed, the aggregate nominal amount of share capital of the Company that may be allotted or agreed conditionally or unconditionally to be allotted by the Directors pursuant to and in accordance with the mandate granted under Ordinary Resolution no. 6 set out in the notice convening the Extraordinary General Meeting at which this Resolution is proposed be and is hereby increased and extended by the addition of the aggregate nominal amount of the shares in the capital of the Company which may be repurchased by the Company pursuant to and in accordance with the mandate granted under Ordinary Resolution no. 7 set out in the notice convening the Extraordinary General Meeting at which this Resolution is proposed, provided that such amount shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue immediately following the issue and allotment of the Consideration Shares and the Placing Shares (each as defined in the Ordinary Resolution no. 1 set out in the notice convening the Extraordinary General Meeting at which this Resolution is proposed).

9. "THAT subject to:-

- (a) the passing of Ordinary Resolution no. 1 set out in the notice convening the Extraordinary General Meeting at which this Resolution is proposed and;
- (b) the approval of the Stock Exchange,

the employee share option scheme of the Company adopted on 20th September, 1994 and amended on 22nd December, 1995 be and is hereby amended as follows:-

- by deleting the words "the period commencing twelve months of the Commencement Date" in the definition of "Option Period" in the employee share option scheme and replacing them with "the period commencing on the Commencement Date";
- by deleting the entire existing sub-paragraph (i) from paragraph 6(C) thereof and re-numbering the existing sub-paragraph 6(C)(ii) as 6(C)(i);
- by re-numbering the existing paragraph 6(C)(iii) as paragraph 6(C)(ii);

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- by re-numbering the existing paragraph 6(C)(iv) as paragraph 6(C)(iii);
- by amending every reference to paragraph 6(C)(ii) to paragraph 6(C)(i), amending every reference to paragraph 6(C)(iii) to 6(C)(ii) and amending every reference to paragraph 6(C)(iv) to 6(C)(iii).

(SD.) MA WAI MAN, CATHERINE

CHAIRMAN

TRICOM HOLDINGS LIMITED
(Incorporated in Hong Kong with limited liability)

ORDINARY RESOLUTION

Passed on the 29th June, 1998

At an Extraordinary General Meeting of the Company duly convened and held at Coral Room II, 3rd Floor, Furama Hotel, One Connaught Road Central, Hong Kong, on Monday, 29th June, 1998 at 9:45 a.m., the following resolution was duly passed as an Ordinary Resolution:-

"THAT subject to and conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in, the shares of the Company in their subdivided form, every share of HK\$0.10 each in the issued and unissued share capital of the Company be and is hereby subdivided into ten shares of HK\$0.01 each with effect from 30th June, 1998."

(SD.) SUM MUN KID FREDERICK

Chairman of the Meeting

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MEMORANDUM
(Incorporating all changes made on or before 7th January, 2003)

AND

ARTICLES OF ASSOCIATION
(As adopted by Special Resolution passed on 20th September, 1994 and amended
by Special Resolutions passed on 7th January, 2003 and 19th May, 2004)

OF

PCCW LIMITED

Incorporated the 24th day of April, 1979

THE COMPANIES ORDINANCE (Chapter 32)

Company Limited by Shares

MEMORANDUM OF ASSOCIATION
(Incorporating all changes made on or before 7th January, 2003)

OF

PCCW LIMITED

First: - The name of the Company is "PCCW LIMITED" (as amended by Special Resolutions dated 4th September, 1982, 1st April, 1989, 30th December, 1991, 29th July, 1999, 5th December, 2000 and 31st July, 2002).

Second: - The Registered Office of the Company will be situate in the Colony of Hong Kong.

Third: - The objects for which the Company is established are:-

- (a) To carry on the business of a holding company in all its branches and to co-ordinate the policy and administration of any subsidiary company or companies or of any group of companies of which the Company or any subsidiary company is a member or which are in any manner controlled by the Company.
- (b) To manufacture, buy, sell, repair, alter and otherwise deal in all kinds of telephones, dialphones, cordless phones, all kinds of telecommunication equipment, and all other electrical, electronic and other contrivances for transmitting messages by any means; and computers microprocessors, audio and video tapes recordings and tapes, radios, movie cameras, magnetic tapes and any other electronic equipment, hardwares and accessories of all kinds and to develop, purchase, lease, sell or otherwise deal in systems, programmes and equipment of any kind for use in connection with data processing, information, storage retrieval, analysis and computer services. To carry on the business of an Investment and Holding Company and to undertake and to transact all kinds of investment and agency business. (As amended by Special Resolution dated 12th July, 1985)
- (c) To take, or acquire by subscription, purchase or otherwise, and accept, take, hold and sell shares, stocks, debentures or debenture stocks or any interest whatsoever in any company, or undertaking irrespective of whether the objects of which shall be similar to those of this Company or not.
- (d) To hold in trust as trustees or nominees of any person or persons, company, corporation, or any charitable or other institution in any part of the world and whether incorporated or not and to manage, deal with and turn to account, any real and personal property of any kind, and in particular, shares, stocks, debentures, debenture stock, notes, securities, options, policies, book debts, claims and choses-in-action, lands, buildings, hereditaments, business concerns and undertakings, mortgages, charges, annuities, patents, licences, and any interest in any real or personal property, and any claims against such property or against any person, firm or corporation.
- (e) To carry on business as capitalists, financiers, concessionaires, and general merchants, and to undertake and carry on and execute all kinds of financial and commercial trading and other operations, and to advance, deposit, or lend money, securities, and property to and with such persons and on such terms as may seem expedient, to discount, buy, sell and deal in currencies, bills, notes, warrants, coupons, and other negotiable or transferable securities or documents.
- (f) To lend money to such persons or companies and on such terms as may seem expedient, and in particular to customers and others having dealings with the Company, and to guarantee the performance of contracts by any such persons or companies, and/or to advance and lend money on

the security of land, buildings, hereditaments and premises of any tenure or description, shares, securities, merchandise and other property upon such terms as may be arranged, and in particular so that any loan including interest thereon may be made repayable by monthly or quarterly instalments or otherwise.

- (g) To give guarantees or indemnities (except fire and marine insurance indemnities) or provide security for any purpose whatsoever, with or without the Company's receiving any consideration or advantage therefor, and whether jointly or jointly and severally with any other person, firm or company, and in particular (without prejudice to the generality of the foregoing) to guarantee, give indemnities for, support or secure, with or without consideration, whether by personal obligation or by mortgaging or charging all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company or by both such methods or in any other manner, the performance of any contract, obligations or commitments of, and the repayment or payment of the principal amounts of and any premiums, interest, dividends and other moneys payable on or in respect of any securities or liabilities of any person, firm or company including (without prejudice to the generality of the foregoing) any company which is for the time being a subsidiary or a holding company of the Company or another subsidiary of a holding company of the Company or otherwise associated with the Company.
- (h) To receive valuables or money on deposit with or without allowance of interest thereon.
- (i) To act as agents for the investment, loan, payment, transmission, and collection of money, and for the purchase, sale, improvement, development and management of property including business concerns and undertakings, and generally to transact and undertake all kinds of agency business, whether in respect of commercial, or financial matters, and to guarantee and become liable for the payment of money or for the performance of any obligations, and to transact all kinds of agency business, either gratuitously or otherwise.
- (j) To undertake and execute any trusts, the undertaking whereof may seem desirable, and also to undertake the office of executor, administrator, treasurer or registrar, and to keep for any company, government, authority or body, any register relating to any stocks, funds, shares or securities, or to undertake any duties in relation to the registration of transfers, the issue of certificates or otherwise.
- (k) To borrow or raise or secure the payment of money in such manner as the Company may think fit and to secure the same or the repayment or performance of any debt, liability, contract, guarantee or other engagement incurred or to be entered into by the Company in any way/and in particular by the issue of debentures perpetual or otherwise, charged upon all or any of the Company's property (both present and future), including its uncalled capital; and to purchase, redeem, or pay off any such securities.
- (l) To stand surety for or to guarantee, support or secure the performance of all or any of the obligations of any person, firm or company whether jointly with any other person, firm or company and/or severally and whether by personal covenant or by mortgage, charge or lien upon the whole or any part of the undertaking, property and assets of the Company, both present and future, including its uncalled capital or by both such methods; and in particular but without limiting the generality of the foregoing, to guarantee, support or secure whether jointly with any other person, firm or company and/or severally and whether by personal covenant or by any such mortgage, charge or lien or by both such methods the performance of all or any of the obligations (including the repayment or payment of the principal and premium of and interest on any securities) of any company which is for the time being the Company's holding company (as such term is defined and used in the Companies Ordinance) or another subsidiary (as defined by the said Ordinance) of any such holding company.
- (m) To carry on in any part of the world all or any of the businesses of importers, exporters, general traders, commission agents, indent agents, forwarding agents, gem merchants, jewellers, goldsmiths, silversmiths, watch and clock makers, electro-platers, dressing-bag makers, carriers, tourist agents and contractors, warehousemen, tobacco and cigar merchants, agents for theatrical and opera box office, advertising contractors and agents, and holders of exhibition, and to buy, sell, import, export, manufacture, manipulate, turn to account and prepare for market, and deal in goods, wares, materials provisions, produce, merchandise, commodities, substances, articles and chattels of all kinds, both wholesale and retail, and to transact every kind of agency business and to undertake the business of manufacturers' representatives.

- (n) To carry on the business of hotel, restaurant, cafe, tavern, beerhouse, refreshment room, billiard room, pin-ball room, automatic machine games centres, boarding house and lodging house keepers, shop-keepers, shop-owners, house-owners, publicans, licensed victualler, wine, beer and spirit merchants, brewers, maltsters, distillers, importers and manufacturers of and dealers in aerated, mineral and artificial waters and other drinks, tourism, money changer, caterers for public amusements generally, proprietors of motor and other vehicles, garage proprietors, bakers and manufacturers of and dealers in bread, pastry, flour, biscuits and farinaceous compounds and materials of every description, confectioners, butchers, milk sellers, butter sellers, grocers, poulterers and green-grocers, hair-dressers, perfumers, chemists, dressing rooms, grounds and places of amusement, recreation, sport, entertainment and instruction of all kinds, tobacco and cigar merchants, agents for railway, shipping and airlines companies entrepreneurs and general agents, and rental collectors and agent for land and establishment and other business which may now and at any future times be conveniently carried on in connection therewith.
- (o) To carry on all or any of the businesses of ship-owners, shipbrokers, insurance brokers, shipping agents, managers of shipping property, freight contractors, carriers by lands, water and air, barge owners, lightermen, forwarding agents, ice merchants, refrigerating storekeepers, warehousemen, wharfingers, godownkeepers, commission agents and general traders.
- (p) To acquire by purchase, lease, exchange, or otherwise, land, buildings, hereditaments and premise of any tenure or description and any estate or interest therein, and any rights over or connected with such land, buildings, hereditaments and premises, and to develop and turn the same to account as may seem expedient.
- (q) To develop and turn to account any land acquired by the Company or in which it is interested, and in particular by laying out and preparing the same for building purposes, erecting, constructing altering, pulling down, demolishing, decorating, maintaining, keeping in repair, fitting up and improving any buildings and by paving, draining, letting on building lease or building agreement, and by advancing money to and entering into contracts and agreements of all kinds with developers, and investment companies, land mortgage companies, building estate companies, bankers, financiers, builders, owners, tenants and others.
- (r) To manage, maintain, improve and develop all or any part of the property, land, building or buildings of the Company and to operate or use in conjunction or co-ownership with others, lease, mortgage, underlet, exchange, surrender, sell, turn to account or otherwise deal with and dispose of the same or any part or parts thereof or interest thereon, for such consideration and on such terms and conditions as the Company may think fit, and, in particular, for shares, debentures or securities of any company purchasing or acquiring any interest in the same.
- (s) For any of the purposes herein to apply to any Court of Tribunal or other appropriate authority for an order to exclude any building, hereditament or premises from the further applications of the Landlord and Tenant Ordinance or any legislation in substitution therefor or in amendment thereto.
- (t) To manage land, buildings, and other property whether belonging to the Company or not, and to collect rents and income and to supply tenants and occupiers and others with such conveniences and advantages as may seem expedient and generally to undertake the business of and act as land and estate agents.
- (u) To carry on the business of builders and building contractors, marine, civil engineering, piling and foundation contractors and dealers in and suppliers of building materials of all descriptions and kinds.
- (v) To build, establish, maintain, operate, own and carry on the business of factories of all kinds.
- (w) To establish, construct, improve, maintain, develop, manage, work, control, carry out, and superintend bonded warehouses, warehouses, godowns, stores, shops, offices, flats, houses, buildings, and other works and conveniences of all kinds which may seem calculated directly or indirectly to advance the Company's interests or conducive to the objects of the Company, and to contribute or otherwise assist or take part in the construction, maintenance, development, management, carrying out, working, control and superintendence thereof.
- (x) To finance and take part in the flotation and registration of any company or corporation and the

placing of its capital or securities or other issues and in particular but so as not to limit the generality of the foregoing to promote or join in the promotion of any subsidiary or other company having objects wholly or in part similar to those of this Company, or whose objects shall include the acquisition and the taking over of all or any of the assets and liabilities of or shall be in any manner calculated to advance directly or indirectly the objects or interests of the Company and to subscribe for, acquire and hold shares, stocks or securities of, and guarantee the payment of any securities issued by any such company.

- (y) To act as directors, general managers, managers, or secretaries of any firm, company or corporation.
- (z) To manage, supervise or control the business, property or operation of any person, firm, company, institution, organisation or body of persons and for any such purpose to appoint and remunerate lawyers, accountants, or other advisers or agents.
- (aa) To sell, mortgage, charge, lease or let, accept surrender of, divide, or make partition of, exchange, surrender to any government or authorities supreme, municipal, local or otherwise, or to any other person or persons, or to grant rights of way over all or any of the lands, hereditaments and premises of the Company or any part or part thereof respectively.
- (bb) To purchase or otherwise acquire any interests in any patents, brevets d' invention, licences, concessions, and the like conferring and exclusive or non-exclusive or limited right to use, or any secret or other information as to any invention which may seem capable of being used for any of the purposes of the Company and to use, exercise, develop, grant licences in respect of, or otherwise to turn to account any such patents, brevets d'invention, licences, concessions, and the like and information aforesaid.
- (cc) To carry on any other businesses whatsoever, and in particular but so as not to limit the generality of the foregoing such other business or businesses as may seem to the Company capable of being conveniently carried on in connection with the business of the Company, or calculated directly or indirectly to enhance the value of or render profitable any of the Company's properties or rights.
- (dd) To acquire, and undertake the whole or any part of the business, property, and liabilities of any person, firm or company carrying on any business which the Company is authorised to carry on, or possessed of property suitable for the purposes of this Company.
- (ee) To enter into partnership or into any arrangement for sharing profits, union of interests, cooperation, joint venture, reciprocal concession, or otherwise, with any person or company carrying on or engaged in, or any business or transaction capable of being conducted so as directly or indirectly to benefit this Company. And to lend money to, guarantee the contracts of, or otherwise assist, any such person or company, and to take or otherwise acquire shares and securities of any such company and to sell, hold, re-issue, with or without guarantee, or otherwise deal with the same.
- (ff) To enter into any arrangements with any governments or authorities, supreme, municipal, local or otherwise that may seem conducive to the Company's objects, or any of them, and to obtain from any such government or authority, any rights, privileges, and concessions which the Company may think it desirable to obtain, and to carry out, exercise, and comply with any such arrangements, rights, privileges and concessions.
- (gg) To establish and support or aid in the establishment and support of associations, institutions, funds, trusts, and conveniences calculated to benefit employees or ex-employees dependants or connections of such persons, and to grant pensions and allowances, and to make payments towards insurance, and to subscribe or guarantee money for charitable or benevolent objects, or for any exhibition, or for any public, general or useful objects.
- (hh) To promote any company or companies for the purpose of acquiring all or any of the property, rights and liabilities of this Company, or for any other purpose which may seem directly or indirectly calculated to benefit this Company.
- (ii) To purchase, sell, exchange, surrender, lease, mortgage, charge, convert, or otherwise deal in property and rights of all kinds, and in particular mortgages, produce, stock-in-trade, plant, machinery, concessions, options, contracts, trade marks, patents, inventions, annuities, licences, copyrights, book debts, claims, privileges and choses in action of all kinds.

- (jj) To remunerate any person or company for services rendered, or to be rendered, in placing or assisting to place or guaranteeing the placing of any of the shares in the Company's capital, or any debentures, debenture stock, or other securities of the Company or in or about the formation or promotion of the Company or the conduct of its business.
- (kk) To draw, make, accept, indorse, discount, execute, and issue promissory notes, bills of exchange, bills of lading, warrants, debentures, and other negotiable or transferable instruments.
- (ll) To sell or dispose of the undertaking of the Company or any part thereof for such consideration as the Company may think fit to accept, and in particular for shares, debentures or securities of any other company having object altogether or in part similar to those of this Company.
- (mm) To pay for all or any part of the property, rights or interest of any kind purchased or acquired by the Company either in shares or in cash or partly in shares or partly in cash, or in any other manner.
- (nn) To issue and allot fully or partly paid shares in the capital of the Company in payment or part payment of any real or personal property purchased or otherwise acquired by the Company or any services rendered to the Company.
- (oo) To obtain all powers and authorities necessary for enabling the Company to carry any of its objects into effect, or for effecting any modification of the Company's constitution, or for any other purpose which may seem expedient, and to oppose any proceedings, or applications which may seem calculated directly or indirectly to prejudice the Company's interests.
- (pp) To procure the Company to be registered or recognized in any country or place outside Hong Kong.
- (qq) To establish branches, agencies and/or local boards in any place in Hong Kong and elsewhere abroad as the Company may from time to time think fit and the same to regulate, direct and discontinue, dispose of, or otherwise deal with as may seem expedient.
- (rr) To pay all costs, charges and expenses incurred or sustained in or about the promotion and establishment of the Company or which the Company shall consider to be preliminary, including therein the cost of advertising, commission for underwriting, brokerage, printing and stationery and expenses attendant upon the formation of agencies or local boards.
- (ss) To amalgamate with any other company having objects altogether or in part similar to those of this Company.
- (tt) To distribute in specie or otherwise as may be resolved any property or assets of the Company among its members and particularly the shares, debentures or other securities of any other company formed to take over the whole or any part of the assets or liabilities of this Company.
- (uu) To sell, improve, manage, develop, exchange, lease, mortgage, enfranchise, dispose of, turn to account, or otherwise deal with, all or any part of the property and rights of the Company.
- (vv) To promote freedom of contract, and to resist, insure against, counteract and discourage interference therewith, and to subscribe to any association or fund for any such purposes.
- (ww) To do all or any of the above things in any part of the world, and as principals, agents, contractors, trustees, or otherwise, and by or through trustees, agents or otherwise, and either alone or in conjunction with other or others.
- (xx) To do all such other things as are incidental or conducive to the attainment of the above objects or any of them.

And it is hereby declared that the word "company" in this clause, except where used in reference to this Company, shall be deemed to include any partnership or other body of persons, whether incorporated or not incorporated, and wheresoever domiciled, and the intention is that the objects specified in each paragraph of this clause shall be regarded as independent objects and shall except where otherwise expressed in such paragraph, be in nowise limited or restricted by reference to or inference from the terms of any other paragraph or name of the Company.

Fourth: - The liability of the members of the Company is limited.

Fifth: - The capital of the Company is 14,250,000 Hong Kong Currency, divided into 14,250,000 shares of \$1.00 each. (As amended by ordinary resolutions dated 2nd May, 1985, 5th December, 1985, 23rd April, 1987, 23rd May, 1987 and 9th May, 1988)

Notes

- (1) The authorised share capital of the Company was increased to HK\$17,000,000 divided into 17,000,000 ordinary shares of HK\$1.00 each pursuant to an ordinary resolution passed on 30th December, 1991.
- (2) The authorised share capital of the Company was increased to HK\$22,000,000 divided into 22,000,000 ordinary shares of HK\$1.00 each pursuant to an ordinary resolution passed on 8th October, 1992.
- (3) Pursuant to the ordinary resolutions passed on 20th September, 1994:
 - (a) every ordinary share of HK\$1.00 each in the issued and unissued share capital of the Company was subdivided into ten ordinary shares of HK\$0.10 each; and
 - (b) the authorised share capital of the Company was increased to HK\$30,000,000 divided into 300,000,000 ordinary shares of HK\$0.10 each.
- (4) Pursuant to an ordinary resolution passed on 29th June, 1998, every ordinary share of HK\$0.10 each in the issued and unissued share capital of the Company was subdivided into ten ordinary shares of HK\$0.01 each effective 30th June, 1998.
- (5) Pursuant to the ordinary resolutions passed on 29th July, 1999:
 - (a) the authorised share capital of the Company was increased to HK\$1,600,000,000 divided into 160,000,000,000 ordinary shares of HK\$0.01 each; and
 - (b) every five ordinary shares of HK\$0.01 each in the issued and unissued share capital of the Company were consolidated into one ordinary share of HK\$0.05 each effective 3rd August, 1999.
- (6) Pursuant to an ordinary resolution passed on 7th January, 2003, every five ordinary shares of HK\$0.05 each in the issued and unissued share capital of the Company were consolidated into one ordinary share of HK\$0.25 effective 8th January, 2003 such that the authorised share capital of the Company on 8th January, 2003 was HK\$1,600,000,000 divided into 6,400,000,000 ordinary shares of HK\$0.25 each.

Sixth: - The capital of the Company may be increased, and any of the original shares and any new shares, from time to time to be created, may, from time to time, be divided into such classes with such preferential, deferred, or special rights, privileges or conditions and other special incidents as may be prescribed or in accordance with the Articles of Association and Regulations of the Company for the time being or otherwise.

Dividends may be paid in cash or by the distributions of specific assets or otherwise as provided by the Articles of Association of the Company and/or Regulations of the Company for the time being or otherwise.

<PAGE>

We, the several persons, whose names, addresses and descriptions are hereto subscribed, are desirous of being formed into a Company in pursuance of this Memorandum of Association, and we respectively agree to take the number of shares in the capital of the Company set opposite to our respective names:-

| Name, Addresses and Descriptions of Subscribers | Number of Shares taken by each Subscriber |
|---|---|
| (SD.) Chong Yet Sing 25, Braemar Hill Road, Flat 9A, Hong Kong. Merchant | One |
| (SD.) James Kin Chung 25, Braemar Hill Road, Flat 9A, Hong Kong. Merchant | One |
| Total Number of Shares Taken..... | Two |

Dated the 7th day of April, 1979.

WITNESS to the above signatures:

(SD.) PATSY KO
Secretary
904 China Underwriters Life Building,
51-57 Des Voeux Road, Central,
Hong Kong.

THE COMPANIES ORDINANCE (CHAPTER 32)

Company Limited by Shares

ARTICLES OF ASSOCIATION

(As adopted by Special Resolution passed on 20th September, 1994 and amended
by Special Resolutions passed on 7th January, 2003 and 19th May, 2004)

OF

PCCW LIMITED

TABLE A

<TABLE>

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1. The regulations contained in Table A in the First Schedule to the Companies Ordinance shall not apply to the Company.

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Other regulations excluded.

INTERPRETATION

2. The marginal notes to these Articles shall not be deemed to be part of these Articles and shall not affect their interpretation and in the interpretation of these Articles, unless there be something in the subject or context inconsistent therewith:-

Interpretation.

"Annual Report" shall include a consolidated profit and loss account for the period, in the case of the first account, since the incorporation of the Company and, in any other case, since the preceding account, together with a consolidated balance sheet as at the date to which the consolidated profit and loss account is made up and a Directors' report with respect to the consolidated profit or loss of the Company for the period covered by the profit and loss account and the state of the Company's affairs as at the end of such period, and an Auditors' report on such accounts prepared pursuant to Article 158;

Annual Report.

"these Articles" or "these presents" shall mean these Articles of Association in their present form and all supplementary, amended or substituted articles for the time being in force;

these Articles.
these presents.

"associate" has the meaning ascribed to it in the Listing Rules;

associate.

"Auditors" shall mean the persons for the time being performing the duties of that office;

Auditors.

"the Board" or "the Directors" shall mean the Directors from time to time of the Company or (as the context may require) the majority of Directors present and voting at a meeting of the Directors;

the Board.
the
Director.

"call" shall include any instalment of a call;

call.

"capital" shall mean the share capital from time to time of the Company;

capital.

"the Chairman" shall mean the Chairman presiding at any meeting of members or of the Board;

the Chairman.

"the Company" or "this Company" shall mean the abovenamed Company;

the Company.

"the Companies Ordinance" or "the Ordinance" shall mean the Companies Ordinance (Chapter 32 of the laws of Hong Kong) and any amendments thereto or re-enactment thereof for the time being in force and includes every other ordinance incorporated therewith or substituted therefor and in the case of any such substitution the references in these Articles to the provisions of the Ordinance shall be read as references to

the Companies
Ordinance.
the Ordinance.

the provisions substituted therefor in the new Ordinance;

"Corporate Communication" shall mean any information issued or to be issued by the Company to its members for their information or action and shall have the meaning ascribed to it in the Listing Rules and shall include but not be limited to: Corporate Communication.

- (1) the Annual Report;
- (2) the interim report;
- (3) the summary financial report;
- (4) notice of meetings;
- (5) listing documents; and
- (6) any circulars or other documents required by the Listing Rules to be sent to the Company's members.

"dividend" shall include scrip dividends, distributions in specie or in kind, capital distributions and capitalisation issues, if not inconsistent with the subject or context; dividend

"dollars" shall mean dollars in the lawful currency of Hong Kong; dollars.

"electronic communication" shall mean any Corporate Communication sent by electronic means; electronic communication.

"electronic means" shall mean the transmission of any Corporate Communication from the Company in any form through any medium (including but not limited to electronic mail or publication on the Company's website, or publication on the Company's computer network or publication on the website of The Stock Exchange of Hong Kong Limited or the website of any stock exchange on which any securities of the company are listed and/or permitted to be dealt in); electronic means.

"Electronic Signature" shall mean an electronic symbol or process attached to or logically associated with an electronic communication and executed or adopted by a person with the intent to sign the electronic communication; Electronic Signature.

"Listing Rules" shall mean the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited as amended from time to time; Listing Rules.

"month" shall mean a calendar month; month.

"newspaper" shall mean a newspaper published daily and circulating generally in Hong Kong and specified in the list of newspapers issued and published in the Gazette for the purposes of Section 71A of the Companies Ordinance by the Secretary for administrative service and information; newspaper.

"the register" shall mean the register of members and includes any branch register to be kept pursuant to the provisions of the Companies Ordinance; the register.

"seal" shall mean the common seal from time to time of the Company and includes, unless the context otherwise requires, any official seal that the Company may have as permitted by these Articles and the Ordinance; seal.

"Secretary" shall mean the person for the time being performing the duties of that office; Secretary.

"share" shall mean share in the capital of the Company and includes stock except where a distinction between stock and shares is expressed or implied; share.

"shareholders" or "members" shall mean the duly registered holders from time to time of the shares in the capital of the Company; shareholders. members.

"summary financial report" shall have the meaning as set out under section 2(1) of the Companies Ordinance; summary financial report.

"writing" or "printing" shall include writing, printing, lithography, photography, typewriting and every other mode of representing words of figures in a legible and non-transitory form and, only where used in connection with a notice served by the Company by electronic means on members or other persons entitled to receive notices hereunder, shall also include a record maintained through an electronic medium which is accessible in visible form so as to be useable for subsequent reference;

writing.
printing.

words denoting the singular shall include the plural and words denoting the plural shall include the singular;

singular and
plural.

words importing any gender shall include every gender; and

gender.

words importing person shall include partnerships, firms, companies and corporations.

person.
companies.

Subject as aforesaid, any words or expressions defined in the Ordinance (except any statutory modification thereof not in force when these Articles become binding on the Company) shall, if not inconsistent with the subject and/or context, bear the same meaning in these Articles, save that "company" shall where the context permits include any company incorporated in Hong Kong or elsewhere.

Ordinance to
bear same
meaning in
Articles.

References to any Articles by number are to the particular Article of these Articles.

3. (a) Without prejudice to any special rights previously conferred on the holders of existing shares, any share may be issued with such preferred, deferred, or other special rights or privileges, or such restrictions, whether in regard to dividend, voting, return of share capital, or otherwise, as the Company may from time to time by ordinary resolution determine (or, in the absence of any such determination, as the Board may determine), and any preference share may, with the sanction of a special resolution, be issued on the terms that it is, or at the option of the Company is liable, to be redeemed.
- (b) The Board may issue warrants to subscribe for any class of shares or securities of the Company on such terms as it may from time to time determine. Where share warrants are issued to bearer, no new warrant shall be issued to replace one that has been lost unless the Board is satisfied beyond reasonable doubt that the original has been destroyed.

Issue of shares.

Warrants.

4. If at any time the share capital is divided into different classes of shares, the rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class) may be varied with the consent in writing of the holders of three-fourths in nominal value of the issued shares of that class, or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of the class. To every such separate general meeting the provisions of these regulations relating to general meetings shall mutatis mutandis apply, but so that the necessary quorum shall be 2 persons at least holding or representing by proxy or by authorised representative one-third in nominal value of the issued shares of the class, that every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, that any holder of shares of the class present in person or by proxy or by authorised representative may demand a poll and that at any adjourned meeting of such holders one holder present in person or by proxy or by authorised representative (whatever the number of shares held by him) shall be a quorum.

How rights of
shares may be
modified.

SHARES AND INCREASE OF CAPITAL

5. The Company may exercise any powers conferred or permitted by the Ordinance or any other ordinance from time to time to acquire its own shares or to give directly or indirectly, by means of a loan, guarantee, the provision of security or otherwise, financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in the Company and should the Company acquire its own shares neither the Company nor the Board shall be required to select the shares to be acquired rateably or in any other particular manner as between the holders of shares of the same class or as between them and the holders of shares of any other class or in accordance with the rights as to dividends or capital conferred by any class of shares provided always that any such acquisition or financial assistance shall only be made or given in accordance with any relevant rules or regulations issued by The Stock Exchange of Hong Kong Limited or the Securities and Futures Commission from time to time.

Company to
finance
purchase of
own shares.

6. The Company in general meeting may from time to time, whether all the shares for the time being authorised shall have been issued or all the shares for the time being issued shall have been fully paid up or not, by ordinary resolution increase its share capital by the creation of new shares, such new capital to be of such amount and to be divided into shares of such respective amounts as the resolution shall prescribe. Power to increase capital.
7. Without prejudice to any special rights previously conferred on the holders of existing shares, any new shares shall be issued upon such terms and conditions and with such preferred, deferred, or other special rights or privileges, or such restrictions, whether in regard to dividend, voting, return of share capital, or otherwise, as the Company in the general meeting resolving upon the creation thereof shall determine or, in the absence of any such determination, as the Board may determine. Conditions on which new shares to be issued.
8. The Company may by ordinary resolution, before the issue of any new shares, determine that the same, or any of them, shall be offered in the first instance, and either at par or at a premium, to all the existing holders of any class of shares in proportions as nearly as may be to the number of shares of such class held by them respectively, or make any other provisions as to the issue and allotment of the new shares, but in default of any such determination, or so far as the same shall not extend, the new shares may be dealt with as if they formed part of the shares in the capital of the Company existing prior to the issue of the new shares. When to be offered to existing members.
9. Except so far as otherwise provided by the conditions of issue, or by these Articles, any capital raised by the creation of new shares shall be treated as if it formed part of the original capital of the Company, and such shares shall be subject to the provisions contained in these Articles with reference to the payment of calls and instalments, transfer and transmission, forfeiture, lien, cancellation, surrender, voting and otherwise. New shares treated as forming part of original capital.
10. Subject to the provisions of the Companies Ordinance (and in particular Section 57B thereof) and of these Articles relating to new shares, all unissued shares in the Company shall be at the disposal of the Board, which may offer, allot (with or without conferring a right of renunciation), grant options over or otherwise dispose of them to such persons, at such times, for such consideration and generally on such terms as the Board shall in its absolute discretion think fit, but so that no shares shall be issued at a discount, except in accordance with the provisions of the Companies Ordinance. Shares at the disposal of the Board.
11. The Company may at any time pay a commission not exceeding ten per cent. to any person for subscribing or agreeing to subscribe (whether absolutely or conditionally) for any shares in the Company, or procuring or agreeing to procure subscriptions (whether absolute or conditional) for any shares in the Company, but so that if the commission shall be paid or payable out of capital the conditions and requirements of the Ordinance shall be observed and complied with, and the commission shall not exceed ten per cent., in each case, of the price at which the shares are issued. Company may pay commission.
12. If any shares in the Company are issued for the purpose of raising money to defray the expenses of the construction of any works or buildings, or the provision of any plant which cannot be made profitable for a lengthened period, the Company may pay interest on so much of such share capital as is for the time being paid up for the period and subject to the conditions and restrictions mentioned in the Ordinance, may charge the sum so paid by way of interest to capital as part of the cost of construction of the works or buildings, or the provision of plant. Power to charge interest to capital.
13. Except as otherwise expressly provided by these Articles or as required by law or as ordered by a court of competent jurisdiction, no person shall be recognised by the Company as holding any share upon any trust, and the Company shall not be bound by or be compelled in any way to recognise (even when having notice thereof) any equitable, contingent, future or partial interest in any share or any interest in any fractional part of a share or any other rights in respect of any share except an absolute right to the entirety thereof in the registered holder. Company not to recognise trusts in respect of shares.
- REGISTER OF MEMBERS AND SHARE CERTIFICATES
14. (a) The Board shall cause to be kept a register of members, and there shall be entered therein the particulars required under the Companies Ordinance. Share register.
- (b) Subject to the provisions of the Companies Ordinance, if the Board considers it necessary or appropriate, the Company may establish and maintain a branch register of members at such location outside Hong Kong as the Board thinks fit. Branch register.

15. Every person whose name is entered as a member in the register shall be entitled without payment to receive within two months after allotment or lodgment of a transfer (or within such other period as the conditions of issue shall provide) one certificate for all his shares or, if he shall so request, in a case where the allotment or transfer is of a number of shares in excess of the number for the time being forming a stock exchange board lot, upon payment, in the case of a transfer, of such amount prescribed by The Stock Exchange of Hong Kong Limited or such lesser sum as the Board shall from time to time determine for every share certificate after the first, such number of certificates for shares in stock exchange board lots or multiples thereof as he shall request and one for the balance (if any) of the shares in question, provided that in respect of a share or shares held jointly by several persons the Company shall not be bound to issue a certificate or certificates to each such person, and the issue and delivery of a certificate or certificates to one of several joint holders shall be sufficient delivery to all such holders.
- Share certificates.
16. Every certificate for shares or warrants or debentures or representing any other form of securities of the Company shall be issued under the seal of the Company, which for this purpose may be any official seal as permitted by Section 73A of the Ordinance.
- Share certificates to be sealed.
17. Every share certificate hereafter issued shall specify the number and class of shares in respect of which it is issued and the amount paid thereon, and may otherwise be in such form as the Board may from time to time prescribe.
- Particulars to be specified in certificate.
18. (a) The Company shall not be bound to register more than four persons as joint holders of any share.
- Joint holders.
- (b) If any share shall stand in the names of two or more persons, the person first named in the register shall be deemed the sole holder thereof as regards service of notices and, subject to the provisions of these Articles, all or other matters connected with the Company, except the transfer of the share.
19. If a share certificate is defaced, lost or destroyed, it may be replaced on payment of such fee, if any, not exceeding such amount as shall for the time being be prescribed by The Stock Exchange of Hong Kong Limited and on such terms and conditions, if any, as to publication of notices, evidence and indemnity as the Board thinks fit and in the case of wearing out or defacement, after delivery up of the old certificate. In the case of destruction or loss, the person to whom such replacement certificate is given shall also bear and pay to the Company any exceptional costs and the reasonable out-of-pocket expenses incidental to the investigation by the Company of the evidence of such destruction or loss and of such indemnity.
- Replacement of share certificates.
- LIEN
20. The Company shall have a first and paramount lien on every share (not being a fully paid up share) for all moneys, whether presently payable or not, called or payable at a fixed time in respect of such share; and the Company shall also have a first and paramount lien and charge on all shares (other than fully paid up shares) standing registered in the name of a member, whether singly or jointly with any other person or persons, for all the debts and liabilities of such member or his estate to the Company and whether the same shall have been incurred before or after notice to the Company of any equitable or other interest of any person other than such member, and whether the period for the payment or discharge of the same shall have actually arrived or not, and notwithstanding that the same are joint debts or liabilities of such member or his estate and any other person, whether a member of the Company or not. The Company's lien (if any) on a share shall extend to all dividends and bonuses declared in respect thereof. The Board may at any time either generally or in any particular case waive any lien that has arisen, or declare any share to be exempt wholly or partially from the provisions of this Article.
- Company's lien.
Lien extends to dividends and bonuses.
21. The Company may sell, in such manner as the Board thinks fit, any shares on which the Company has a lien, but no sale be made unless some sum in respect of which the lien exists is presently payable or the liability or engagement in respect of which such lien exists is liable to be presently fulfilled or discharged, nor until the expiration of fourteen days after a notice in writing, stating and demanding payment of the sum presently payable or specifying the liability or engagement and demanding fulfilment or discharge thereof and giving notice of intention to sell in default shall have been given to the holder for the time being of the shares or the person entitled by reason of his death or bankruptcy to the shares.
- Sales of shares subject to lien.
22. The net proceeds of such sale after the payment of the costs of such sale shall be applied in or towards payment or satisfaction of the debt or liability or engagement in respect whereof the lien exists, so far as the same is presently payable, and any residue shall (subject to a like lien for debts or liabilities not presently payable as existed upon the shares prior to the sale) be paid to the person entitled to the shares at the time of the sale. For giving effect to any such sale, the Board may authorise some person to transfer the
- Application of proceeds of such sale.

shares sold to the purchaser and may enter the purchaser's name in the register as holder of the shares, and the purchaser shall not be bound to see to the application of the purchase money, nor shall his title to the shares be affected by any irregularity or invalidity in the proceedings relating to the sale.

CALLS ON SHARES

- | | |
|---|--|
| 23. The Board may from time to time make such calls as it may think fit upon the members in respect of all moneys unpaid on the shares held by them respectively and not by the conditions of allotment thereof made payable at fixed times. A call may be made payable either in one sum or by instalments. The Board may make arrangements on the issue of shares for a difference between the shareholders in the amount of calls to be paid and in the times of payment. The provisions of these Articles with respect to calls may in any share incentive scheme for employees approved by the Company be varied with respect to any shares issued pursuant to such scheme. | Calls. |
| 24. Fourteen days' notice at least of any call shall be given specifying the time and place of payment and to whom such call shall be paid. | Notice of call. |
| 25. A copy of the notice referred to in Article 24 shall be sent to members in the manner in which notices may be sent to members by the Company as herein provided. | Copy of notice to be sent to members. |
| 26. Every member upon whom a call is made shall pay the amount of every call so made on him to the person and at the time or times and place or places as the Board shall appoint. | Every member liable to pay call at appointed time and place. |
| 27. Notice of the person appointed to receive payment of every call and of the times and places appointed for payment may be given to the members by notice to be inserted once in The Hongkong Government Gazette and once at least in both an English language newspaper in English and a Chinese language newspaper in Chinese and/or, subject to the Listing Rules, in the manner in which notices may be served by the Company as herein provided. | Notice of call may be advertised. |
| 28. A call shall be deemed to have been made at the time when the resolution of the Board authorising such call was passed. | When call deemed to have been made. |
| 29. The joint holders of a share shall be severally as well as jointly liable for the payment of all calls and instalments due in respect of such share or other moneys due in respect thereof. | Liability of joint holders. |
| 30. The Board may from time to time and at its absolute discretion extend the time fixed for any call, and may similarly extend such time as to all or any of the members, from whom residence outside Hong Kong or other cause the Board may deem entitled to any such extension, but no member shall be entitled to any such extension except as a matter of grace and favour. | Board may extend time fixed for call. |
| 31. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest for the same at such rate not exceeding twenty per cent. per annum as the Board shall fix from the day appointed for the payment thereof to the time of the actual payment, but the Board may in its absolute discretion waive payment of such interest wholly or in part. | Interest on unpaid calls. |
| 32. No member shall be entitled to receive any dividend or bonus or to be present and vote (save as proxy for another member) at any general meeting either personally or by proxy, to be reckoned in a quorum, or to exercise any other privilege as a member until all calls or instalments due by him to the Company, whether alone or jointly with any other person, together with interest and expenses (if any) shall have been paid. | Suspension of privileges while call unpaid. |
| 33. On the trial or hearing of any action or other proceedings for the recovery of any money due for any call, it shall be sufficient to prove that the name of the member sued is entered in the register as the holder, or one of the holders, of the shares in respect of which such debt accrued, that the resolution making the call is duly recorded in the minute book, and that notice of such call was duly given to the member sued, in pursuance of these Articles; and it shall not be necessary to prove the appointment of the Directors who made such call, nor any other matters whatsoever, but the proof of the matters aforesaid shall be conclusive evidence of the debt. | Evidence in action for call. |
| 34. Any sum which by the terms of allotment of a share is made payable upon allotment, or at any fixed date, whether on account of the nominal value of the share and/or by way of premium, shall for all purposes of these Articles be deemed to be a call duly made and payable on the date fixed for payment, and in case of | Sums payable on allotment deemed a call. |

non-payment all the relevant provisions of these Articles as to payment of interest and expenses, forfeiture and the like, shall apply as if such sums had become payable by virtue of a call duly made and notified.

35. The Board may, if it thinks fit, receive from any member willing to advance the same, and either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him and upon all or any of the moneys so advanced the Company may pay interest at such rate (if any) not exceeding twenty per cent. per annum as the Board may decide provided that not until a call is made any payment in advance of a call shall not entitled the member to receive any dividend or to exercise any other rights or privileges as a member in respect of the shares or the due portion of the shares upon which payment has been advanced by such member before it is called up. The Board may at any time repay the amount so advanced upon giving to such member not less than one month's notice in writing of their intention in that behalf, unless before the expiration of such notice the amount so advanced shall have been called up on the shares in respect of which it was advanced.
- Payment of calls in advance.

TRANSFER OF SHARES

36. All transfers of shares may be effected by transfer in writing in the usual common form or in such other form as the Board may accept. All instruments of transfer must be left at the registered office or at such other place as the Board may appoint.
- Form of transfer.
37. The instrument of transfer of any share shall be executed by or on behalf of the transferor and by or on behalf of the transferee, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register in respect thereof. Nothing in these Articles shall preclude the Board from recognising a renunciation of the allotment or provisional allotment of any share by the allottee in favour of some other person.
- Execution of transfer.
38. The Board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.
- Board may refuse to register transfers.
39. The Board may also decline to recognise any instrument of transfer unless:-
- Requirements as to transfer.
- (a) a fee of such amount as shall for the time being be prescribed by The Stock Exchange of Hong Kong Limited or such lesser sum as the Board shall from time to time require is paid to the Company for registering any transfer or other document relating to or affecting the title to the shares involved or for otherwise making an entry in the register relating to such shares;
- (b) the instrument of transfer is accompanied by the certificate of the shares to which it relates, and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer;
- (c) the instrument of transfer is in respect of only one class of shares;
- (d) the shares concerned are free of any lien in favour of the Company; and
- (e) the instrument of transfer is properly stamped.
40. No transfer shall be made to an infant or to a person of unsound mind or under other legal disability.
- No transfer to an infant, etc.
41. If the Board shall refuse to register a transfer of any share, it shall, within two months after the date on which the transfer was lodged with the Company, send notice of such refusal, as required by Section 69 of the Ordinance.
- Notice of refusal.
42. Upon every transfer of shares the certificate held by the transferor shall be given up to be cancelled, and shall forthwith be cancelled accordingly, and a new certificate shall be issued to the transferee in respect of the shares transferred to him, and if any of the shares included in the certificate so given up shall be retained by the transferor a new certificate in respect thereof shall be issued to him. The Company shall also retain the transfer.
- Certificate on transfer.
43. The registration of transfers may be suspended and the register closed at such times and for such periods as
- When transfer books and register may be closed.

the Board may from time to time determine and either generally or in respect of any class of shares, provided always that such registration shall not be suspended or the register closed for more than thirty days in any year or, with the approval of the Company in general meeting, sixty days in any year.

TRANSMISSION OF SHARES

44. In the case of the death of a member, the survivor or survivors where the deceased was a joint holder, and the legal personal representatives of the deceased where he was a sole holder, shall be the only persons recognised by the Company as having any title to his interest in the shares; but nothing herein contained shall release the estate of a deceased holder (whether sole or joint) from any liability in respect of any share solely or jointly held by him. Death of registered holder or joint holder of shares.
45. Any person becoming entitled to a share in consequence of the death or bankruptcy of a member may, upon such evidence as to his title being produced as may from time to time be required by the Board, and subject as hereinafter provided elect either to be registered himself as holder of the share or to have some person nominated by him registered as the transferee thereof. Registration of personal representatives and trustees in bankruptcy.
46. If the person so becoming entitled shall elect to be registered himself, he shall deliver or send to the Company a notice in writing signed by him stating that he so elects. If he shall elect to have his nominee registered, he shall testify his election by executing to his nominee a transfer of such share. All the limitations, restrictions and provisions of these presents relating to the right to transfer and the registration of transfers of shares shall be applicable to any such notice or transfer as aforesaid as if the death or bankruptcy of the member had not occurred and the notice or transfer were a transfer executed by such member. Notices of election to be registered. Registration of nominee.
47. A person becoming entitled to a share by reason of the death or bankruptcy of the holder shall be entitled to the same dividends and other advantages to which he would be entitled if he were the registered holder of the share. However, the Board may, if they think fit, withhold the payment of any dividend payable or other advantages in respect of such share until such person shall become the registered holder of the share or shall have effectually transferred such share, but, subject to the requirements of Article 79 being met, such a person may vote at meetings. Retention of dividends, etc., of shares of deceased or bankrupt member.

FORFEITURE OF SHARES

48. If a member fails to pay any call or instalment of a call on the day appointed for payment thereof, the Board may, at any time thereafter during such time as any part of the call or instalment remains unpaid, without prejudice to the provisions of Article 32 hereof, serve a notice on him requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. If call or instalment not paid notice may be given.
49. The notice shall name a further day (not earlier than the expiration of fourteen days from the date of service of the notice) on or before which the payment required by the notice is to be made, and shall state that in the event of non-payment at or before the time appointed the shares in respect of which the call was made will be liable to be forfeited. Form of notice.
50. If the requirements of any such notice as aforesaid are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Board to that effect. Such forfeiture shall include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture. The Board may accept the surrender of any shares liable to be forfeited hereunder and in such cases references in these Articles to forfeiture shall include surrender. If notice not complied with shares may be forfeited.
51. Any share so forfeited shall be deemed to be the property of the Company, and may be sold, re-allotted or otherwise disposed of on such terms and in such manner as the Board thinks fit and at any time before a sale or disposal the forfeiture may be cancelled on such terms as the Board thinks fit. Forfeited share to become property of Company.
52. A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares, but shall, notwithstanding the forfeiture, remain liable to pay to the Company all moneys which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the Board shall in its discretion so require) interest thereon from the date of forfeiture until payment at such rate not exceeding twenty per cent. per annum as the Board may prescribe, and the Board may enforce the payment thereof if it thinks fit, and without any deduction or allowance for the value of the shares, at the date of Amounts to be paid notwithstanding forfeiture.

forfeiture, but his liability shall cease if and when the Company shall have received payment in full of all such moneys in respect of the shares. For the purposes of this Article any sum which, by the terms of issue of a share, is payable thereon at a fixed time which is subsequent to the date of forfeiture, whether on account of the nominal value of the share or by way of premium, shall notwithstanding that time has not yet arrived be deemed to be payable at the date of forfeiture, and the same shall become due and payable immediately upon the forfeiture, but interest thereon shall only be payable in respect of any period between the said fixed time and the date of actual payment.

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| 53. A statutory declaration in writing that the declarant is a Director or Secretary of the Company, and that a share in the Company has been duly forfeited on a date stated in the declaration, shall be conclusive evidence of the facts therein stated as against all persons claiming to be entitled to the share. The Company may receive the consideration, if any, given for the share on any sale or disposal thereof and may execute a transfer of the share in favour of the person to whom the share is sold or disposed of and he shall thereupon be registered as the holder of the share, and shall not be bound to see to the application of the purchase money, if any, nor shall his title to the share be affected by any irregularity or invalidity in the proceedings in reference to the forfeiture, sale or disposal of the share. | Evidence of forfeiture and transfer of forfeited share. |
| 54. When any share shall have been forfeited, notice of the resolution shall be given to the member in whose name it stood immediately prior to the forfeiture, and an entry of the forfeiture, with the date thereof, shall forthwith be made in the register, but no forfeiture shall be invalidated by any failure to give such notice or make such entry as aforesaid. | Notice after forfeiture. |
| 55. Notwithstanding any such forfeiture as aforesaid the Board may at any time, before any shares so forfeited shall have been sold, re-allotted or otherwise disposed of, permit the shares forfeited to be bought back upon the terms of payment of all calls and interest due upon and expenses incurred in respect of the share, and upon such further terms (if any) as they think fit. | Power to buy back forfeited share. |
| 56. The forfeiture of a share shall not prejudice the right of the Company to any call already made or instalment payable thereon. | Forfeiture not to prejudice Company's right to call or instalment. |
| 57. The provisions of these Articles as to forfeiture shall apply in the case of non-payment of any sum which, by the terms of issue of a share, becomes payable at a fixed time, whether on account of the nominal value of the share or by way of premium, as if the same had been payable by virtue of a call duly made and notified. | Forfeiture for non-payment of any sum due on shares. |
| STOCK | |
| 58. The Company may by ordinary resolution convert any paid up shares into stock, and may from time to time by like resolution reconvert any stock into paid up shares of any denomination. | Power to convert into stock. |
| 59. The holders of stock may transfer the same or any part thereof in the same manner, and subject to the same regulations as and subject to which the shares from which the stock arose might prior to conversion have been transferred, or as near thereto as circumstances admit, but the Board may from time to time, if it thinks fit, fix the minimum amount of stock transferable and restrict or forbid the transfer of fractions of that minimum, but so that such minimum shall not exceed the nominal amount of the shares from which the stock arose. No warrants to bearer shall be issued in respect of any stock. | Transfer of stock. |
| 60. The holders of stock shall, according to the amount of the stock held by them, have the same rights, privileges and advantages as regards dividends, participation in assets on a winding up, voting at meetings, and other matters, as if they held the shares from which the stock arose, but no such right, privilege or advantage (except participation in the dividends and profits of the Company and in the assets on winding up) shall be conferred by an amount of stock which would not, if existing in shares, have conferred such right, privilege or advantage. | Rights of stockholders. |
| 61. All such of the provisions of these presents as are applicable to paid up shares shall apply to stock, and the words "share" and "shareholder" therein shall include "stock" and "stockholder". | Interpretation. |

ALTERATION OF CAPITAL

62. (a) The Company may from time to time by ordinary resolution:-
- (i) consolidate and divide all or any of its share capital into shares of larger or smaller amount than its existing shares; on any consolidation of fully paid shares into shares of larger amount, the Board may settle any difficulty which may arise as it thinks expedient and in particular (but without prejudice to the generality of the foregoing) may as between the holders of shares to be consolidated determine which particular shares are to be consolidated into each consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Board for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateable in accordance with their rights and interests or may be paid to the Company for the Company's benefit;
- (ii) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled; and
- (iii) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association, subject nevertheless to the provisions of the Ordinance, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares.
- (b) The Company may by special resolution reduce its share capital, any capital redemption reserve fund or any share premium account in any manner authorised and subject to any conditions prescribed by law.
- Consolidation and division of capital and sub-division and cancellation of shares.
- Reduction of capital.

GENERAL MEETINGS

63. The Company shall in each year hold a general meeting as its annual general meeting in addition to any other meeting in that year and shall specify the meeting as such in the notices calling it; and not more than fifteen months shall elapse between the date of one annual general meeting of the Company and that of the next. The annual general meeting shall be held at such time and place as the Board shall appoint.
64. All general meetings other than annual general meetings shall be called extraordinary general meetings.
65. The Directors may, whenever they think fit, convene an extraordinary general meeting, and extraordinary general meetings shall also be convened on requisition as provided by the Companies Ordinance, or, in default, may be convened by the requisitionists.
66. An annual general meeting and a meeting called for the passing of a special resolution shall be called by 21 days' notice in writing at the least, and a meeting of the Company other than an annual general meeting or a meeting for the passing of a special resolution shall be called by 14 days' notice in writing at the least. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and shall specify the place, the day and the hour of meeting and, in case of special business, the general nature of that business, and shall be given, in the manner hereinafter mentioned or in such other manner, if any, as may be prescribed by the Company in general meeting, to such persons as are, under these Articles, entitled to receive such notices from the Company.
67. (a) The accidental omission to give any such notice to, or the non-receipt of any such notice by, any person entitled to receive such notice shall not invalidate any resolution passed or any proceeding at any such meeting.
- (b) In cases where instruments of proxy are sent out with notices, the accidental omission to send such instrument of proxy to, or the non-receipt of such instrument of proxy by, any person entitled to receive notice shall not invalidate any resolution passed or any proceeding at any such meeting.
- When annual general meeting to be held.
- Extraordinary general meetings.
- Convening of extraordinary general meetings.
- Notices of meetings.
- As to omission to give notice.

PROCEEDINGS AT GENERAL MEETINGS

68. All business shall be deemed special that is transacted at any extraordinary general meeting, and also all business that is transacted at an annual general meeting, with the exception of sanctioning dividends, the reading, considering and adopting of the Annual Report and other documents required to be annexed to the Annual Report, the election of Directors and appointment of Auditors and other officers in the place of those retiring, the fixing of the remuneration of the Auditors, and the voting of remuneration or extra remuneration to the Directors. Special business.
69. For all purposes the quorum for a general meeting shall be two members present in person or by proxy and entitled to vote. No business shall be transacted at any general meeting unless the requisite quorum shall be present at the commencement of the business. Quorum.
70. If within fifteen minutes from the time appointed for the meeting a quorum is not present, the meeting, if convened upon the requisition of members, shall be dissolved, but in any other case it shall stand adjourned to the same day in the next week and at such time and place as shall be decided by the Board, and if at such adjourned meeting a quorum is not present within fifteen minutes from the time appointed for holding the meeting, the member or members present in person shall be a quorum and may transact the business for which the meeting was called. When if quorum not present meeting to be dissolved and when to be adjourned.
71. The Chairman of the Board shall take the chair at every general meeting, or if at any general meeting such Chairman shall not be present within fifteen minutes after the time appointed for holding such meeting or is unwilling to act or is absent from Hong Kong or has given notice to the Company of his intention not to attend the meeting, a Deputy Chairman of the Board shall take the chair at such general meeting, or if there be no such Chairman or Deputy Chairman present at the meeting, any Director present shall take the chair at the relevant general meeting, and if no Director be present within fifteen minutes after the time appointed for holding the meeting, or if all Directors present decline to take the chair, then the members present and entitled to vote shall choose one of their own number to be Chairman of that meeting. Chairman of general meeting.
72. The Chairman may, with the consent of any general meeting at which a quorum is present, and shall, if so directed by the meeting, adjourn the meeting from time to time and from place to place as the meeting shall determine. Whenever a meeting is adjourned for fourteen days or more, at least seven clear days' notice, specifying the place, the day and the hour of the adjourned meeting shall be given in the same manner as in the case of an original meeting but it shall not be necessary to specify in such notice the nature of the business to be transacted at the adjourned meeting. Save as aforesaid, no member shall be entitled to any notice of an adjournment or of the business to be transacted at any adjourned meeting. No business shall be transacted at any adjourned meeting other than the business which might have been transacted at the meeting from which the adjournment took place. Power to adjourn general meeting. Business of adjourned meeting.
73. At any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands) demanded:- How questions to be decided.
- (a) by the Chairman; or
- (b) by at least three members present in person or by proxy for the time being entitled to vote at the meeting; or
- (c) by any member or members present in person or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
- (d) by any member or members present in person or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.
- Unless a poll be so demanded and the demand is not withdrawn, a declaration by the Chairman that a resolution has on a show of hands been carried or carried unanimously, or by a particular majority, or lost, and an entry to that effect in the book containing the minutes of the proceedings of the Company, shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour or against such resolution. The demand for a poll may be withdrawn.
74. If a poll is demanded as aforesaid, it shall (subject as provided in Article 75) be taken in such manner (including the use of ballot or voting papers or tickets) and at such time and place, not being more than Poll.

thirty days from the date of the meeting or adjourned meeting at which the poll was demanded, as the Chairman directs. No notice need be given of a poll not taken immediately. The result of the poll shall be deemed to be the resolution of the meeting at which the poll was demanded. The demand for a poll may be withdrawn, with the consent of the Chairman, at any time before the close of the meeting or the taking of the poll, whichever is the earlier.

75. Any poll duly demanded on the election of a chairman of a meeting or on any question of adjournment shall be taken at the meeting and without adjournment. In what cases poll taken without adjournment.
76. In the case of an equality of votes, whether on a show of hands or on a poll, the Chairman of the meeting at which the show of hands takes place or at which the poll is demanded, shall be entitled to a second or casting vote. In case of any dispute as to the admission or rejection of any vote, the Chairman shall determine the same, and such determination shall be final and conclusive. Chairman to have casting vote.
77. The demand for a poll shall not prevent the continuance of a meeting for the transaction of any business other than the question on which a poll has been demanded. Business may proceed notwithstanding demand for poll.

VOTES OF MEMBERS

78. (a) Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting on a show of hands every member who (being an individual) is present in person or (being a corporation) is present by a representative duly authorised under Section 115 of the Ordinance, shall have one vote, and on a poll every member present in person or by proxy or by duly authorised representative shall have one vote for every fully paid share of which he is the holder and have for every partly paid share of which he is the holder the fraction of one vote equal to the proportion which the nominal amount due and paid up thereon bears to the nominal value of the share, but no amount paid or credited as paid up on a share in advance of calls shall be treated for the purposes of this Article as paid up on the share. On a poll a member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way. Votes of members.
- (b) A member of the Company, being a recognised clearing house within the meaning of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("the clearing house") may authorise such person or persons as it thinks fit to act as its representative or representatives at any meeting of the Company or at any meeting of any class of member of the Company provided that, if more than one person is so authorised, the authorisation must specify the number and class of shares in respect of which each such person is so authorised. A person so authorised will be entitled to exercise the same powers on behalf of the clearing house (or its nominee) which he represents as that clearing house (or its nominee) could exercise if it were an individual member of the Company.
79. Any person entitled under Article 45 to be registered as a shareholder may vote at any general meeting in respect thereof in the same manner as if he were the registered holder of such shares; provided that forty-eight hours at least before the time of the holding of the meeting or adjourned meeting as the case may be at which he proposes to vote, he shall satisfy the Board of his entitlement to such share, or the Board shall have previously admitted his right to vote at such meeting in respect thereof. Votes in respect of deceased and bankrupt members.
80. Where there are joint registered holders of any share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present whose name stands first on the register in respect of such share, shall alone be entitled to vote in respect thereof. Several executors or administrators of a deceased member in whose name any share stands shall for the purpose of this Article be deemed joint holders thereof. Joint holders.
81. A member of unsound mind, or in respect of whom an order has been made by any court having jurisdiction in cases of mental disorders, may vote, whether on a show of hands or on a poll, by his committee, receiver, curator bonis, or other person in the nature of a committee, receiver or curator bonis appointed by that court, and any such committee, receiver, curator bonis or other person may, on a poll, vote by proxy, provided that such evidence as the Directors may require of the authority of the person claiming to vote shall have been deposited at the registered office of the Company not less than forty-eight hours before the time for holding the meeting, or adjourned meeting or poll, as the case may be. Votes of member of unsound mind.

82. (a) Save as herein expressly provided, no person other than a member duly registered and who shall have paid everything for the time being due from him and payable to the Company in respect of his shares and is entitled to attend and vote shall be entitled to be present or to vote (save as proxy for another member) either personally or by proxy, or to be reckoned in a quorum (save as proxy for another member), at any general meeting. Qualification for voting.
- (b) No objection shall be raised to the qualification of any voter except at the meeting or adjourned meeting at which the vote objected to is given or tendered, any vote not disallowed at such meeting shall be valid for all purposes. Any such objection made in due time shall be referred to the Chairman, whose decision shall be final and conclusive. Objections to votes.
- 82A. Where any shareholder is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted. Abstain from voting.
83. Any member of the Company entitled to attend and vote at a meeting of the Company or a meeting of the holder of any class of shares in the Company shall be entitled to appoint another person as his proxy to attend and vote instead of him. On a poll votes may be given either personally or by proxy. A proxy need not be a member of the Company. A member may appoint more than one proxy to attend on the same occasion. Proxies.
84. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal, or under the hand of an officer or attorney duly authorised. Instrument appointing proxy to be in writing.
85. The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority shall be deposited at the registered office of the Company or at such other place as is specified in the notice of meeting or in the instrument of proxy issued by the Company not less than forty-eight hours before the time for holding the meeting or adjourned meeting or poll (as the case may be) at which the person named in such instrument proposes to vote, and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after expiration of twelve months from the date of its execution, except at an adjourned meeting or on a poll demanded at a meeting or an adjourned meeting in cases where the meeting was originally held within twelve months from such date. Delivery of an instrument appointing a proxy shall not preclude a member from attending and voting in person at the meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked. Appointment of proxy must be deposited.
86. Every instrument of proxy, whether for a specified meeting or otherwise, shall be in such form as the Board may from time to time approve. Form of proxy.
87. The instrument appointing a proxy to vote at a general meeting shall: (i) be deemed to confer authority upon the proxy to demand or join in demanding a poll and to vote on any resolution (or amendment thereto) put to the meeting for which it is given as the proxy thinks fit provided that any form issued to a member for use by him for appointing a proxy to attend and vote at an extraordinary general meeting or at an annual general meeting at which any business is to be transacted shall be such as to enable the member, according to his intention, to instruct the proxy to vote in favour of or against (or, in default of instructions, to exercise his discretion in respect of) each resolution dealing with any such business; and (ii) unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates. Authority under instrument appointing proxy.
88. A vote given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the previous death or unsoundness of mind of the principal or revocation of the proxy or power of attorney or other authority under which the proxy was executed, or the transfer of the share in respect of which the proxy is given, provided that no intimation in writing of such death, unsoundness of mind, revocation or transfer as aforesaid shall have been received by the Company at the registered office, or at such other place as is referred to in Article 85 of these Articles, prior to two hours before the commencement of the meeting, adjourned meeting or poll, as the case may be, at which the proxy is used. When vote be proxy valid though authority revoked
89. Any corporation which is a member of the Company may by resolution of its directors or other governing body authorise such persons as it thinks fit to act as its representatives at any meeting of the Company or of any class of members of the Company, and the persons so authorised shall be entitled to exercise the same powers on behalf of the corporation which they represent as that corporation could exercise if it were Corporation acting by representative at meetings.

an individual member of the Company.

REGISTERED OFFICE

90. The registered office of the Company shall be at such place in Hong Kong as the board shall from time to time appoint. Registered Office.

BOARD OF DIRECTORS

91. The number of Directors shall not be less than two. Number.
92. The Board shall have power from time to time, and at any time to appoint any person as a Director either to fill a casual vacancy or as an addition to the Board provided that the appointment of any Director shall be approved by the Executive Chairman. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at that meeting. Board may fill vacancies.
93. (a) Any Director may at any time by notice in writing delivered to the registered office of the Company or at a meeting of the Board, appoint any person (including another Director) to be his alternate Director for such period of absence from Hong Kong or such period of unavailability due to illness or disability or for such meeting as may be specified therein, and may in like manner at any time determine such appointment. Such appointment, unless previously approved by the Board, shall have effect only upon and subject to being so approved. Alternate Directors.
- (b) The appointment of an alternate Director shall determine on the happening of any event which, were he a Director, would cause him to vacate such office, or if his appointor ceases to be a Director.
- (c) An alternate Director shall (except when absent from Hong Kong, for which purpose he shall be deemed absent from Hong Kong on any day if he has given to the Secretary notice of his intention to be absent from Hong Kong for any period including such day and has not revoked such notice) be entitled to receive notices of meetings of the Board and shall be entitled to attend and vote as a Director at any such meeting at which the Director appointing him is not personally present and generally at such meeting to perform all the functions of his appointor as a Director, and for the purposes of the proceedings at such meeting the provisions of these Articles shall apply as if he (instead of his appointor) were a Director. If he shall be himself a Director or shall attend any such meeting as an alternate for more than one Director his voting rights shall be cumulative. If his appointor is for the time being absent from Hong Kong or temporarily unable to act through ill-health or disability, his signature to any resolution in writing of the Board shall be as effective as the signature of his appointor. To such extent as the Board may from time to time determine in relation to any committee of the Board, the foregoing provisions of this paragraph shall also apply mutatis mutandis to any meeting of any such committee of which his appointor is a member. An alternate Director shall not, save as aforesaid, have power to act as a Director nor shall he be deemed to be a Director for the purposes of these Articles.
- (d) An alternate Director shall be entitled to contract and be interested in and benefit from contracts or arrangements or transactions and to be repaid expenses and to be indemnified to the same extent mutatis mutandis as if he were a Director, but he shall not be entitled to receive from the Company in respect of his appointment as alternate Director any remuneration except only such part (if any) of the remuneration otherwise payable to his appointor as such appointor may by notice in writing to the Company from time to time direct.
- (e) An alternate Director shall not be, nor be deemed to be, the agent of the Director appointing him and the latter shall not be vicariously liable for any tort committed by the former.
94. A Director need not hold any qualification shares but shall nevertheless be entitled to receive notice of and to attend and speak at all general meetings of the Company and at all separate meetings of the respective holders of all classes of shares of the Company. No qualification shares for Directors.
95. The Directors shall be entitled to receive by way of remuneration for their services such sum as shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the Board may agree or, failing agreement, equally, except that in such event any Director Directors' remuneration.

holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. The foregoing provisions shall not apply to a Director who holds any salaried employment or office in the Company except in the case of sums paid in respect of Directors' fees.

96. The Directors shall also be entitled to be repaid all travelling, hotel and other expenses reasonably incurred by them respectively in or about the performance of their duties as Directors, including their expenses of travelling to and from board meetings, committee meetings or general meetings or otherwise incurred whilst engaged in the business of the Company. Directors' expenses.
97. The Board may grant special remuneration to any Director who, being called upon, shall perform any special or extra services to the Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, or commission, participation in profits or otherwise as may be arranged. Special remuneration.
98. Notwithstanding the foregoing Articles 95, 96 and 97, the remuneration of a Executive Chairman, or other Executive Director or a Director appointed to any other office in the management of the Company shall from time to time be fixed by the Board and may be by way of salary, commission, or participation in profits or otherwise or by all or any of those modes and with such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the Board may from time to time decide. Such remuneration shall be in addition to his remuneration as a Director. Remuneration of Executive Chairman, etc.
99. (a) A Director shall vacate his office:- When office of Director to be vacated.
- (i) If he becomes bankrupt or has a receiving order made against him or suspends payment, or compounds with his creditors.
 - (ii) If he becomes of unsound mind.
 - (iii) If he absents himself from the meetings of the Board during a continuous period of six months without special leave of absence from the Board, and his alternate Director (if any) shall not during such period have attended in his stead, and the Board passes a resolution that he has by reason of such absence vacated his office.
 - (iv) If he becomes prohibited from being a Director by reason of any order made under any provision of the Companies Ordinance.
 - (v) If by notice in writing delivered to the Company at its registered office he resigns his office.
 - (vi) If he shall be removed from office by notice in writing served upon him signed by all his co-Directors.
 - (vii) If, having been appointed to an office under Article 112 hereof, he is dismissed or removed therefrom by the Board under Article 113.
- (b) Subject to the provisions of the Companies Ordinance no Director shall be required to vacate office or be ineligible for re-election or re-appointment as a Director, and no person shall be ineligible for appointment as a Director, by reason only of his having attained any particular age.
100. (a) A Director may hold any other office or place of profit with the Company (except that of Auditor) in conjunction with his office of Director for such period and upon such terms as the Board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) as the Board may determine and such extra remuneration shall be in addition to any remuneration provided for by or pursuant to any other Article. Directors may contract with Company.
- (b) A Director may act by himself or his firm in a professional capacity for the Company (otherwise than as Auditor) and he or his firm shall be entitled to remuneration for professional services as if he were not a Director.
- (c) A Director of the Company may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration,

profits or other benefits received by him as director or officer of or from his interest in such other company. The Board may also cause the voting power conferred by the shares in any other company held or owned by the Company or exercisable by it as director of such other company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

- (d) A Director shall not vote or be counted in the quorum on any resolution of the Board concerning his own appointment as the holder of office or place of profit with the Company or any other company in which the Company is interested (including the arrangement or variation of the terms thereof, or the termination thereof).
- (e) Where arrangements are under consideration concerning that appointment (including the arrangement or variation of the terms thereof, or the termination thereof) of two or more Directors to offices or places of profit with the Company or any other company in which the Company is interested, a separate resolution may be put in relation to each Director and in such case each of the Directors concerned shall be entitled to vote (and be counted in the quorum) in respect of each resolution except that concerning his own appointment (or the arrangement or variation of the terms thereof, or the termination thereof) and except (in the case of an office or place of profit with any such other company as aforesaid) where the other company is a company in which the Director together with any of his associates own 5 per cent. or more.
- (f) Subject to the Ordinance and to the next paragraph of this Article, no Director or proposed or intending Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company of the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or of the fiduciary relationship thereby established.
- (g) A Director who, to his knowledge, is interested or has an associate who is interested, in any way, whether directly or indirectly, in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest or the interest of his associate at the meeting of the Board at which the question of entering into the contract or arrangement is first taken into consideration if he knows his interest or the interest of his associate then exists; or in any other case at the first meeting of the Board after he knows that he or his associate is or has become so interested. For this purpose, a general notice to the Board by a Director to the effect that:-
- (i) he or any of his associates is a member of a specified company or firm and is to be regarded as interested in any contract or arrangement which may after the date of the notice be made with that company or firm; or
 - (ii) he or any of his associates is to be regarded as interested in any contract or arrangement which may after the date of the notice be made with a specified person who is connected with him or them,
- shall be deemed to be a sufficient declaration of interest in relation to any such contract or arrangement; provided that no such notice shall be effective unless either it is given at a meeting of the Board or the Director takes reasonable steps to secure that it is brought up and read at the next Board meeting after it is given.
- (h) Save as otherwise provided by the Articles, a Director shall not vote (nor be counted in the quorum) on any resolution of the Board in respect of any contract, arrangement or proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters namely:-
- (i) any contract or arrangement for the giving to such Director or any of his associates of any security or indemnity in respect of money lent by him or them or obligations incurred or undertaken by him or them for the benefit of the Company and any of its subsidiaries;
 - (ii) any contract or arrangement for the giving by the Company of any security or indemnity to a

third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or any of his associates has himself or themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;

- (iii) any contract or arrangement by a Director or any of his associates to subscribe for shares, debentures or other securities of the Company issued or to be issued pursuant to any offer or invitation to members or debenture holders of the Company or any class thereof, and which does not provide in respect of any Directors or any of his associates as such any privilege or advantage not accorded to any other members or debenture holders of the Company or any class thereof or to the public or any sections thereof;
- (iv) any contract or arrangement concerning an offer of the shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or any of his associates is or is to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (v) any contract or arrangement in which the Director or any of his associates is interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his or their interest in shares or debentures or other securities of the Company;
- (vi) any contract, arrangement or proposal concerning any company in which the Director or any of his associates is interested only, whether directly or indirectly, as an officer or executive or shareholder or in which the Director or any of his associates is beneficially interested in shares of that company, provided that he, together with any of his associates, is not beneficially interested in 5 per cent. or more of the equity share capital of such company (whether his interest is derived through any third company) or of the voting rights available to members of such company;
- (vii) any proposal or arrangement concerning the benefit of employees of the Company or its subsidiaries including the adoption, modification or operation of a pension fund or retirement, death or disability benefits scheme which relates to directors (and their associates) and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director or any of his associates who may be employees of the Company as such any privilege or advantage not accorded to the employees to which such scheme or fund relates;
- (viii) any proposal or arrangement concerning the adoption, modification or operation of any share scheme involving the issue or grant of options over shares or other securities by the Company to, or for the benefit of the employees of the Company or of any of its subsidiaries, under which the Director or any of his associates who may be employees of the Company or any of its subsidiaries may benefit.
- (i) A company shall be deemed to be a company in which a Director together with any of his associates own 5 per cent. or more if and so long as (but only if and so long as) he together with any of his associates are (either directly or indirectly) the holders of or beneficially interested in 5 per cent. or more of any class of the equity share capital of such company or of the voting rights available to members of such company. For the purpose of this paragraph there shall be disregarded any shares held by a Director as bare or custodian trustee and in which he has no beneficial interest, any shares comprised in a trust in which the Director's interest is in reversion or remainder if and so long as some other person is entitled to receive the income thereof, and any shares comprised in an authorised unit trust scheme in which the Director is interested only as an unit holder.
- (j) Where a company in which a Director together with any of his associates hold 5 per cent. or more is materially interested in a transaction, then that Director shall also be deemed materially interested in such transaction.
- (k) If any question shall arise at any meeting of the Board as to the materiality of the interest (including, for these purposes, the interest of any of his associates) of a Director (other than the Chairman of meeting) or as to the entitlement of any Director (other than such Chairman) to vote or be counted in the quorum and such question is not resolved by his voluntarily agreeing to abstain from voting or not be counted in the quorum, such question shall be referred to the Chairman of the meeting and his ruling in relation to such other Director shall be final and conclusive except in a case where the nature

or extent of the interest of the Director concerned as known to such Director has not been fairly disclosed to the Board. If any question as aforesaid shall arise in respect of the Chairman of the meeting such question shall be decided by a resolution of the Board (for which purpose such Chairman shall not be counted in the quorum and shall not vote thereon) and such resolution shall be final and conclusive except in a case where the nature or extent of the interest of such Chairman as known to such Chairman has not been fairly disclosed to the Board.

- (l) In so far as it is required by The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, a Director shall not vote (nor be counted in the quorum) on any resolution of the shareholders in respect of any contract or arrangement in which he is to his knowledge materially interested provided that this prohibition (a) shall not apply to any of the matters specified as (i) to (viii) inclusive in Article 100 (h) above; and (b) is also subject to any waiver which may be granted by The Stock Exchange of Hong Kong Limited.
- (m) The Company may by ordinary resolution ratify any transaction not duly authorised by reason of a contravention of these Articles provided that no Director who is materially interested in such transaction, together with any of his associates, shall vote upon such Ordinary Resolution in respect of any shares in the Company in which they are interested.
101. The Company may from time to time in general meeting by ordinary resolution increase or reduce the number of Directors but so that the number of Directors shall never be less than two. Power of general meeting to increase or reduce number of Directors.
- 101A. At each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three, then the number nearest to but not greater than one-third) shall retire from office. Any Director retiring at a meeting pursuant to this Article 101A shall retain office until the close or adjournment of the meeting. Retirement of Directors by rotation.
- 101B. Any Director who wishes to retire and not to offer himself for re-election shall be included for the purposes of determining the number of the Directors to retire at any annual general meeting pursuant to the preceding Article 101A. Any further Directors so to retire shall be those of the other Directors subject to retirement by rotation who have been longest in office since their last election or appointment and so that as between persons who became or were last elected Directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot. A retiring Director shall be eligible for election. Retiring Director.
- 101C. The Company at the annual general meeting at which a Director retires in accordance with these Articles may fill up the vacated office by electing a person thereto, and in default of such election by the Company, the retiring Director shall be deemed to have been re-elected and shall, if willing, continue in office until the next annual general meeting and so on from year to year until his place is filled, unless:- Retiring Directors to remain in office till successors appointed.
- (a) it is expressly resolved at such meeting not to fill up such vacated office; or
- (b) a resolution for the re-election of such Director shall have been put to the meeting and lost; or
- (c) such Director has given notice in writing to the Company that he is unwilling to be re-elected.
102. No person, other than a retiring Director, shall, unless recommended by the Directors for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been given to the Company in each case, during the period (being a period of at least seven days) commencing on the day after despatch of the notice of general meeting at which elections to the office of Director are to be considered and ending on the day that falls seven days before the date of the general meeting (both days inclusive). Notices to be given when person proposed for election.
103. The Company shall keep at its office a register containing all such particulars of its Directors as are required by the Ordinance to be kept therein and shall send to the Registrar of Companies a copy of such register and shall from time to time notify to the Registrar any change that takes place in such Directors or their particulars as required by the Ordinance. Register of Directors and notification of changes to Registrar.
104. The Company may by ordinary resolution remove any Director (including a Managing or other Executive Director) before the expiration of his period of office notwithstanding anything in these Articles or in any agreement between the Company and such Director (but without prejudice to any claim which such Power to remove Director by ordinary resolution.

Director may have for damages for any breach of any contract of service between him and the Company) and may elect another person in his stead. Any person so elected shall hold office for such time only as the Director in whose place he is elected would have held the same if he had not been removed. Special notice, in accordance with the Companies Ordinance, shall be required in relation to any meeting at which such an ordinary resolution is to be considered.

105. The Board may by a resolution passed by three quarters of the total number of directors remove any Director prior to the expiration of his period of office notwithstanding anything in these Articles or any agreement between the Company and such Director (but without prejudice to any claim which such Director may have for damages for any breach of contract of service between him and the Company). The appointment of another Director in his stead shall be in accordance with Article 92.
- Power to remove Director by the Board.

BORROWING POWERS

106. The Board may from time to time at their discretion exercise all the powers of the Company to raise or borrow, or to secure the payment of, any sum or sums of money for the purposes of the Company and to mortgage or charge its undertaking, property and uncalled capital or any part thereof.
- Power to borrow.
107. The Board may raise or secure the payment or repayment of such sum or sums in such manner and upon such terms and conditions in all respects as it thinks fit and in particular, by the issue of debentures, debenture stock, bonds or other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.
- Conditions on which money may be borrowed.
108. Debentures, debenture stock, bonds and other securities may be made assignable free from any equities between the Company and the person to whom the same may be issued.
- Assignment.
109. Any debentures, debenture stock, bonds or other securities may be issued at a discount, premium or otherwise and with any special privileges as to redemption, surrender, drawings, allotment of shares, attending and voting at general meetings of the Company, appointment of Directors and otherwise.
- Special privileges.
110. The Board shall cause a proper register to be kept, in accordance with the provisions of the Companies Ordinance, of all mortgages and charges specifically affecting the property of the Company and shall duly comply with the requirements of the Companies Ordinance, in regard to the registration of mortgages and charges therein specified and otherwise.
- Register of charges to be kept.
111. Where any uncalled capital of the Company is charged, all persons taking any subsequent charge, therein shall take the same subject to such prior charge, and shall not be entitled, by notice to the members or otherwise, to obtain priority over such prior charge.
- Charge of uncalled capital.

EXECUTIVE CHAIRMAN ETC.

112. The Board may from time to time appoint any one or more of its body to the office of Executive Chairman or other Executive Director and/or such other office in the management of the Company as it may decide for such period and upon such terms as it thinks fit and upon such terms as to remuneration as it may decide in accordance with Article 98.
- Power to appoint Executive Chairman etc.
113. Every Director appointed to an office under Article 112 hereof shall, subject to the provisions of any contract between himself and the Company with regard to his employment in such office, be liable to be dismissed or removed therefrom by the Board.
- Removal of Executive Chairman, etc.
114. A Director appointed to an office under Article 112 thereof shall be subject to the same provisions as to resignation and removal as the other Directors of the Company, and he shall (subject to the provisions of any contract between him and the Company) ipso facto and immediately cease to hold such office if he ceases to hold the office of Director for any cause.
- Cessation of appointment.
115. The Board may from time to time entrust to and confer upon an Executive Chairman or Executive Director all or any of the powers of the Board that it may think fit. But the exercise of all powers by such Director shall be subject to such regulations and restrictions as the Board may from time to time make and impose, and the said powers may at any time be withdrawn, revoked or varied.
- Powers may be delegated.

POWER OF DIRECTORS

116. (a) Subject to any exercise by the Board of the powers conferred by Articles 115, 117, 118, 119, 125, 137 and 138 hereof, the management of the business of the Company shall be vested in the Board who, in addition to the powers and authorities by these Articles expressly conferred upon them, may exercise all such powers and do all such acts and things as may be exercised or done or approved by the Company and are not hereby or by the Ordinance expressly directed or required to be exercised or done by the Company in general meeting, but subject nevertheless to the provisions of the Ordinance and of these Articles and to any regulations from time to time made by the Company in general meeting not being inconsistent with such provisions or these Articles, provided that no regulation so made shall invalidate any prior act of the Board which would have been valid if such regulation had not been made.
- General powers of the Company vested in the Board.
- (b) Without prejudice to the general powers conferred by these Articles it is hereby expressly declared that the Board shall have the following powers:-
- (i) To give to any person the right or option of requiring at a future date that an allotment shall be made to him of any share at par or at such premium as may be agreed.
- (ii) To give any Directors, officers or servants of the Company an interest in any particular business or transaction or participation in the profits thereof or in the general profits of the Company either in addition to or in substitution for a salary or other remuneration.

MANAGERS

117. The Board may from time to time appoint a general manager, a manager or managers of the Company and may fix his or their remuneration either by way of salary or commission or by conferring the right to participation in the profits of the Company or by a combination of two or more of these modes and pay the working expenses of any of the staff of the general manager, manager or managers who may be employed by him or them upon the business of the Company.
- Appointment and remuneration of managers.
118. The appointment of such general manager, manager or managers may be for such period as the Board may decide, and the Board may confer upon him or them all or any of the powers of the Directors as it may think fit.
- Tenure of office and powers.
119. The Board may enter into such agreement or agreements with any such general manager, manager or managers upon such terms and conditions in all respects as the Board may in its absolute discretion think fit, including a power for such general manager, manager or managers to appoint an assistant manager or managers or other employees whatsoever under them for the purpose of carrying on the business of the Company.
- Terms and conditions of appointment.

CHAIRMAN

120. The Board may elect a Chairman and one or more Deputy Chairman for their meetings and determine the period of which the Chairman and any of the Deputy Chairmen are to hold office; but if at any meeting the Chairman is not present, or is unwilling so to act within five minutes after the time appointed for holding the same, the Deputy Chairman or any one of them (if more than one Deputy Chairman has been appointed), shall be the Chairman of that meeting; or if no such Chairman is elected and/or no Deputy Chairman is present or is willing so to act within five minutes after the time appointed for holding the same, the Directors present may choose one of their number to be Chairman for that meeting.
- Chairman.

PROCEEDINGS OF THE DIRECTORS

121. The Directors may meet together for the despatch of business, adjourn and otherwise regulate their meetings and proceedings as they think fit and may determine the quorum necessary for the transaction of business. Unless otherwise determined two Directors shall be a quorum, one of whom shall be the Executive Chairman unless the Executive Chairman gives written notice that he waives this requirement in relation to any meeting. For the purpose of this Article an alternate Director shall be counted in a quorum but notwithstanding that an alternate Director is an alternate for more than one Director he shall for quorum purposes count as only one Director. Any Director may participate in a meeting of the Board or of any such committee of the Board by means of a conference telephone or similar communication equipment by means of which all persons participating in the meeting are capable of hearing each other.
- Meetings of Directors, quorum, etc.

122. A Director may and, on request of a Director, the Secretary shall, at any time summon a meeting of the Board. Notice thereof shall be given to each Director either in writing or by telephone or by facsimile at the facsimile number from time to time notified to the Company by such Director or by telex or telegram at the address from time to time notified to the Company by such Director or by electronic mail at the electronic mail address from time to time notified to the Company by such Director or in such other manner as the Board may from time to time determine. Provided however that notice need not be given to any Director for the time being absent from Hong Kong. A Director may waive notice of any meeting and any such waiver may be prospective or retrospective.
123. Questions arising at any meeting of the Board shall be decided by a majority of votes, and in case of an equality of votes the Executive Chairman shall have a second or casting vote. Questions arising at any meeting of a committee of the Board shall be decided by a majority of votes and in case of an equality of votes the chairman of such meeting shall have a second or casting vote.
124. A meeting of the Board for the time being at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions by or under the Articles of the Company for the time being vested in or exercisable by the Board generally.
125. The Board may delegate any of their powers to committees consisting of such member or members of its body as the Board thinks fit, and it may, from time to time, revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to person or purposes, but every committee so formed shall in the exercise of the powers so delegated conform to any regulations that may from time to time be imposed upon it by the Board.
126. All acts done by any such committee in conformity with such regulations, and in fulfilment of the purposes for which it is appointed, but not otherwise, shall have the like force and effect, as if done by the Board, and the Board shall have power, with the consent of the Company in general meeting, to remunerate the members of any special committee, and charge such remuneration to the current expenses of the Company.
127. Unless otherwise determined by the Board, two Directors shall form a quorum for any meeting of a committee of the Board. A committee may elect a chairman of its meetings. If no such chairman is elected, or if at any meeting the chairman is not present within five minutes after the time appointed for holding the same, the members present may choose one of their number to be chairman of the meeting. A committee may meet and adjourn as its members think proper.
128. All acts bona fide done by any meeting of the Board or by a committee of the Board, or by any person acting as a Director shall, notwithstanding that it shall be afterwards discovered that there was some defect in the appointment of any such Director or person acting as aforesaid or that he had by virtue of Article 99(a) ceased to be a Director, be as valid as if every such person had been duly appointed and had not ceased to be a Director.
129. The continuing Directors may act notwithstanding any vacancy in their body, but, if and so long as their number is reduced below the minimum number fixed by or pursuant to these Articles, the continuing Directors or Director may act for the purpose of increasing the number of Directors to that number, or of summoning a general meeting of the Company, but for no other purpose.
130. A resolution in writing signed by all the Directors in Hong Kong, except such as are temporarily unable to act through ill-health or disability and all the alternate Directors in Hong Kong whose appointors are absent from Hong Kong or are temporarily unable to act as aforesaid, shall (so long as they constitute a quorum as provided in Article 121) be as valid and effectual as if it had been passed at a meeting of the Board duly convened and held and may consist of several documents in like form each signed by one or more of the Directors or alternate Directors.
131. The Board may, at any time and from time to time, appoint any one of their number or any former Director of the Company who, in their opinion, has rendered outstanding services to the Company, or any other person to be President of the Company for life or any other period. The President shall not, by virtue of his office, be deemed a Director or be entitled to any remuneration. Nevertheless where he is not a Director he may, by invitation of the Board, attend meetings of the Board for the purpose of giving advice and the Board may remunerate him in respect of advice and assistance from time to time given by him.
- Convening of Board meeting.
- How questions to be decided.
- Powers of meeting.
- Power to appoint committee and to delegate.
- Acts of committee to be of same effect as acts of the Board.
- Proceedings of committee.
- When acts of Directors or committee to be valid notwithstanding defects.
- Directors' powers when vacancies exist.
- Directors' resolutions in writing.
- President.

PRESIDENT

SECRETARY

132. The Secretary shall be appointed by the Board for such term, at such remuneration and upon such conditions as it may think fit, and any Secretary so appointed may be removed by the Board. Anything by the Ordinance or these Articles required or authorised to be done by or to the Secretary, if the office is vacant or there is for any other reason no Secretary capable of acting, may be done by or to any assistant or deputy Secretary, or if there is no assistant or deputy Secretary capable of acting, by or to any officer of the Company authorised generally or specially on that behalf by the Board. Appointment of Secretary.
133. The Secretary shall be an individual, ordinarily resident in Hong Kong. Residence.
134. A provision of the Ordinance or of these Articles requiring or authorising a thing to be done by or to a Director and the Secretary shall not be satisfied by its being done by or to the same person acting both as Director and as or in place of the Secretary. Same person not to act in two capacities at once.

MANAGEMENT - MISCELLANEOUS

135. (a) The Board shall provide for the safe custody of the seal which shall only be used by the authority of the Board or of a committee of the Board authorised by the Board in that behalf, and every instrument to which the seal shall be affixed shall be signed by a Director and shall be countersigned by the Secretary or by a second Director or by some other person appointed by the Board for the purpose. Provided that the Board may either generally or in any particular case or cases resolve (subject to such restrictions as to the manner in which the seal may be affixed as the Board may determine) that such signatures or any of them may be affixed to certificates for shares or debentures or representing any other form of security by some mechanical means other than autographic to be specified in such resolution or that such certificates need not be signed by any person. Every instrument executed in manner provided by this Article shall be deemed to be sealed and executed with the authority of the Board previously given. Seal.
- (b) The Company may have an official seal for use for sealing certificates for shares or other securities issued by the Company as permitted by Section 73A of the Ordinance (and no signature of any Director, officer or other person and no mechanical reproduction thereof shall be required on any such certificates or other document and any such certificates or other document to which such official seal is affixed shall be valid and deemed to have sealed and executed with the authority of the Board notwithstanding the absence of any such signature or mechanical reproduction as aforesaid) and an official seal for use abroad under the provisions of the Companies Ordinance where and as the Board shall determine, and the Company may by writing under the seal appoint any agents or agent, committees or committee abroad to be the duly authorised agents of the Company for the purpose of affixing and using such official seal and they may impose such restrictions on the use thereof as may be thought fit. Wherever in these Articles reference is made to the seal, the reference shall, when and so far as may be applicable, be deemed to include any such official seal as aforesaid. Official seal.
136. All cheques, promissory notes, drafts, bills of exchange and other negotiable instruments, and all receipts for moneys paid to the Company shall be signed, drawn, accepted, endorsed or otherwise executed as the case may be, in such manner as the Board shall from time to time by resolution determine. The Company's banking account shall be kept with such banker or bankers as the Board shall from time to time determine. Cheques and banking arrangements.
137. (a) The Board may from time to time, and at any time, by power of attorney under the common seal, appoint any company, firm or person, or any fluctuating body of persons, whether nominated directly or indirectly by the Board to be the attorney or attorneys of the Company for such purposes and with such powers, authorities and discretions (not exceeding those vested in or exercisable by the Board under these Articles) and for such period and subject to such conditions as it may think fit, and any such power of attorney may contain such provisions for the protection and convenience of persons dealing with any such attorney as the Board may think fit, and may also authorise any such attorney to sub-delegate all or any of the powers authorities and discretions vested in him. Power to appoint attorney.
- (b) The Company may, by writing under its common seal, empower any person, either generally or in respect of any specified matter, as its attorney, to execute deeds and instruments on its behalf and to enter into contracts and sign the same on its behalf in any place not situate within Hong Kong, and every deed signed by such attorney on behalf of the Company and under his seal shall bind the Company and have the same effect as if it were under the common seal of the Company. Execution of deeds by attorney.

138. The Board may establish any committees, local boards or agencies for managing any of the affairs of the Company, either in Hong Kong or elsewhere, and may appoint any persons to be members of such committees, local boards or agencies and may fix their remuneration, any may delegate to any committee, local board, or agent any of the powers, authorities and discretions vested in the Board (other than its powers to make calls and forfeit shares), with power to sub-delegate, and may authorise the members of any local board, or any of them, to fill any vacancies therein, and to act notwithstanding vacancies, and any such appointment or delegation may be upon such terms and subject to such conditions as the Board may think fit, and the Board may remove any person so appointed, and may annul or vary any such delegation, but no person dealing in good faith and without notice of any such annulment or variation shall be affected thereby. Local boards.
139. The Board may establish and maintain or procure the establishment and maintenance of any contributory or non-contributory pension or superannuation funds for the benefit of, or give or procure the giving of donations, gratuities, pensions, allowances or emoluments to any persons who are or were at any time in the employment or service of the Company, or of any company which is a subsidiary of the Company, or is allied or associated with the Company or with any such subsidiary company, or who are or were at any time directors or officers of the Company or of any such other company as aforesaid, and who hold or who have held any salaried employment or office in the Company or such other company, and the wives, widows, families and dependants of any such persons. The Board may also establish and subsidise to any institutions, associations, clubs or funds calculated to be for the benefit of or to advance the interests and well-being of the Company or of any such other company as aforesaid or of any such persons as aforesaid, and may make payments for or towards the insurance of any such persons as aforesaid, and subscribe or guarantee money for charitable or benevolent objects or for any exhibition or for any public, general or useful object. The board may do any of the matters aforesaid, either alone or in conjunction with any such other company as aforesaid. Any Director holding any such employment or office shall be entitled to participate in and retain for his own benefit any such donation, gratuity, pension, allowance or emolument. Pension funds, donations, etc.

CAPITALISATION OF RESERVES

140. (a) The Company in general meeting may upon the recommendation of the Directors resolve that it is desirable to capitalise any part of the amount for the time being standing to the credit of any of the Company's reserve accounts or to the credit of the profit and loss account or otherwise available for distribution (and not required for the payment or provision of the dividend on any shares with a preferential right to dividend) and accordingly that such sums be set free for distribution amongst the members holding ordinary shares in proportion to the number of ordinary shares (whether or not fully paid) held by them respectively on condition that the same be not paid in cash but be applied either in or towards paying up any amounts for the time being unpaid on any shares held by such members respectively or paying up in full unissued shares or debentures of the Company to be allotted and distributed credited as fully paid up to and amongst such members in the proportions aforesaid, or partly in the one way and partly in the other, and the Board shall give effect to such resolution, provided that a share premium account and a capital redemption reserve fund may, for the purposes of this Article, only be applied in the paying up of unissued shares to be issued to members of the Company as fully paid up shares. Power to capitalise.
- (b) Whenever such a resolution as aforesaid shall have been passed the Board shall make all appropriations and applications of the undivided profits resolved to be capitalised thereby, and all allotments and issues of fully paid up shares or debentures, if any, and generally shall do all acts and things required to give effect thereto, with full power to the Board to make such provision by the issue of fractional certificates or by payment in cash or otherwise (including provision for the benefit of fractional entitlements to accrue to the Company rather than to the members concerned) as they think fit for the case of shares or debentures becoming distributable in fractions, and also to authorise any person to enter on behalf of all members entitled thereto into an agreement with the Company providing for the allotment to them respectively, credited as fully paid up, of any further shares or debentures to which they may be entitled upon such capitalisation, or, as the case may require, for the payment up by the Company on their behalf, by the application thereto of their respective proportions of the profits resolved to be capitalised, of the amounts or any part of the amounts remaining unpaid on their existing shares, and any agreement made under such authority shall be effective and binding on all such members. Effect of resolution capitalise.

SUBSCRIPTION RIGHTS RESERVE

141. (a) If, so long as any of the rights attached to any warrants issued by the Company to subscribe for Subscription Rights Reserve.

shares of the Company shall remain exercisable, the Company does any act or engages in any transaction which, as a result of any adjustments to the subscription price in accordance with the provisions of the conditions of the warrants, would reduce the subscription price to below the par value of a share then the following provisions shall apply:-

- (i) as from the date of such act or transaction the Company shall establish and thereafter (subject as provided in this Article) maintain in accordance with the provisions of this Article a reserve (the "Subscription Rights Reserve") the amount of which shall at no time be less than the sum which for the time being would be required to be capitalised and applied in paying up in full the nominal amount of the additional shares required to be issued and allotted credited as fully paid pursuant to sub-paragraph (iii) of this paragraph (a) on the exercise in full of all the subscription rights outstanding and shall apply the Subscription Rights Reserve in paying up such additional shares in full as and when the same are allotted;
 - (ii) the Subscription Rights Reserve will not be used for any purpose other than that specified above until all other reserves of the Company (other than share premium account and capital redemption reserve fund) have been used and will then only be used to make good losses of the Company if and so far as is required by law;
 - (iii) upon the exercise of all or any of the subscription rights represented by any warrant, the relevant subscription rights shall be exercisable in respect of a nominal amount of shares equal to the amount in cash which the holder of such warrant is required to pay on exercise of the subscription rights represented thereby (or as the case may be, the relevant portion thereof in the event of a partial exercise of the subscription rights) and, in addition, there shall be allotted in respect of such subscription rights to the exercising warrant holder credited as fully paid such additional nominal amount of shares as is equal to the difference between:-
 - (aa) the said amount in cash which the holder of such warrant is required to pay on exercise of the subscription rights represented thereby (or, as the case may be, the relevant portion thereof in the event of a partial exercise of the subscription rights) and
 - (bb) the nominal amount of shares in respect of which such subscription rights would have been exercisable having regard to the provisions of the conditions of the warrants, had it been possible for such subscription rights to represent the right to subscribe for shares at less than par;and immediately upon such exercise so much of the sum standing to the credit of the Subscription Rights Reserve as is required to pay up in full such additional nominal amount of shares shall be capitalised and applied in paying up in full such additional nominal amount of shares which shall forthwith be allotted and credited as fully paid to the exercising warrant holders;
 - (iv) if upon the exercise of the subscription rights represented by any warrant the amount standing to the credit of the Subscription Rights Reserve is not sufficient to pay up in full such additional nominal amount of shares equal to such difference as aforesaid to which exercising warrant holder is entitled, the Board shall apply any profits or reserve then or thereafter becoming available (including to the extent permitted by law, share premium account and capital redemption reserve fund) for such purpose until such additional nominal amount of shares is paid up and allotted as aforesaid and until such time no dividend or other distributions shall be paid or made on the shares. Pending such payment up and allotment the exercising warrant holder shall be issued by the Company with a certificate evidencing his right to the allotment of such additional nominal amount of shares. The rights represented by any such certificate shall be in registered form and shall be transferable in whole or in part in units of one share in the like manner as the shares for the time being transferable, and the Company shall make such arrangements in relation to the maintenance of a register therefor and other matters in relation thereto as the Board may think fit and adequate particulars thereof shall be made known to each relevant exercising warrant holder upon the issue of such certificate.
- (b) Shares allotted pursuant to the provisions of this Article shall rank pari passu in all respects with the other shares allotted on the relevant exercise of the subscription rights represented by the warrant concerned.

- (c) Notwithstanding anything contained in paragraph (a) of this Article no fraction of a share shall be allotted on exercise of the subscription rights.
- (d) The provisions of this Article as to the establishment and maintenance of the Subscription Rights Reserve shall not be altered or added to in any way which would vary or abrogate, or which would have the effect of varying or abrogating, the provisions for the benefit of any warrant holder or class of warrant holders under this Article without the sanction of a special resolution of such warrant holders or class of warrant holders.
- (e) A certificate or report by the Auditors as to whether or not the Subscription Rights Reserve is required to be established and maintained, as to the purposes for which the Subscription Rights Reserve has been used, as to the extent to which it has been used to make good losses of the Company, as to the additional nominal amount of shares required to be allotted to an exercising warrant holder credited as fully paid and as to any other matter concerning the Subscription Rights Reserve shall (in the absence of manifest error) be conclusive and binding upon the Company and all warrant holders and shareholders.

DIVIDENDS AND RESERVES

- 142. The Company in general meeting may declare dividends in any currency, but no dividends shall exceed the amount recommended by the Board. Power to declare dividends.

- 143. (a) The Board may from time to time pay to the members such interim dividends as appear to the Board to be justified by the profits of the Company, and in particular (but without prejudice to the generality of the foregoing) if at any time the share capital of the Company is divided into different classes, the Board may pay such interim dividends in respect of those shares in the capital of the Company which confer on the holders thereof deferred or non-preferential rights as well as in respect of those shares which confer on the holders thereof preferential rights with regard to dividend and provided that the Board acts bona fide the Board shall not incur any responsibility to the holders of shares conferring any preference for any damage that they may suffer by reason of the payment of an interim dividend on any shares having deferred or non-preferential rights. Board's power to pay interim dividends.
- (b) The Board may also pay half-yearly or at other suitable intervals to be settled by it any dividend which may be payable at a fixed rate if the Board is of the opinion that the profits justify the payment.

- 144. (a) No dividend shall be payable except out of the profits of the Company. No dividend shall carry interest. Provisions as to dividends.
- (b) For so long as any share issued under any share incentive scheme for employees remains subject to restrictions on dividends, voting and transfer imposed thereby, but without prejudice to the entitlement of the holder of such share to participate in any distribution on capitalization of reserves under Article 140, no dividend whether payable in cash or in specie or by way of allotment of fully paid shares under Article 146 hereof shall be declared or paid on such share.

- 145. Whenever the Board or the Company in general meeting have resolved that a dividend be paid or declared, the Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind and in particular of paid up shares, debentures or warrants to subscribe securities of the Company or any other company, or in any one or more of such ways, and where any difficulty arises in regard to the distribution the Board may settle the same as it thinks expedient, and in particular may issue fractional certificates, disregard fractional entitlements or round the same up or down, and may fix the value for distribution of such specific assets, or any part thereof, and may determine that cash payment shall be made to any members upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest and such specific assets in trustees as may seem expedient to the Board and may appoint any person to sign any requisite instruments of transfer and other documents on behalf of the persons entitled to the dividend, and such appointment shall be effective. Where requisite, a contract shall be filed in accordance with the provisions of the Ordinance, and the Board may appoint any person to sign such contract on behalf of the persons entitled to the dividend, and such appointment shall be effective. Dividend in specie.

- 146. (a) Whenever the Board or the Company in general meeting have resolved that a dividend be paid or declared on the share capital of the Company, the Board may further resolve:- Scrip dividends.

- (i) That such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment. In such case, the following provisions shall apply:-
 - (aa) the basis of any such allotment shall be determined by the Board;
 - (bb) the Board, after determining the basis of allotment, shall give not less than two weeks' notice in writing to the holders of the relevant shares of the right of election accorded to them and shall send with such notice forms of election and specify the procedure to be followed and the place at which and the latest date and time by which duly completed forms of election must be lodged in order to be effective;
 - (cc) the right of election may be exercised in whole or in part;
 - (dd) the dividend (or that part of the dividend to be satisfied by the allotment of shares as aforesaid) shall not be payable in cash on shares in respect whereof the cash election has not been duly exercised ("the non-elected shares") and in satisfaction thereof shares shall be allotted credited as fully paid to the holders of the non-elected shares on the basis of allotment determined as aforesaid and for such purpose the Board shall capitalise and apply out of any part of the undivided profits of the Company (including profits carried and standing to the credit of any reserve or reserves or other special account other than the Subscription Rights Reserve or Conversion Rights Reserve or Capital Redemption Reserve Fund (if there be any such Reserves)) as the Board may determine, such sum as may be required to pay up in full the appropriate number of shares for allotment and distribution to and amongst the holders of the non-elected shares on such basis; or
- (ii) That the shareholders entitled to such dividend be entitled to elect to receive an allotment of shares credited as fully paid in lieu of the whole or such part of the dividend as the Board may think fit. In such case, the following provisions shall apply:-
 - (aa) the basis of any such allotment shall be determined by the Board;
 - (bb) the Board, after determining the basis of allotment, shall give not less than two weeks' notice in writing to the holders of the relevant shares of the right of election accorded to them and shall send with such notice forms of election and specify the procedure to be followed and the place at which and the latest date and time by which duly completed forms of election must be lodged in order to be effective;
 - (cc) the right of election may be exercised in whole or in part;
 - (dd) the dividend (or that part of the dividend in respect of which a right of election has been accorded) shall not be payable in cash on shares in respect whereof the share election has been duly exercised ("the elected shares") and in lieu thereof shares shall be allotted credited as fully paid to the holders of the elected shares on the basis of allotment determined as aforesaid and for such purpose the Board shall capitalise and apply out of any part of the undivided profits of the Company (including profits carried and standing to the credit of any reserve or reserves or other special account other than the Subscription Rights Reserve or Conversion Rights Reserve or Capital Redemption Reserve Fund (if there be any such Reserves)) as the Board may determine, such sum as may be required to pay up in full the appropriate number of shares for allotment and distribution to and amongst the holders of the elected shares on such basis.
- (b) (i) The shares allotted pursuant to the provisions of paragraph (a) shall rank pari passu in all respects with the shares of the same class (if any) then in issue save only as regards participation in the relevant dividend.
- (ii) The Directors may do all acts and things considered necessary or expedient to give effect to any capitalisation pursuant to the provisions of paragraph (a), with full power to the Board to make such provisions as they think fit in the case of shares becoming distributable in fractions (including provisions whereby, in whole or in part, fractional entitlements are aggregated or rounded up or down or whereby the benefit of fractional entitlements accrues to the Company

rather than to the members concerned). The Board may authorise any person to enter into, on behalf of all members interested, an agreement with the Company providing for such capitalisation and matters incidental thereto and any agreement made pursuant to such authority shall be effective and binding on all concerned.

- (c) The Company may upon the recommendation of the Board by special resolution resolve in respect of any particular dividend of the Company that notwithstanding the provisions of paragraph (a) of this Article a dividend may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.
- (d) The Board may on any occasion determine that an allotment of shares under paragraph (a)(i) of this Article or a right of election to receive an allotment of shares under paragraph (a)(i) of this Article shall not be made or made available to any shareholders with registered addresses in any territory where in the absence of a registration statement or other special formalities the allotment of shares or the circulation of an offer of such right of election would or might be unlawful, and in such event the provisions aforesaid shall be read and construed subject to such determination.
147. The Board may, before recommending any dividend, set aside out of the profits of the Company such sums as it thinks fit as a reserve or reserves which shall, at the discretion of the Board, be applicable for meeting claims on or liabilities of the Company or contingencies or for paying off any loan capital or for equalising dividends or for any other purpose to which the profits of the Company may be properly applied, and pending such application may, at the like discretion, either be employed in the business of the Company or be invested in such investments (other than shares of the Company) as the Board may from time to time think fit, and so that it shall not be necessary to keep any investments constituting the reserve or reserves separate or distinct from any other investments of the Company. The Board may also without placing the same to reserve carry forward and profits which it may think prudent not to divide. Reserves.
148. Subject to the rights of persons, if any, entitled to shares with special rights as to dividend, all dividends shall be declared and paid according to the amounts paid or credited as paid up on the shares in respect whereof the dividend is paid, but no amount paid up or credited as paid up on a share in advance of calls shall be treated for the purposes of this Article as paid up on the share. All dividends shall be apportioned and paid proportionately to the amounts paid or credited as paid up on the shares during any portion or portions of the period in respect of which the dividend is paid; but if any share is issued on terms providing that it shall rank for dividend as from a particular date such shares shall rank for dividend accordingly. Dividends to be paid in proportion to paid up capital.
149. (a) The Board may retain any dividends or other moneys payable on or in respect of a share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. Retention of dividends, etc.
- (b) The Board may deduct from any dividend or bonus payable to any member all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise in relation to the shares of the Company. Deduction of debts.
150. Any general meeting sanctioning a dividend may make a call on the members of such amount as the meeting fixes, but so that the call on each member shall not exceed the dividend payable to him, and so that the call be made payable at the same time as the dividend, and the dividend may, if so arranged between the Company and the member, be set off against the call. Dividend and call together.
151. A transfer of shares shall not pass the right to any dividend or bonus declared thereon before the registration of the transfer. Effect of transfer.
152. If two or more persons are registered as joint holders of any share, any one of such persons may give effectual receipts for any dividends, interim dividends or bonuses and other moneys payable in respect of such shares. Receipts of dividends on shares held joint holders.
153. Unless otherwise directed by the Board, any dividend or bonus may be paid by cheque or warrant sent through the post to the registered address of the member entitled, or, in case of joint holders, to the registered address of that one whose name stands first in the register in respect of the joint holding or to such person and to such address as the holder or joint holders may in writing direct. Every cheque or warrant so sent shall be sent at the risk of the holder or joint holder, as the case may be, and made payable to the order of the person to whom it is sent, and the payment of any such cheque or warrant shall operate Payment by post.

as a good discharge to the Company in respect of the dividend and/or bonus represented thereby, notwithstanding that it may subsequently appear that the same has been stolen, or that any endorsement thereon has been forged.

154. All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the Board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof for any profit or benefit derived therefrom. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the Board and shall revert to the Company. Unclaimed dividends.
155. Any resolution declaring a dividend on shares of any class, whether a resolution of the Company in general meeting or a resolution of the Board, may specify that the same shall be payable or distributable to the persons registered as the holders of such shares on a particular date or at a point of time on a particular date, notwithstanding that it may be a date prior to that on which the resolution is passed, and thereupon the dividend shall be payable or distributable to them in accordance with their respective holdings so registered, but without prejudice to the rights inter se in respect of such dividend of transferors and transferees of any such shares. The provisions of this Article shall mutatis mutandis apply to bonuses, capitalisation issue, distributions of realised capital profits or offers or grants made by the Company to the members. Record dates.
156. Without prejudice to the rights of the Company under Article 154, the Company may cease sending such cheques for dividend entitlements or dividend warrants by post if such cheques or warrants have been left uncashed on two consecutive occasions. However, the Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants after the first occasion on which such a cheque for dividend entitlements or dividend warrants is returned delivered. Company may cease sending dividend warrants.
157. The Company shall have the power to sell, in such manner as the Board may think fit, any shares of a member who is untraceable, but no such sale shall be made unless:- Company may sell shares of untraceable members.
- (i) all cheques or warrants, being not less than three in total number, for any sum payable in cash to the holder of such shares in respect of them sent during the relevant period in the manner authorised by the Articles of the Company have remained uncashed;
 - (ii) so far as it is aware at the end of the relevant period, the Company has not at any time during the relevant period received any indication of the existence of the member who is the holder of such shares or of a person entitled to such shares by death, bankruptcy or operation of law; and
 - (iii) the Company has caused an advertisement to be inserted in English in an English language newspaper and in Chinese in a Chinese language newspaper giving notice of its intention to sell such shares and has notified The Stock Exchange of Hong Kong Limited of such intention and a period of three months has elapsed since the date of such advertisement.

For the purpose of the foregoing, "relevant period" means the period commencing twelve years before the date of publication of the advertisement referred to in paragraph (iii) of this Article and ending at the expiry of the period referred to in that paragraph.

To give effect to any such sale the Board may authorise any person to transfer the said shares and instrument of transfer signed or otherwise executed by or on behalf of such person shall be as effective as if it had been executed by the registered holder or the person entitled by transmission to such shares, and the purchaser shall not be bound to see to the application of the purchase money nor shall his title to the shares be affected by any irregularity or invalidity in the proceedings relating to the sale. The net proceeds of the sale will belong to the Company and upon receipt by the Company of such net proceeds it shall become indebted to the former member for an amount equal to such net proceeds. No trust shall be created in respect of such debt and no interest shall be payable in respect of it and the Company shall not be required to account for any money earned from the net proceeds which may be employed in the business of the Company or as it thinks fit. Any sale under this Article shall be valid and effective notwithstanding that the member holding the shares sold is dead, bankrupt or otherwise under any legal disability or incapacity.

ACCOUNTS

158. The Board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, Accounts to be kept.

assets, credits and liabilities of the Company and of all other matters required by the Ordinance or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

159. The books of accounts shall be kept at the registered office or at such other place or places as the Board thinks fit and shall always be open to the inspection of the Directors. Where accounts to be kept.
160. The Board shall from time to time determine whether and to what extent, at what times and places and under what conditions or regulations, the accounts and books of the Company, or any of them, shall be open to the inspection of the members not being Directors, and no member (not being a Director) shall have any right of inspecting any account or book or document of the Company, except as conferred by the Ordinance or authorised by the Directors or by the Company in general meeting. Inspection by members.
161. (a) The Board shall from time to time in accordance with the provisions of the Ordinance cause to be prepared and to be laid before the members of the Company at every annual general meeting, the Annual Report and/or the summary financial report which complies with Section 141CF(1) of the Companies Ordinance and such other reports and accounts as may be required by law. Annual Report and/or summary financial report.
- (b) Every Annual Report shall be signed pursuant to the provisions of the Ordinance and copies of those documents (including but not limited to the Annual Report and/or the summary financial report) which are to be laid before the members of the Company at an annual general meeting shall not less than 21 days before the date of the annual general meeting be made available in printed form and/or using electronic means whether in the English language only, in the Chinese language only or in both the English language and the Chinese language and at the same time as the notice of an annual general meeting to every member of the Company, every holder of debentures of the Company, every person registered under Article 45 and every other person entitled to receive notices of general meetings of the Company in compliance with the Listing Rules and any applicable law, rules or regulations, provided that the Company shall not be required to make available those documents to any person of whose address the Company is not aware or to more than one of the joint holders of any shares or debentures whether in printed form or by electronic means. In the case of those documents being made available in printed form, such documents will be sent by post to the registered addresses of those entitled to receive them as set out above. Annual Report and/or summary financial report to be sent to members.
- (c) Where a member, in accordance with the Listing Rules and any applicable law, rules or regulations has consented to treat the publication of the Annual Report or the summary financial report as set out in Article 161(a) using electronic means or has consented to receiving the summary financial report instead of the Annual Report, as discharging the Company's obligation under the Listing Rules and any applicable law, rules or regulations to send a copy of such relevant financial documents, then publication by the Company, in accordance with the Listing Rules and any applicable law, rules or regulations, using electronic means of such relevant financial documents and/or receipt by such member of the summary financial report at least 21 days before the date of the relevant general meeting, shall, in relation to each such member, be deemed to discharge the Company's obligations under Article 161(a) provided that any person who is otherwise entitled to such financial documents of the Company may, if he so requires, by notice in writing served on the Company, demand that the Company sends to him, a complete printed copy of the Annual Report or the summary financial report not previously requested by him.
- AUDITORS
162. Auditors shall be appointed and their duties regulated in accordance with the provisions of the Companies Ordinance. Auditors.
163. Subject as otherwise provided by the Ordinance, the remuneration of the Auditors shall be fixed by the Company in general meeting. Remuneration of Auditors.
164. Every statement of accounts, audited by the Company's Auditors and presented by the Board at an annual general meeting, shall after approval at such meeting, be conclusive except as regards any error discovered therein within three months of the approval thereof. Whenever any such error is discovered within that period, it shall forthwith be corrected, and the statement of accounts amended in respect of the error shall be conclusive. When accounts to be deemed finally settled.

NOTICES

165. Any notice or document or any Corporate Communication to be given or issued under these Articles shall be in writing, and may be served by the Company and/or by the Board on any member either personally or by sending it through the post in a prepaid letter, envelope or wrapper addressed to such member at his registered address as appearing in the register or (in the case of notice) by advertisement published in both an English language newspaper in English and a Chinese language newspaper in Chinese or by any electronic means in compliance with these Articles and the Listing Rules and any applicable law, rules or regulations provided that the Company has obtained the member's prior express positive confirmation in writing to receive or otherwise have made available to him notices and documents to be given or issued to him by the Company by such electronic means. In the case of joint holders of a share, all notices shall be given to that holder for the time being whose name stands first in the register and notice so given shall be sufficient notice to all the joint holders.
166. A member shall be entitled to have notice served on him at any address within Hong Kong or by any electronic means in compliance with these Articles, legislation and the Listing Rules and any applicable law, rules or regulations. Any member whose registered address is outside Hong Kong may notify the Company in writing of an address in Hong Kong which for the purpose of service of notice shall be deemed to be his registered address. A member who does not notify the Company of an address in Hong Kong may notify the Company of an address outside Hong Kong and the Company may serve notices on him at such overseas address. In the absence of notification by a member of an address in Hong Kong or overseas for the purpose of service of notice, such member shall be deemed to have received any notice which shall have been displayed at the registered office of the Company and shall have remained there for the space of twenty-four hours and such notice shall be deemed to have been received by such member on the day following that on which it shall have been first so displayed.
167. Any notice sent by post shall be deemed to have been served on the day following that on which the envelope or wrapper containing the same is put into a post office situated within Hong Kong and in proving such service it shall be sufficient to prove that the envelope or wrapper containing the notice was properly prepaid (and in the case of an address outside Hong Kong where airmail service can be extended thereto airmail postage prepaid), addressed and put into such post office and a certificate in writing signed by the Secretary or other person appointed by the Board that the envelope or wrapper containing the notice was so addressed and put into such post office shall be conclusive evidence thereof. Any notice or document or Corporate Communication sent by electronic mail shall be deemed to have been served at the time when such notice or document or Corporate Communication is transmitted provided no notification is received by the Company that such notice or document has not reached its recipient. Any notice or document or Corporate Communication which the Company has made available to any member by publication on its own website or computer network or the website of The Stock Exchange of Hong Kong Limited shall be deemed to have been served on the day on which such publication is made.
168. A notice or document or Corporate Communication may be given by the Company to the person or persons entitled to a share in consequence of the death, mental disorder or bankruptcy of a member in the manner set out in Article 165 in which the same might have been given if the death, mental disorder or bankruptcy had not occurred.
169. Any person who by operation of law, transfer or other means whatsoever shall become entitled to any share shall be bound by every notice in respect of such share which previously to his name and address being entered on the register shall be duly given to the person from whom he derives his title to such share.
170. Any notice or document or Corporate Communication delivered or sent by post or left at the registered address of any member or made available by electronic means in compliance with these Articles, legislation and the Listing Rules and any applicable law, rules or regulations, shall notwithstanding that such member be then deceased and whether or not the Company has notice of his death be deemed to have been duly served in respect of any registered shares whether held solely or jointly with other persons by such member until some other person be registered in his stead as the holder or joint holder thereof, and such service shall for all purposes of these presents be deemed a sufficient service of such notice or document on his personal representatives and all persons (if any) jointly interested with him in any such shares.
171. (a) The signature to any notice to be given by the Company may be written or printed by means of facsimile or where relevant, by Electronic Signature.
- Service of notices.
- Members out of Hong Kong.
- When notice by post or electronic means deemed to be served.
- Services of notice to persons entitled on death, mental disorder or bankruptcy of a member.
- Transferee to be bound by prior notices.
- Notice valid though Member deceased.
- How notice to be signed.

- (b) Subject to the Listing Rules and any applicable laws, rules and regulations, any notice or document, including but not limited to the documents referred to in Article 161 and any Corporate Communication, may be given in the English language only, in the Chinese language only or in both the English language and the Chinese language provided that the Company has obtained the relevant member's prior express positive confirmation in writing to receive or otherwise have made available to him such notices or documents in either the English language only or the Chinese language only or in both the English language and the Chinese language and provided further that such member may, if he so requires, by notice in writing served on the Company, demand at any time that the Company sends or makes available to him any notice or document or Corporate Communication in the language not previously provided to him.

INFORMATION

172. No member (not being a Director) shall be entitled to require discovery of or any information respecting any detail of the Company's trading or any matter which is or may be in the nature of a trade secret, mystery of trade or secret process which may relate to the conduct of the business of the Company and which in the opinion of the Board it will be inexpedient in the interests of the members of the Company to communicate to the public.
- Member not entitled to secret information.

DOCUMENTS

173. (a) Any Director or the Secretary or any person appointed by the Board for the purpose shall have power to authenticate any documents affecting the constitution of the Company and any resolutions passed by the Company or the Board or any committee of the Board and any books, records, documents and accounts, relating to the business of the Company, and to certify copies thereof or extracts therefrom as true copies or extracts; and, where any books, records, documents and accounts are elsewhere than at the registered office, the local manager or other officer of the Company having the custody thereof shall be deemed to be a person appointed by the Board as aforesaid. A document purporting to be a copy of a resolution, or an extract from the minutes of a meeting, of the Company or of the Board or any committee of the Board which is certified as aforesaid shall be conclusive evidence in favour of all persons dealing with the Company upon the faith thereof that such resolution has been duly passed or, as the case may be, that such minutes or extract is a true and accurate record of proceedings at a duly constituted meeting.
- Authentication of documents.
- (b) (i) The Company shall be entitled to destroy the following documents at the following times:-
- Destruction of documents.
- (aa) registered instruments of transfer: at any time after the expiration of seven years from the date of registration thereof;
- (bb) allotment letters: at any time after the expiration of seven years from the date of issue thereof;
- (cc) copies of powers of attorney, grants of probate and letters of administration: at any time after the expiration of two years after the account to which the relevant power of attorney, grant of probate or letters of administration related has been closed;
- (dd) dividend mandates and notifications of change of address: at any time after the expiration of two years from the date of recording thereof; and
- (ee) cancelled share certificates: at any time after the expiration of one year from the date of the cancellation thereof.
- (ii) It shall conclusively be presumed in favour of the Company:-
- (aa) that every entry in the register purporting to be made on the basis of any such documents so destroyed was duly and properly made; and
- (bb) that every such document so destroyed was valid and effective and had been duly and properly registered, cancelled, or recorded in the books or records of the Company, as the case may be.
- (iii) (aa) The provisions aforesaid shall apply only to the destruction of a document in good faith

and without notice of any claim (regardless of the parties thereto) to which the document might be relevant;

(bb) Nothing herein contained shall be construed as imposing upon the Company any liability in respect of the destruction of any such document earlier than as aforesaid or in any other circumstances which would not attach to the Company in the absence of this Article; and

(cc) References herein to the destruction of any document include references to the disposal thereof in any manner.

WINDING UP

174. If the Company shall be wound up (whether the liquidation is voluntary, under supervision or by the court) the liquidator may with the authority of a special resolution, divide among the members in specie or kind the whole or any part of the assets of the Company and whether or not the assets shall consist of property of one kind or shall consist of properties of different kinds, and may for such purpose set such value as he deems fair upon any one or more class or classes of property and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator with the like authority shall think fit, and liquidation of the Company may be closed and the Company dissolved, but so that no contributory shall be compelled to accept any shares or other assets in respect of which there is a liability.

Division of assets in liquidation.

175. In the event of a winding-up of the Company in Hong Kong, every member of the Company who is not for the time being in Hong Kong shall be bound, within fourteen days after the passing of an effective resolution to wind up the Company voluntarily, or the making of an order for the winding-up of the Company, to serve notice in writing on the Company appointing some person resident in Hong Kong and stating that person's full name, address and occupation upon whom all summonses, notices, process, orders and judgments in relation to or under the winding-up of the Company may be served, and in default of such nomination the liquidator of the Company shall be at liberty on behalf of such member to appoint some such person, and service upon any such appointee, whether appointed by the member or the liquidator, shall be deemed to be good personal service on such member for all purposes, and where the liquidator makes any such appointment, he shall with all convenient speed give notice thereof to such member by advertisement in an English language newspaper in English and a Chinese language newspaper in Chinese as he shall deem appropriate or by a registered letter sent through the post and addressed to such member at his address as mentioned in the register, and such notice shall be deemed to be served on the day following that on which the advertisement appears or the letter is posted.

Service of process.

INDEMNITY

176. (a) Every Director, manager, Secretary or other officer and every auditor of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities (including any such liability as is mentioned in sub-section (2) of Section 165 of the Ordinance) which he may sustain or incur in or about the execution of the duties of his office or otherwise in relation thereto, and no Director, manager, Secretary or other officer or Auditor shall be liable for any loss, damage or misfortune which may happen to or be incurred by the Company in the execution of the duties of his office or in relation thereto. But this Article shall only have effect in so far as it provisions are not avoided by the said Section.

Indemnity.

(b) Subject to Section 165 of the Ordinance, if any Director or other person shall become personally liable for the payment of any sum primarily due from the Company, the Board may execute or cause to be executed any mortgage, charge, or security over or affecting the whole or any part of the assets of the Company by way of indemnity to secure the Director or person so becoming liable as aforesaid from any loss in respect of such liability.

</TABLE>

Name, Addresses and Descriptions of Subscribers

(SD.) Chong Yet Sing
25, Braemar Hill Road,
Flat 9A,
Hong Kong.
Merchant

<PAGE>

(SD.) James Kin Chung
25, Braemar Hill Road,
Flat 9A,
Hong Kong.
Merchant

Dated the 7th day of April, 1979.

WITNESS to the above signatures:

(SD.) PATSY KO
Secretary
904 China Underwriters Life Building,
51-57 Des Voeux Road, Central,
Hong Kong.

DATED: 16 April 2005

Equitable Mortgage Amendment Deed

between

Pacific Century Cable Holdings Limited
as Mortgagor

PCCW Limited
as Obligor

Telstra Corporation Limited
as Security Agent

relating to

the Equitable Mortgage of Shares dated 7 February 2001

Simmons & Simmons
35th Floor Cheung Kong Center 2 Queen's Road Central Hong Kong
T (852) 2868 1131 F (852) 2810 5040 DX 009121 Central 1

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THIS DEED amends and restates the Equitable Mortgage of Shares (as defined below) and is made on 2005. BETWEEN:

- (1) Pacific Century Cable Holdings Limited, (the "Mortgagor"), a company incorporated under the laws of Bermuda and having its registered office at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda;
- (2) PCCW Limited, (the "Obligor"), whose registered office is 39th Floor, PCCW Tower, TaiKoo Place, 979 King's Road, Quarry Bay, Hong Kong; and
- (3) Telstra Corporation Limited, (the "Security Agent"), whose registered office is at 242 Exhibition Street, Melbourne, Victoria, Australia, as security trustee for the Beneficiaries (as defined below).

WHEREAS:

- (A) The Obligor issued and the Security Agent (as Initial Noteholder) purchased a US\$190,000,000 5% Mandatory Convertible Note due 2005 (as amended and supplemented, the "Note") subject to the terms and conditions of the Note. The Note was amended and restated as US\$54,377,474.94 5% Mandatory Convertible Note due 2005 with effect from 25 April 2003.
- (B) The Mortgagor entered into an Equitable Mortgage of Shares for the purpose of providing security to the Security Agent for the performance of the obligations of the Obligor to the Beneficiaries under the Note and the Equitable Mortgage of Shares.
- (C) The parties hereto have agreed to enter into this Deed to amend the Equitable Mortgage of Shares, and the amendments have been incorporated into the Equitable Mortgage of Shares as set out in its amended and restated form in Schedule 1.

NOW THIS DEED WITNESSETH as follows:

1. DEFINITIONS AND INTERPRETATION

- 1.1 In this Deed (including the recitals) words and expressions defined in the terms and conditions of the Note shall, unless the context otherwise requires, have the same meaning herein.

2. AMENDMENTS TO THE EQUITABLE MORTGAGE OF SHARES

With effect from the date hereof, the Equitable Mortgage of Shares shall be amended and restated in the form set out in Schedule 1 to this Deed.

3. EFFECT OF AMENDMENTS

- 3.1 The Equitable Mortgage of Shares shall from the date hereof be read and construed in conjunction with this Deed as one document and all references to "this Equitable Mortgage of Shares", "this Mortgage" or "herein" in the Equitable Mortgage of Shares and in any document, agreement, letter or deed entered into in relation to the Equitable Mortgage of Shares (whether dated prior to the date of this Deed or otherwise) shall be read and construed as a reference to the Equitable Mortgage of Shares as amended by this Deed and as set out in Schedule 1.

3.2 This Agreement does not affect the respective rights, duties or obligations of any parties pursuant to the Equitable Mortgage of Shares which may have arisen prior to the date hereof.

3.3 The parties to this Deed agree that (1) except as amended by this Deed, the provisions of the Equitable Mortgage of Shares and their respective rights and obligations under the Equitable Mortgage of Shares will remain unamended and (2) the Equitable Mortgage of Shares, as amended by this Deed, and the security interest created thereby, remain in full force and effect.

4. REPRESENTATIONS

The Mortgagor hereby represents and warrants that (1) the representations contained in paragraphs (B), (C), (D) and (E) of Clause 5 of the Equitable Mortgage of Shares (as amended by this Deed) would be true if repeated in this Deed with reference to this Deed instead of the Equitable Mortgage of Shares and (2) the representations contained in Clause 5 of the Equitable Mortgage of Shares (as amended by this Deed) would be true if made on the date of this Deed.

5. PERFORMED OBLIGATIONS

The Security Agent confirms that the Mortgagor has delivered to it under clause 3 of the Equitable Mortgage of Shares (as amended by this Deed):

(A) a share certificate (numbered 2) in respect of 1,250,000,000 Shares;

(B) a share certificate (numbered 5) in respect of 1,250,000,000 Shares;
and

(C) a share certificate (numbered 6) in respect of 445,000,000 Shares,

which shares represent 50% of the entire issued capital of the Company at the date hereof, together with instrument(s) of transfer in respect thereof duly executed in blank (but undated) by the Mortgagor and that such documents are in a form acceptable to it.

6. GOVERNING LAW

The provisions of Clause 22 of the Equitable Mortgage of Shares (as amended by this Deed) shall apply mutatis mutandis to this Deed.

7. COUNTERPARTS

This Deed may be executed in a number of counterparts, all of which, taken together, shall constitute one and the same agreement and any party may enter into this Deed by executing a counterpart.

8. DEED

Each of the Mortgagor, the Obligor and the Security Agent intends this document to be a deed and the Mortgagor executes and delivers it as its deed.

SCHEDULE 1: AMENDED AND RESTATED EQUITABLE MORTGAGE OF SHARES

This is the form of the Equitable Mortgage of Shares dated
7 February 2001 as amended and restated by this Deed:

DATED: 7 FEBRUARY 2001 (as Amended and Restated)

Equitable Mortgage of Shares

between

Pacific Century Cable Holdings Limited
as Mortgagor

and

Telstra Corporation Limited
as Security Agent

relating to

US\$54,377,474.94 5% Mandatory Convertible Note due 2005 issued by
PCCW Limited

Simmons & Simmons
35th Floor Cheung Kong Center 2 Queen's Road Central Hong Kong
T (852) 2868 1131 F (852) 2810 5040 DX 009121 Central 1

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THIS EQUITABLE MORTGAGE OF SHARES is dated 7 February 2001 and made

BETWEEN:

- (1) Pacific Century Cable Holdings Limited, (the "Mortgagor"), a company incorporated under the laws of Bermuda and having its registered office at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda; and
- (2) Telstra Corporation Limited, (the "Security Agent"), whose registered office is at 242 Exhibition Street, Melbourne, Victoria, Australia, as security trustee for the Beneficiaries (as defined below).

BACKGROUND:

- (A) Reach Ltd. (formerly known as Joint Venture (Bermuda) No. 1 Limited) of Clarendon House, 2 Church Street, Hamilton HM11, Bermuda (as such company may be renamed from time to time) (the "Company") is a company limited by shares incorporated under the laws of Bermuda having an authorised share capital of US\$7,000,000,000 divided into 7,000,000,000 ordinary shares of US\$1.00 each of which 5,890,000,000 shares have been issued and are fully paid up or credited as fully paid up. 2,945,000,000 of such shares (being 50% of the entire issued capital of the Company at the date hereof) are legally and beneficially owned by the Mortgagor and represented by share certificates numbered 2, 5 and 6.
- (C) The Mortgagor has agreed to enter into this Equitable Mortgage of Shares for the purpose of providing, upon the terms and conditions hereinafter appearing, security to the Security Agent for the performance of the obligations of the Obligor to the Beneficiaries under the Note and this Equitable Mortgage of Shares.

NOW THIS DEED WITNESSETH as follows:

1. Interpretation

- 1.1 Words and expressions used in this Equitable Mortgage of Shares shall, except where the context otherwise requires or otherwise defined herein, have the meanings given to them in the Conditions. In addition, the following terms have the meaning ascribed to them below:

"Beneficiaries" means the Initial Noteholder and/or any member(s) of the Telstra Group (for so long as they shall remain a member of the Telstra Group) who is/are for the time being the registered holder(s) of the Note and holding legal and beneficial title thereto in accordance with the terms thereof and "Beneficiary" shall be construed accordingly. Where there is more than one Beneficiary, references to "Beneficiaries" means, unless the contrary intention is indicated, all Beneficiaries acting together;

"Note" means the US\$54,377,474.94 5% Mandatory Convertible Note due 2005 to be issued by the Obligor subject to and in accordance with the Conditions;

"Conditions" means the terms and conditions attached to or endorsed on the Note and "Condition" refers to the relevant numbered paragraph of the Conditions;

"Encumbrance" means any mortgage, charge, pledge, lien, hypothecation, assignment or deposit by way of security or trust arrangement for the purpose of providing security but

excluding any rights of set-off or combination of accounts arising under common law, equity, statute or regulation;

"Enforcement Date" means any date:

(a) after the Beneficiaries have become entitled, by reason of an Event of Default, to accelerate, demand or enforce any principal, interest, costs or other sums due under the Note or otherwise exercise their rights under the Note or make a claim in respect thereof and the Obligor fails to make any such payment on its due date after the expiry of all applicable grace periods; or

(b) on which the Obligor fails to make a payment of any amount due under the Bond in accordance with the Conditions after the expiry of all applicable grace periods.

"Group" means the Obligor and its Subsidiaries from time to time;

"Liabilities" means (a) all payment obligations expressed to be assumed by the Obligor to the Beneficiaries under the Note, whether present or future, actual or contingent; and (b) the Mortgagor's obligations under Clause 2.1 to discharge and pay such obligations and "Liability" shall be construed accordingly;

"this Mortgage" means this Equitable Mortgage of Shares as the same may from time to time be restated, varied, modified or amended and "Mortgage" shall be construed accordingly;

"Mortgaged Securities" means the Shares and all other securities, rights, monies, deposits of cash and other property mortgaged to the Security Agent under any provision of this Mortgage or such of the same as remain after any exercise of any of the Security Agent's powers in respect thereof under this Mortgage;

"Obligor" means PCCW Limited, whose registered office is at 39th Floor, PCCW Tower, TaiKoo Place, 979 King's Road, Quarry Bay, Hong Kong;

"Proceedings" means any legal action or proceedings arising out of or in connection with this Mortgage;

"Receiver" has the meaning given to it in Clause 10.1;

"Purchase Agreement" means the agreement between the Obligor and the Initial Noteholder in relation inter alia to the Note and setting out the principal terms thereof;

"Shares" means 2,945,000,000 ordinary shares of US\$1.00 each of the Company (being 50% of the entire issued capital of the Company at the date hereof) which have been issued and are fully paid up or credited as fully paid up and are legally and beneficially owned by the Mortgagor and represented by share certificates numbered 2, 5 and 6; and

"Shareholders Agreement" means the shareholders agreement dated 13 October 2000 between, inter alia, the Obligor and the Initial Noteholder in respect of the Company (as amended, varied and supplemented).

1.2 Unless the context otherwise requires, any reference in this Mortgage to:

"administration", "bankruptcy", "dissolution", "insolvency", "liquidation", "receivership", "reorganisation" or "winding-up" shall be construed so as to include procedures and

circumstances equivalent or analogous thereto under the laws of any applicable jurisdiction;

a "Clause" shall be construed as a reference to a clause of this Mortgage;

a "person" shall be construed as a reference to any individual, company, body corporate, corporation sole or aggregate, government, state or agency of a state, firm, partnership, joint venture, association, organisation, trust or entity (in each case, whether or not having separate legal personality and irrespective of the jurisdiction in or under the law of which it was incorporated or exists) and a reference to any of them shall include a reference to the others; and

any "assignment" or "transfer" of this Mortgage by the Security Agent in its capacity as the Initial Noteholder (including, without limitation, any restrictions thereon) shall be construed as a reference to any assignment or other transfer of any legal or beneficial interest of the Security Agent in its capacity as the Initial Noteholder in this Mortgage or any other transaction or arrangement which would result in any of the legal or beneficial title of the Security Agent in its capacity as the Initial Noteholder to, or interest, benefit or rights of the Security Agent in its capacity as the Initial Noteholder in, this Mortgage proving to be or being held in trust for, or to or for the benefit of, another person.

2. The Mortgage

2.1 This Mortgage is given for good consideration and the Mortgagor shall, on written demand of the Security Agent, which may only be made once this Mortgage has become enforceable in accordance with Clause 9.1, discharge and pay to the Security Agent (when due and payable) each of the Liabilities.

2.2 As a continuing security to the Security Agent for the performance of the Liabilities, the Mortgagor with full title guarantee hereby mortgages to the Security Agent by way of first equitable mortgage, for the payment and discharge of the Liabilities, all the Shares and (subject to Clause 8.1) all rights, dividends, distributions, monies, warrants or property paid, accruing or deriving directly or indirectly therefrom at any time by way of bonus, preference, option, dividend, interest or otherwise (whether registered in its name or in the name(s) of its nominee(s) for the time being).

3. Delivery of Documents

The Mortgagor shall deliver and deposit (or procure there to be delivered and deposited) with the Security Agent on the date of this Mortgage (or on or before such later date as the Security Agent may agree), the share certificates representing the Shares together with instrument(s) of transfer in respect thereof duly executed in blank (but undated) by the Mortgagor.

All documents required to be delivered and deposited pursuant to this Clause shall be in such form as the Security Agent may reasonably require.

4. [Deliberately left blank]

5. Warranties

5.1 The Mortgagor represents and warrants to the Security Agent that:-

- (A) it is (1) duly incorporated and validly existing under the laws of Bermuda, with full power and authority to conduct its business as it is now being conducted and (2) is lawfully qualified to do business in those jurisdictions in which it conducts business;
- (B) the execution of this Mortgage by the Mortgagor has been duly authorised by the Mortgagor and upon due execution and delivery of this Mortgage will constitute valid, legally binding and enforceable obligations of the Mortgagor except as such enforceability may be limited by applicable bankruptcy, insolvency, reorganisation, moratorium or other similar laws affecting the enforcement of creditors' rights generally and general principles of equity;
- (C) all consents, approvals and authorisations of any court, government department and other regulatory body, and of any banks and financial institutions to which the Mortgagor owes any obligations (if applicable) required for the execution and delivery by the Mortgagor of this Mortgage and the performance of its obligations under this Mortgage have been obtained and are in full force and effect;
- (D) the execution and delivery of this Mortgage and the performance by the Mortgagor of its obligations under this Mortgage do not and will not (1) conflict with or result in a breach of any of the terms or provisions of, or constitute a default under, the documents constituting the Mortgagor or any indenture, trust deed, mortgage, guarantee, loan or other agreement or instrument to which the Mortgagor is a party or by which its properties or assets are bound, except where (in the reasonable opinion of the Mortgagor) such conflict, breach or default does not have a material effect on the Mortgagor's obligations under this Mortgage, or (2) infringe any existing applicable law, rule, regulation, judgement, order or decree of any government, governmental body or court having jurisdiction over the Mortgagor or any of its properties or assets;
- (E) it is not necessary that this Mortgage be filed, registered, recorded or enrolled with any court, governmental or other authority or that any stamp, documentary, registration or similar tax or duty be paid on or in relation hereto except that in order to ensure the preservation of the priority of the secured interests created by this Mortgage, a register of mortgages, charges and other encumbrances shall be created by the Mortgagor and kept at its registered office and particulars of this Mortgage shall be entered on such register and a copy of such register of mortgages, charges and other encumbrances shall be filed at the Companies Registry in Bermuda;
- (F) the Shares are issued and fully paid up or credited as fully paid up and as of the date of this Mortgage, the Shares constitute 50% of the entire issued share capital of the Company. All of the Shares are free from any Encumbrance (other than as created by this Mortgage) or any agreement to create any of the same or to sell, transfer, assign or otherwise dispose of the same;
- (G) it is legally and beneficially entitled to all of the Mortgaged Securities as of the date hereof free from all Encumbrances (other than as created by this Mortgage) and is not aware of any legal action current or pending or threatened in respect of its title to the Shares; and
- (H) the security granted pursuant to this Mortgage constitutes or (as the case may be) will constitute first ranking equitable security on the Shares subject to applicable laws relating to bankruptcy and insolvency and other laws of general application affecting the enforcement of creditors' rights and to equitable principles of general

application.

5.2 Each representation and warranty under Clause 5.1 shall be true and accurate in all material respects as at the date hereof.

6. Covenants

6.1 Except with the prior consent of the Security Agent (which shall not be unreasonably withheld or delayed), the Mortgagor covenants with the Security Agent that it will:-

- (A) at all times comply with any statute, ordinance, law or regulation relevant to, and any condition of any consent obtained relating to, this Mortgage;
- (B) indemnify the Security Agent on demand against all costs, losses and expenses incurred by the Security Agent as a result of or in connection with the preservation and enforcement of the Security Agent's rights under this Mortgage, but taking into account any payments received by the Security Agent and/or any of the Beneficiaries under any document or agreement howsoever described and entered into in connection with the Note;
- (C) not, save as pursuant to this Mortgage, create or permit to subsist any Encumbrance over or in any way sell, transfer, assign or dispose of all or any part of the Mortgaged Securities;
- (D) pay or procure the payment of all calls or other payments that may become due in respect of any of the Mortgaged Securities and agree that, if it fails to do so, the Security Agent may in its absolute discretion make such payments, the amount thereof to be repaid on demand by the Mortgagor and shall bear interest at the rate specified in and calculated in accordance with Condition 3.3(B) from and including the due date therefor up to but excluding the date on which payment in respect of such demand is made in full; and
- (E) procure that the Company shall not, and nor shall the Mortgagor, by act or omission do anything materially prejudicial to the security at any time held by the Security Agent for the Liabilities.

6.2 The Security Agent hereby covenants with the Mortgagor that it will provide reasonable assistance to the Mortgagor to enable it to obtain all relevant third party consents granted in respect of this Mortgage.

7. Rights of the Security Agent

7.1 The security constituted by this Mortgage is in addition and without prejudice to any guarantee, security or indemnity in respect of any of the Liabilities now or hereafter given to the Security Agent (in its capacity as such or in other relevant capacity) by the Mortgagor or any other person.

7.2 The Mortgagor acknowledges that this Mortgage shall constitute a continuing security for the performance of the Liabilities and that, except as provided in Clause 14, the security constituted by this Mortgage shall not be discharged or otherwise prejudiced nor shall the liability of the Mortgagor hereunder be in any way lessened or affected by any failure of the Security Agent to take or enforce any other security for the Liabilities or any invalidity of any other security taken.

- 7.3 No failure to exercise and no failure or delay on the part of the Security Agent in exercising any right, power or privilege hereunder shall operate as a waiver thereof nor shall any single or partial exercise of any right, power, or privilege preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies herein provided are cumulative and not exclusive of any other rights or remedies provided by law and, for the avoidance of doubt, the Security Agent shall not be obliged to sell the Mortgaged Securities in the event that this Mortgage shall become enforceable but shall be entitled to enforce the same in such manner as it sees fit (in accordance with applicable laws).
- 7.4 Subject to Clause 14, until the security constituted by this Mortgage is released or discharged in respect of the Mortgaged Securities (or relevant part thereof) the Security Agent may retain all share certificates, relevant instruments and documents of title deposited under Clause 3.
8. Voting Rights and Dividends
- 8.1 Until this Mortgage becomes enforceable in accordance with Clause 9.1, the Mortgagor shall be entitled to:
- (A) receive all dividends, interest and other monies arising from or receivable pursuant to the Mortgaged Securities; and
 - (B) exercise all voting rights (whether in its own name or through its nominee(s) or proxies) in respect of each of the Mortgaged Securities provided that no vote shall be cast or right exercised or other action taken that would result in any breach of the terms and conditions of this Mortgage.
- 8.2 Upon this Mortgage becoming enforceable in accordance with Clause 9.1, the Mortgagor shall not be entitled thereafter (unless and until this Mortgage shall have been released) to exercise any voting rights in respect of any of the Mortgaged Securities and the Security Agent or its nominee(s) may at any time at the Security Agent's discretion exercise any voting rights and all the powers which may be exercised by the person or persons in whose name or names the Mortgaged Securities are registered. The Security Agent shall promptly notify the Mortgagor of any such exercise of voting rights or powers under this Clause.
- 8.3 The Security Agent or its nominee(s) need not vote at any meeting or exercise any rights in relation to the Mortgaged Securities and shall not be responsible for loss occasioned by a failure to act or delay in so acting. Notwithstanding the foregoing, the Security Agent shall consider in good faith any request by the Mortgagor or the Obligor to exercise its voting or other rights in relation to the Mortgaged Securities under Clause 8.2 and shall so act if, in its absolute discretion, it sees fit.
9. Enforcement of Security
- 9.1 The Security Agent shall be entitled to enforce all or any part of the security constituted by this Mortgage after the Enforcement Date provided that the relevant event referred to in the definition of the Enforcement Date is then continuing and has not then been waived.
- 9.2 At any time after this Mortgage shall have become enforceable in accordance with Clause 9.1, the Security Agent may:-
- (A) appoint one or more Receivers; or

(B) do any thing that a Receiver could do under Clause 10.

9.3 Upon any disposal, sale, transfer or assignment of the Mortgaged Securities or any part thereof the purchaser shall not be bound to enquire whether the power of sale has arisen in manner herein provided and the sale shall be deemed to be within the power of the Security Agent and the receipt of the Security Agent for any purchase monies shall effectively discharge the purchaser who shall not be concerned with the manner of application of the proceeds of sale or be in any way answerable therefor.

10. Appointment of Receiver

10.1 At any time after this Mortgage has become enforceable in accordance with Clause 9.1 the Security Agent may appoint in writing any person or persons to be a receiver and manager or receivers and managers (hereinafter called the "Receiver" which expression shall where the context admits include the plural and any substitute receiver and manager or receivers and managers) of all or any part of the Mortgaged Securities and the Receiver shall have the powers contained in the Law of Property Act 1925 (or any equivalent applicable legislation) and, in particular:

- (A) do (or procure to be done) everything necessary to obtain registration of the Mortgaged Securities in the name of the Security Agent or any nominee of the Security Agent or in the name of any purchaser thereof;
- (B) to take possession of, collect and get in all or any part of the Mortgaged Securities and for that purpose to take any proceedings in the name of the Mortgagor or otherwise as he shall think fit;
- (C) to raise money from the Security Agent or others on the security of any Mortgaged Securities;
- (D) to sell, transfer, assign or otherwise dispose of or deal with, or convert into money such Mortgaged Securities or any part thereof;
- (E) to sell, transfer, assign or otherwise dispose of or deal with all or any of the Security Agent's rights in respect of such Mortgaged Securities under this Mortgage,
- (F) to receive all rights, dividends, distributions, monies, warrants or property paid, accruing or deriving directly or indirectly from the Mortgaged Securities at any time by way of bonus, preference, option, dividend, interest or otherwise;
- (G) to exercise all voting rights (whether in its own name or through its nominee(s) or proxies) in respect of each of the Mortgaged Securities; and
- (H) to do all such other acts and things as the applicable law allows the owner or a mortgagee or a Receiver of the Mortgaged Securities to do and as may be considered to be incidental or conducive to any of the matters or powers aforesaid.

10.2 In exercising its power to appoint a Receiver, the Security Agent may appoint a Receiver to all or any part of the Mortgaged Securities.

10.3 Where more than one Receiver is appointed they shall have power to act severally (unless the Security Agent shall specify to the contrary) in relation to the Mortgaged Securities. An appointment over part only of the Mortgaged Securities shall not preclude the Security

Agent from making a subsequent appointment of a Receiver over any part of the Mortgaged Securities over which an appointment has not previously been made by the Security Agent.

- 10.4 The Security Agent may from time to time determine the remuneration of the Receiver and may at any time remove the Receiver from all or any part of the Mortgaged Securities of which he is the Receiver and after the Receiver has vacated office or ceased to act in respect of any of the Mortgaged Securities appoint a further Receiver over all or any part in respect of which he shall have ceased to act.
- 10.5 The Receiver shall be the agent of the Mortgagor (who shall be solely liable for his acts, defaults and remuneration, unless and until the Mortgagor goes into liquidation and thereafter he shall act as principal and shall not become the agent of the Security Agent) and shall be entitled to exercise all powers contained in the Law of Property Act 1925 (or any equivalent applicable legislation) in the same way as if appointed thereunder.

11. Distribution and Payments

11.1 Subject to Clause 11.2, all moneys from time to time received by the Security Agent or a Receiver under or pursuant to this Mortgage, whether from the enforcement of this Mortgage or otherwise, shall be applied by the Security Agent as follows:-

- (A) in the payment of all reasonable costs, charges, losses, liabilities and expenses of and incidental to the exercise of any of its rights including its remuneration and all outgoings paid by it and liabilities incurred by it as a result of such exercise;
- (B) in or towards discharge of the Liabilities in such order or manner as the Security Agent may select; and
- (C) in payment of any surplus to the Mortgagor or such other person as the Mortgagor may direct.

11.2 (A) Where any amount from time to time received by the Security Agent under or pursuant to this Mortgage is equal to (or exceeds) the Redemption Amount then due and payable to the Beneficiaries under the Note plus any sum then due under this Mortgage, the Liabilities shall be reduced to zero and the Security Agent shall have no further entitlement under this Mortgage, nor shall the Beneficiaries have any further entitlements under the Note, as from the date of full payment of such amount. In these circumstances, the Note (or relevant part thereof registered in the names of the Beneficiaries) shall be cancelled and the Security Agent hereby undertakes to deliver (or procure the delivery of) the Certificate(s) relating to their entitlement to the Note to the Mortgagor (together with duly executed Transfer Forms and any other documentation required to effect cancellation thereof).

(B) Where any amount from time to time received by the Security Agent under or pursuant to this Mortgage is less than the Redemption Amount then due and payable to the Beneficiaries under the Note plus any sum then due under this Mortgage, the amount so received shall be deemed to have been deducted from the Redemption Amount to which the Beneficiaries would otherwise be entitled as at the date of such payment, so that as from such date interest shall accrue under the Note in respect of the remaining amount of the Redemption Amount to which such Beneficiaries are entitled after such deduction and all references in the Conditions (including, without limitation, to the Redemption Amount and the

Principal Amount), and all references in this Mortgage (including, without limitation, to Liabilities), shall be construed accordingly.

- (C) Where, after the date on which this Mortgage becomes enforceable in accordance with Clause 9.1 but prior to the date of payment to (or receipt by) the Security Agent of any Liabilities, any right or option is exercised (or notice of the exercise thereof is served) in accordance with the Conditions as a result of which the Redemption Amount payable to the Beneficiaries under the Note is (or would be) reduced (including, without limitation, by reason of the issue of a Conversion Notice or the transfer by a Beneficiary of any part of the Note then registered in its name to a person who is not a member of the Telstra Group), all references in this Mortgage to Liabilities shall be read and construed as references to the amount (if any) thereof which would remain payable to the Beneficiaries after the exercise of the relevant right or option).

11.3 Each payment to be made by the Mortgagor under this Mortgage shall be made to the Security Agent, in the appropriate currency in accordance with the terms hereof, to such account as the Security Agent may from time to time direct.

11.4 (A) All payments by the Mortgagor under this Mortgage shall be made on the due date therefor in same day funds free and clear of any withholdings or deductions for any present or future taxes, imposts, levies, duties, assessments or other governmental charges imposed or levied by or on behalf of Bermuda, Hong Kong or, in each case, by or within any political subdivision thereof or any authority therein having power to tax. In the event that the Mortgagor is required to make any such deduction or withholding from any amount paid hereunder, the Mortgagor shall pay to the Security Agent such additional amount ("additional amount") as shall be necessary so that the Security Agent receives a net amount equal to the full amount which it would have received if such withholding or deduction had not been made. When making payments to the Security Agent, fractions of one cent will be rounded down to the nearest cent.

(B) Notwithstanding the foregoing, the obligation of the Mortgagor to pay such additional amount shall not apply with respect to (i) any taxes imposed on the overall net income of the Security Agent arising from the carrying on of business or trade in Bermuda or in Hong Kong, or (ii) any estate, inheritance, gift, sales, transfer or personal property tax or any similar taxes, duties, assessments or other governmental charges, or (iii) any taxes, duties, assessments or other governmental charges that are payable otherwise than by deduction or withholding from payments on this Mortgage.

(C) In the event that any additional amount actually paid with respect to this Mortgage is based on rates of deduction or withholding in excess of the appropriate rate applicable to the Security Agent, and, as a result thereof, the Security Agent is entitled to make a claim for a refund or credit of such excess, then the Security Agent shall make all reasonable efforts to submit any such claim for a refund or credit of such excess and to pay the amount recovered (or other benefit received) in respect thereof to the Mortgagor forthwith after receipt. The Security Agent shall give reasonable assistance to the Mortgagor to maximise the recovery of any additional amount paid by the Mortgagor under Clause 11.4(A) but without any liability on the part of the Security Agent to incur any additional obligations (whether for tax or otherwise) in order to provide such assistance.

- (D) References in this Mortgage to any amount payable hereunder shall be deemed also to refer to any additional amount which may be payable in respect thereof under this Clause 11.4.

12. Assignment and Transfer

The parties hereby acknowledge and agree that this Mortgage is issued solely for the benefit of the Security Agent in its capacity as such and in its capacity as the Initial Noteholder. Accordingly, the Security Agent may not assign or transfer any of its title, rights, benefits or obligations under this Mortgage or enter into any transaction or arrangement which would result in any of those title, rights, benefits or obligations passing to or being held in trust for or for the benefit of another person.

13. Further Assurance and Power of Attorney

- 13.1 The Mortgagor undertakes to execute and do all such assurances, acts and things as the Security Agent may consider necessary or desirable for obtaining the full benefit of this Mortgage and the right, title, interest, authorisations and discretions herein contained and, in particular, to execute all transfers, conveyances, assignments and assurances of the Mortgaged Securities whether to the Security Agent or to its nominee(s) or purchasers and give all notices, orders and directions which the Security Agent may think expedient for the purposes of this Clause.
- 13.2 The Mortgagor hereby appoints the Security Agent with full power of substitution to be its attorney and in its name or otherwise on its behalf and as its act or deed to sign, seal, execute, deliver, perfect and do all deeds, instruments, acts, directions and things to any nominee for the time being holding any of the Mortgaged Securities on behalf of the Mortgagor and all such other documents whatsoever which the Security Agent may consider to be necessary (acting reasonably) for vesting or enabling the Security Agent to vest the Mortgaged Securities or any of them in itself or in its nominee or nominees or in any purchaser and to execute, seal, deliver and otherwise perfect any deed, assurance, agreement, instrument or act which may in the reasonable opinion of the Security Agent be required or be necessary for any of the purposes of this Mortgage and so that the appointment hereby made shall, to the extent of the matters described above, operate as a general power of attorney made under the laws of the Bermuda. The Security Agent shall not exercise any rights or powers under this power of attorney unless and until this Mortgage has become enforceable in accordance with Clause 9.1.
- 13.3 The Mortgagor ratifies and confirms and agrees to ratify and confirm whatever its attorney appointed by Clause 13.2 shall do or purport to do in the exercise or purported exercise of any of the powers, authorities and discretions conferred on it by the Mortgagor.
- 13.4 The Security Agent may enter (or procure the entry of) this Mortgage as a charge on any appropriate register and the Mortgagor agrees to procure execution by it of all relevant documents required by the Security Agent which are necessary to procure the registration of this Mortgage.

14. Redelivery and Release

As soon as reasonably practicable after the obligations of the Mortgagor under this Deed and the Liabilities have been discharged in full pursuant to the respective terms thereof, the Security Agent shall at the request and expense of the Mortgagor (i) redeliver or procure the redelivery to the Mortgagor of the Shares and all documents deposited pursuant to Clause 3, (ii) execute an absolute unconditional release of this Mortgage or

relevant part thereof (if necessary) and all other documents, instruments or agreements (whether under hand or by deed) and (iii) take all other steps that may be necessary or desirable to redeliver the relevant Shares or the remainder thereof to vest the same in the Mortgagor and to unconditionally release this Mortgage (or relevant part thereof). If applicable, the Mortgagor shall, promptly and in any event within 2 Business Days after receipt of the documents redelivered by the Security Agent hereunder, deliver (or procure the delivery of) the certificates and blank instruments of transfer representing the number of Shares then remaining subject to this Mortgage (after taking into account the release of security in respect of such number of Shares pursuant to this Clause 14).

15. Notices

15.1 Any notice (which term shall in this Clause 15 include any demand and any other communication but not any process referred to in Clause 21) to be given under this Mortgage or in connection with the matters contemplated by it shall, except where otherwise specifically provided, be in writing.

15.2 Any notice required to be given under this Mortgage shall be deemed duly served if delivered in person to or sent by registered or recorded delivery post or facsimile to the following addresses or facsimile numbers:

(i) the Security Agent:

242 Exhibition Street
Melbourne
Victoria
Australia

Fax: (61 3) 9639 1940
Attn: Corporate Treasurer

(ii) the Mortgagor:

Pacific Century Cable Holdings Limited

39th Floor, PCCW Tower
TaiKoo Place
979 King's Road
Quarry Bay
Hong Kong

Fax: (852) 2962 5725
Attn: The Company Secretary

or such other addresses or facsimile numbers as may have been last notified in writing by or on behalf of the Mortgagor to the Security Agent or vice versa. Any such notice shall be deemed to be served at the time when the same is delivered in person to the address of the party to be served or, if served by post, on the fifth day (not being a Sunday or public holiday) next following the day of posting or, if served by facsimile, upon transmission and report confirming successful transmission.

16. Rights and Waivers

The Security Agent may choose when, where, how and how often to exercise each of its rights, powers and remedies as provided by this Mortgage or by law. No failure on the part of the Security Agent to exercise, nor any delay on its part in exercising, any such right, power or remedy shall impair the same or operate or be construed as a waiver thereof, nor shall any single, partial or defective exercise of any such right, power or remedy preclude any further or other exercise thereof or the exercise of any other such right, power or remedy. The rights, powers and remedies provided in this Mortgage are cumulative and not exclusive of any rights, powers or remedies provided by law.

17. Partial Invalidity

If, at any time, any provision of this Mortgage is or becomes illegal, invalid or unenforceable in any respect under any law of any jurisdiction, such illegality, invalidity or unenforceability or ineffectiveness shall not affect or impair:

- (A) the legality, validity or enforceability of such provision under the law of any other jurisdiction; or
- (B) the legality, validity or enforceability of the remaining provisions under such law or the law of any other jurisdiction.

18. Preservation of Rights

If a claim is made that all or part of a payment, obligation, settlement, transaction, conveyance or transfer in connection with the liability is void or voidable under law relating to insolvency or the protection of creditors generally or for any other reason and the claim is upheld, conceded or compromised, then:

- (A) the Security Agent is entitled immediately as against the Mortgagor to the rights in respect of the liability to which it would have been entitled if all or that part of that payment, obligation, settlement, transaction, conveyance or transfer had not taken place; and
- (B) promptly on request from the Security Agent, the Mortgagor agrees to do any act and sign any document to restore to the Security Agent any security interest or guarantee held by it from the Mortgagor immediately before that payment, obligation, settlement, transaction, conveyance or transfer.

19. Counterparts

This Mortgage may be executed in any number of counterparts, which shall together constitute one Mortgage. Any party may enter into this Mortgage by signing any such counterpart.

20. Remedies Cumulative

The rights, powers and remedies provided in this Mortgage are cumulative with and not exclusive of the rights, powers or remedies provided by law independent of this Mortgage.

21. Third Party Rights

A person who is not a party to this Mortgage has no rights under the Contracts (Rights of Third Parties) Act 1999 to enforce any term or conditions of this Mortgage.

22. Law and Jurisdiction

22.1 This Mortgage shall be governed by, and construed in accordance with, the laws of England.

22.2 In relation to any Proceedings, each of the Mortgagor and the Security Agent irrevocably submits to the non-exclusive jurisdiction of the courts of England and waives any objection to Proceedings in such courts on the grounds of venue or on the grounds that Proceedings have been brought in an inappropriate forum. The taking of Proceedings in one or more jurisdictions shall not preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

22.3 (A) The Security Agent irrevocably appoints Telstra Corporation Limited of 44 Paul Street, London EC2A 4LB as its process agent to receive on its behalf service of process of any Proceedings in England.

(B) The Mortgagor irrevocably appoints Simmlaw Services Limited of CityPoint, One Ropemaker Street, London EC2Y 9SS as its process agent to receive on its behalf service of process of any Proceedings in England.

(C) If for any reason the relevant process agent ceases to be able to act as process agent or no longer has an address in England, each of the Security Agent and the Mortgagor irrevocably agree to appoint a substitute process agent with an address in England acceptable to the other parties and to deliver to the other parties a copy of the substitute process agent's acceptance of that appointment within 30 days. In the event that the Security Agent fails to appoint a substitute process agent, it shall be effective service for the Mortgagor or the Security Agent (as the case may be) to serve the process upon the last known address in England of the last known process agent for the relevant party notified to the other parties notwithstanding that such process agent is no longer found at such address or has ceased to act provided that a copy of the proceedings is also sent to the relevant party's current registered office or principal place of business wherever situated. Nothing in this Mortgage shall affect the right to serve process in any other manner permitted by law.

23. Deed

Each of the Mortgagor and the Security Agent intends this document to be a deed and the Mortgagor executes and delivers it as its deed.

IN WITNESS whereof the Mortgagor and the Security Agent have caused this Mortgage to be executed as their respective deeds on the day and year first above written.

The Mortgagor

THE COMMON SEAL of)
PACIFIC CENTURY CABLE HOLDINGS)
LIMITED in accordance with its)
documents of constitution)
was affixed hereto by)
)
in the presence of:)

) -----
) Director
)
)
) -----
) Director/Secretary

 Signature

 Name and Address

 Occupation

The Security Agent

SIGNED by)
 as authorised representative for)
 TELSTRA CORPORATION LIMITED)
 in the presence of:)
)
)
)

 Signature

 Name and Address

 Occupation

IN WITNESS whereof the Mortgagor, the Obligor and the Security Agent have caused this Deed to be executed as their respective deeds on the day and year first above written.

The Mortgagor

THE COMMON SEAL of)
PACIFIC CENTURY CABLE HOLDINGS)
LIMITED in accordance with its)
documents of constitution)
was affixed hereto by)
in the presence of:)
))
) -----)
) Director)
))
))
))
) -----)
) Director/Secretary)

Signature

Nigel Justin Davies
Simmons & Simmons

Name and Address

Solicitor, Hong Kong SAR

Occupation

The Obligor

THE COMMON SEAL of)
PCCW)
LIMITED was hereto affixed by)
in accordance with its articles of)
association)
in the presence of:)
))
))
) -----)
) Director)
))
))
))
) -----)
) Director/Secretary)

Signature

Hubert Chak, 41st Floor, PCCW Tower
Taikoo Place, Hong Kong

Name and Address

Company Secretary

Occupation

Hong Kong Domestic
Connectivity Agreement
Amendment Agreement

Dated 16 April 2005

Reach Networks Hong Kong Limited
PCCW-HKT Telephone Limited

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Hong Kong Domestic Connectivity Agreement Amendment
Agreement
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1 Interpretation

1.1

In this agreement except if the context requires otherwise:

- (a) words and expressions have the meanings set out in Schedule 1;
- (b) the singular includes the plural and vice versa;
- (c) a reference to an agreement, document or another instrument includes any variation, amendment, variation or replacement of any of them; and
- (d) a reference to this agreement includes Schedule 1.

1.2

Headings and bold type are included for convenience and do not affect the interpretation of this agreement.

2 DCA Amendment

This agreement commences on the Effective Date, but upon commencement, will have effect from 1 March, 2005. The DCA is amended, with effect from 1 March 2005, as follows:

- (a) Clause 2.3 is deleted.
- (b) In clause 4.1:
 - (i) after the words 'each year' in the first paragraph, the words 'of the Term' are inserted; and
 - (ii) at the end of the reference to 'and collectively "the Committed Services")', a ' . ' is inserted and the remainder of clause 4.1 is deleted (but not the Notes to clause 4.1).
- (c) In clause 6.1, the following is added after the first sentence:

'Despite any other provision of this Agreement, where permitted by Applicable Law HKTC may elect not to require HKTI to pay Charges relating to the delivery of all or particular types of voice Calls delivered by HKTI for termination on HKTC's network. Such election must be notified to HKTI in writing and may be revoked by HKTC in writing at any time. Such an election may be made from time to time. To the extent that Charges for voice Calls are payable, an amount equal to those Charges will be recoverable by HKTI from HKTC under Annexure C of the Reach Network Services Agreement.'

- (d) In clause 14.8:
- (i) in paragraph (f), the word 'or' is added to the end of the paragraph; and
 - (ii) paragraph (ff) is deleted.
- (e) In paragraph 1 of Attachment 6, Definitions:
- (i) the definition of "Amended and Restated Facility Agreement" is deleted;
 - (ii) after the definition of "Call", the following new definition is inserted:

"Capacity Allocation Agreement" is the Capacity Allocation Agreement dated on or about the date of this agreement between Reach Global Networks Limited, Telstra Corporation Limited, PCCW Communications (Singapore) Pte Ltd and PCCW Limited.';
 - (iii) the definition of "HKISA" is deleted;
 - (iv) after the definition of "Queuing Policy", the following new definition is inserted:

"Reach Network Services Agreement" is the Reach Network Services Agreement dated on or about the date of this agreement between Reach Ltd, Reach Global Services Limited, Reach Networks Hong Kong Limited, Telstra Corporation Limited, PCCW Limited and others.'; and
 - (v) the definition of "Term" is deleted and replaced by the following new definition of "Term":

"Term" means the period from the Effective Date until the later of:
 - (a) termination of the Capacity Allocation Agreement; and
 - (b) termination of the Reach Network Services Agreement.'
- (f) In paragraph 2.1 of Attachment 6, Definitions, the "and" at the end of paragraph (l) is deleted and replaced by a "." and paragraph (m) is deleted.

3 Continuation of DCA

The DCA continues in full force and effect.

4 Costs

The Parties agree to pay their own legal and other costs and expenses in connection with the preparation, execution and completion of this agreement.

5 Governing Law

This agreement is governed by the law in force in the place specified in the Details. Each Party submits to the non-exclusive jurisdiction of the courts of that place.

6 Counterparts

This agreement may consist of a number of counterparts each executed by one or more Parties to the agreement. When taken together, the executed counterparts are treated as making up the one document.

EXECUTED as an agreement

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Hong Kong Domestic Connectivity Agreement
Amendment Agreement
Schedule 1 - Definitions

"DCA" is the Hong Kong Domestic Connectivity Agreement dated 13 October 2000 made between Reach Networks and HKTC.

"Effective Date" has the meaning given to it in the Reach Debt and Asset Restructure Deed.

"Reach Debt and Asset Restructure Deed" means the deed by that name dated on or about the date of this agreement.

Hong Kong Domestic Connectivity Agreement Amendment Agreement 5

Signing page

DATED:

SIGNED by)
)
 as authorised representative)
 for REACH NETWORKS HONG KONG)
 LIMITED in the presence of:)
)
)
)
 Signature of witness)
)
 CUONG HOANG) By executing this agreement
) the signatory warrants that
) the signatory is duly
 Name of witness (block letters)) authorised to execute this
) agreement on behalf of REACH
) NETWORKS HONG KONG LIMITED

SIGNED by PHILANA POON)
)
 as authorised representative)
 for PCCW-HKT TELEPHONE LIMITED)
 in the presence of:)
)
)
)
 Signature of witness) By executing this agreement
) the signatory warrants that
) the signatory is duly
 Name of witness (block letters)) authorised to execute this
) agreement on behalf of
) PCCW-HKT TELEPHONE LIMITED
 Ong Henry Seng Lit)
 Simmons & Simmons)
 Solicitor, Hong Kong SAR)

13 July 2004

Private & Confidential

PCCW-HKT Telephone Limited
39th Floor, PCCW Tower, TaiKoo Place
979 King's Road
Quarry Bay
Hong Kong

Attention: Mr. W. Michael Verge, Group Treasurer

Dear Sirs,

Re: Guarantee Facility of up to HK\$780,000,000

We are pleased to advise that Standard Chartered Bank (HK) Ltd [GRAPHIC TRANSLATION OMITTED] (the "Issuing Bank") is prepared to extend the guarantee facility described below to you subject to the terms and conditions set out in this letter. In this letter, unless otherwise defined herein, each term or expression defined in Schedule 1 to this letter shall have the meaning attributed to it therein when used in this letter.

1. Applicant

PCCW-HKT Telephone Limited, a company duly incorporated in Hong Kong with its principal place of business at 39th Floor, PCCW Tower, TaiKoo Place, 979 King's Road, Quarry Bay, Hong Kong (the "Applicant").

2. Facility

A guarantee facility of up to a maximum amount of HK\$780,000,000 (the "Facility") for the purpose of making available one or more Guarantees (as hereinafter defined) of up to a maximum amount of HK\$780,000,000 (the "Maximum Amount").

3. Purpose

The Facility will be used to enable one or more Guarantees in the form set out in Schedule 2 to this letter (each a "Guarantee") to be issued by the Issuing Bank in favour of the Beneficiary for the purpose of guaranteeing payment to the Relevant Creditors of the Relevant Liabilities.

4. Condition Precedent

The Facility will become available to the Applicant (upon the terms and conditions contained in this letter) upon registration by the Registrar of Companies in Hong Kong of an office copy of the order of the High Court of Hong Kong approving the

Capital Reduction and the minute containing the particulars required by Section 61 of the Companies Ordinance (Cap. 32) of the Laws of Hong Kong.

5. Drawing

- (a) Subject to Clause 4 and Clause 9 of this letter, the Issuing Bank shall, upon request by the Applicant, issue and establish a Guarantee on any Business Day during the Drawdown Period, provided that:-
- (i) the Guarantee Request and Notice of Drawing, duly signed by a director or an authorised person of the Applicant, shall have been received by the Issuing Bank not later than 10.00 a.m. two (2) Business Days (or such shorter time as the Issuing Bank shall agree) prior to the intended date on which the Guarantee is to be issued or established;
 - (ii) the maximum aggregate amount guaranteed under the Guarantee requested to be issued and all other Guarantees previously issued under the Facility, shall not exceed the Maximum Amount of the Facility;
 - (iii) the expiry date of the relevant Guarantee to be issued and established shall not be later than the Final Maturity Date, but the expiry of the relevant Guarantee shall (in accordance with the terms of the relevant Guarantee) be without prejudice to the continuing liability of the Issuing Bank to pay or satisfy a Relevant Liability in respect of which a Relevant Creditor has made written demand of the Beneficiary prior to the Final Maturity Date and, if the Beneficiary disputes the claim, in respect of which the Relevant Creditor commences court proceedings within one month of the written demand and in each case, which has not been paid or satisfied by the Issuing Bank prior to the Final Maturity Date;
 - (iv) the Applicant shall, on the date of submitting the Guarantee Request and Notice of Drawing, have deposited into the Charged Deposit Account (as defined in Clause 9 hereof) an amount equal to the Guaranteed Amount in respect of the relevant Guarantee;
 - (v) the Issuing Bank shall have first received a guarantee issuance fee from the Applicant in an amount equal to 1% of the Guaranteed Amount in respect of the relevant Guarantee on the date of issuance or establishment of the relevant Guarantee;
 - (vi) none of the events set out in Schedule 4 shall have occurred and be continuing.
- (b) The issuance by the Issuing Bank of a Guarantee shall constitute a deemed Drawing under the Facility and, accordingly, with effect from the date on which the relevant Guarantee is issued, the Facility shall be deemed to have been utilized to the extent of, and reduced by an amount equal to, the Guaranteed Amount in respect of the relevant Guarantee. Additional Guarantees may be issued under the Facility until the Facility shall have been fully utilized.
- (c) The Guarantee Request and Notice of Drawing, once given, shall be irrevocable and the Applicant shall be bound to make the Drawing requested therein.

- (d) Any portion of the Facility remaining undrawn at the end of the Drawdown Period shall unless the Issuing Bank in its absolute discretion agrees automatically be cancelled and will thereafter not be available to the Applicant.
- (e) The occurrence of any of the events set out in Schedule 4 shall not in any way affect the validity, status, enforceability or any other aspect or feature of any Guarantee previously issued under the Facility.

6. Commitment Fee and Guarantee Issuance Fee

- (a) A commitment fee will accrue on the unutilized and uncanceled amount of the Facility. The commitment fee will accrue from and including the date of this letter to but excluding the last day of the Drawdown Period. The rate of the fee will be 0.65% per annum. The Applicant agrees to pay the fee to the Issuing Bank in arrear at quarterly intervals after the date of this letter, on the last date of the Drawdown Period and on any earlier date on which the total unutilized amount of the Facility is reduced to zero by voluntary cancellation.
- (b) On each anniversary of the date of issuance or establishment of a Guarantee issued hereunder which remains outstanding on such anniversary, the Applicant shall pay a guarantee issuance fee, in an amount equal to one percent. of the Guaranteed Amount in respect of such Guarantee.

7. Voluntary Cancellation

The Applicant may cancel the whole or part of the unutilized amount of the Facility by giving irrevocable notice to the Issuing Bank. Any part cancelled must be at least HK\$10,000,000 and an integral multiple of HK\$5,000,000. The notice shall take effect seven days after it is received by the Issuing Bank unless a later date is specified in the notice. In that case, the notice will take effect on the specified date. Any amount of the Facility which is voluntarily cancelled by the Applicant cannot be reinstated.

8. Indemnity Relating To Guarantee

- (a) Subject to Clauses 8(b) and 16(a) of this letter, the Applicant undertakes to pay to the Issuing Bank, upon demand by the Issuing Bank, all sums equal to each amount, and in the same currency, which has been paid by the Issuing Bank under the Guarantees issued under this Facility and to indemnify the Issuing Bank, on first demand by the Issuing Bank, from and against all losses, actions, claims, demands, liabilities, damages, penalties, costs, expenses or payments resulting from, or which the Issuing Bank may suffer, incur or sustain or be required to make under, this letter or any Guarantees issued under this Facility.
- (b) The Issuing Bank shall only make payments under a Guarantee in accordance with the terms of the relevant Guarantee and the Applicant shall only be required to indemnify the Issuing Bank under Clause 8(a) of this letter to the extent that a payment under a Guarantee has been so made.
- (c) So long as any Guarantee issued under the Facility remains outstanding, the Applicant shall not be discharged from the indemnity contained in Clause 8(a)

above notwithstanding that any obligations of the Applicant or the Beneficiary have become wholly or in part invalid or unenforceable or unrecoverable due to whatever reason.

- (d) Notwithstanding that there shall have been any release, discharge or settlement between the Beneficiary and/or the Applicant and/or the Relevant Creditors under or in respect of any money or liability guaranteed by a Guarantee issued under this Facility, the Issuing Bank shall be entitled to retain the Charge Over Deposit Account or other rights or remedies held by the Issuing Bank as security for the obligations of the Applicant under this letter until the relevant Guarantees issued by the Issuing Bank have been returned to the Issuing Bank endorsed as discharged by the Beneficiary or the Beneficiary has confirmed in writing to the satisfaction of the Issuing Bank that the Issuing Bank no longer has any further liability under the relevant Guarantees, and until all the obligations and liabilities of the Applicant under this letter have been fully discharged.

9. Security

As security for, and as a condition precedent to the availability of, the Facility, the Applicant has granted to the Issuing Bank, pursuant to a Deed of Charge Over Deposit Account of even date herewith (the "Charge Over Deposit Account"), a first legal charge over a HK Dollar account no. 447-166-10100 of the Applicant with the Issuing Bank into which the Applicant is obliged initially (on the date specified in Clause 5(a) (iv) above) to deposit an amount equal to the Guaranteed Amount in respect of any Guarantee to be issued under this Facility, prior to the issue of the relevant Guarantee.

10. Representations And Warranties

The Applicant represents and warrants to the Issuing Bank that:-

- (i) Status: the Applicant is a company duly incorporated and validly existing under the laws of Hong Kong and has full power, authority and legal right to own its property and assets and to carry on its business as such business is now being conducted;
- (ii) Power and Authority: the Applicant has all legal power and authority to enter into this letter and the Charge Over Deposit Account and perform its obligations under this letter and the Charge Over Deposit Account and all action (including any corporate action) required to authorise the execution and delivery of this letter and the Charge Over Deposit Account and the performance of its obligations under this letter and the Charge Over Deposit Account has been duly taken;
- (iii) Legal Validity: this letter and the Charge Over Deposit Account constitute legal, valid, binding and enforceable obligations of the Applicant;
- (iv) Non-conflict with laws: the entry into and performance of this letter and the Charge Over Deposit Account and the transactions contemplated by this letter and the Charge Over Deposit Account do not and will not conflict with or result in a breach of (1) any law, judgment or regulation or any official or judicial order, or (2) the constitutional documents of the

Applicant, or (3) any agreement or document to which the Applicant is a party or which is binding upon it or any of its assets or revenues nor cause any limitation placed on it or the powers of its directors to be exceeded;

- (v) No consents: no consent of, giving of notice to, or registration with, or taking of any other action in respect of, any governmental authority or agency in any relevant jurisdiction or any shareholders of the Applicant is required for or in connection with the execution, validity, delivery, enforceability and admissibility in evidence in proceedings of this letter and the Charge Over Deposit Account, or the carrying out of any of the transactions contemplated hereby or thereby.

11. Increased Costs

- (a) If the result of any change in, or the introduction of, any law, regulation or regulatory requirement or any change in the interpretation or application thereof is to:-

- (i) subject the Issuing Bank to Taxes or change the basis of Taxation of the Issuing Bank with respect to any payment under this letter or the Guarantees or increase the Issuing Bank's liability to Taxes in respect of its obligation to issue the Guarantees (other than Taxes or Taxation on the overall net income or profits of the Issuing Bank imposed in the jurisdiction in which it is incorporated or in which its funding office under this letter or any Guarantee is located); and/or

- (ii) increase the cost of, or impose an additional cost on, the Issuing Bank in relation to the making, issuing or maintaining of the Facility or the Guarantees,

then and in each such case:-

- (1) the Issuing Bank shall notify the Applicant in writing of such event promptly upon its becoming aware of the same; and
- (2) subject to Clause 16(a), the Applicant shall on demand pay to the Issuing Bank the amount which the Issuing Bank certifies as the amount required to compensate the Applicant for such increased cost; and
- (3) without prejudice to paragraph (2) above, the Applicant and the Issuing Bank shall discuss in good faith whether any alternative arrangement may be made to avoid such increased cost.

12. Indemnities

If an amount due to the Issuing Bank from the Applicant in one currency (the "first currency") is received by the Issuing Bank in another currency (the "second currency"), the Applicant's obligations to the Issuing Bank in respect of such amount shall only be discharged to the extent that the Issuing Bank may purchase the first currency with the second currency in accordance with its normal banking practice. If the amount of the first currency which may be so purchased (after deducting any costs of exchange and any other related costs) is less than the

amount so due, the Applicant shall indemnify the Issuing Bank against the shortfall.

13. Payments

- (a) All payments by the Applicant under this letter shall be made to the Issuing Bank to its account at such office or bank as it may notify to the Applicant for this purpose.
- (b) Subject to Clause 16(a) (to the extent that Clause 16(a) is applicable to the relevant payment), payments under this letter shall be made for value on the due date at such times and in such funds as the Issuing Bank may specify as being customary at the time for the settlement of the relevant currency in cleared funds.
- (c) Subject to Clause 16(a) (to the extent that Clause 16(a) is applicable to the relevant payment), all payments made by the Applicant under this letter shall be made in full without set-off or counterclaim, restriction, condition and free and clear of any Tax or other deduction or withholdings of any nature now or hereafter imposed save as provided in Clause 14.
- (d) When any payment under this letter would otherwise be due on a day which is not a Business Day, the due date for payment shall, subject to Clause 16(a) (to the extent that Clause 16(a) is applicable to the relevant payment), be the immediately following Business Day unless that immediately following Business Day is in another calendar month, in which case the due date for payment will be brought forward to the previous Business Day. In either case, the amount payable shall be adjusted accordingly.
- (e) The Issuing Bank shall maintain, in accordance with its usual practices, an account or accounts showing the sums owing by the Applicant under this letter and all payments in respect thereof made by the Applicant from time to time. Such account or accounts shall, in the absence of manifest error, be conclusive as to the amount from time to time owing by the Applicant under this letter.
- (f) Any certificate or determination of the Issuing Bank as to the Applicant's liability under this letter and any certificate or determination or calculation by the Issuing Bank of any currency exchange rate shall, in the absence of manifest error, be conclusive and binding on the Applicant.

14. Taxes

If at any time the Applicant is required to make any deduction or withholding in respect of Taxes or otherwise from any payment due under this letter for the account of the Issuing Bank, the sum due from the Applicant in respect of such payment shall be increased to the extent necessary to ensure that, after the making of such deduction or withholding, the Issuing Bank receives on the due date for such payment (and retains, free from any liability in respect of such deduction or withholding) a net sum equal to the sum which it would have received had no such deduction or withholding been required to be made and, subject to Clause 16(a), the Applicant shall indemnify the Issuing Bank against any losses or costs incurred by the Issuing Bank by reason of any failure of the Applicant to make any such deduction or withholding or by reason of any increased payment not being made on

the due date for such payment. The Applicant shall promptly deliver to the Issuing Bank any receipts, certificates or other proof evidencing the amounts (if any) paid or payable in respect of any deduction or withholding as aforesaid. Subject to Clause 16(a), the Applicant shall, upon the demand of the Issuing Bank, indemnify the Issuing Bank against any Taxes (other than Taxes on overall net income) which may be imposed, levied, collected, assessed or otherwise claimed on, from or against the Issuing Bank in respect of any sum paid by the Applicant under this letter and against all costs, losses, expenses and liabilities which may be incurred or suffered by the Issuing Bank as a result of any levy, collection, assessment, imposition or claim contemplated in this Clause 14.

15. Further Assurances

The Applicant shall from time to time and at any time, whether before or after the Charge Over Deposit Account shall have become enforceable, execute and do all such transfers, assignments, assurances, acts and things as the Issuing Bank (whose opinion shall be conclusive and binding upon the Applicant) may reasonably require for perfecting the security position of the Issuing Bank under the Charge Over Deposit Account.

16. Subordination

- (a) Except for any debt or claim of the Issuing Bank against the Applicant under or in respect of sub-Clause 5(a)(v) (in relation to the initial guarantee issuance fee) or under or in respect of Clause 6 (Commitment Fee and Guarantee Issuance Fee) or Clause 19 (Expenses) of this letter, all other debts and claims of the Issuing Bank against the Applicant under or in respect of this letter (including under any document the form of which appears as a schedule to this letter), the Charge Over Deposit Account and/or under or in connection with any and all Guarantees issued under the Facility shall be postponed to the remaining Relevant Liabilities owed to the Relevant Creditors and, accordingly:-
- (i) except in the event of the liquidation of the Applicant (to which the provisions of (iii) below shall apply), the Issuing Bank shall not be permitted to recover or enforce or take any action to recover or enforce any such debt or claim of the Issuing Bank unless and until all of the remaining Relevant Liabilities of the Relevant Creditors have been fully paid or have otherwise been discharged, satisfied, released or ceased to exist;
 - (ii) the Issuing Bank shall not, on the ground of any such debt or claim against the Applicant (but without prejudice to any other ground which the Issuing Bank may have), claim any set-off, abatement or other extinction or reduction in respect of any amount payable by the Issuing Bank to the Applicant unless and until all of the remaining Relevant Liabilities of the Relevant Creditors have been fully paid or have otherwise been discharged, satisfied, released or ceased to exist; and
 - (iii) the Issuing Bank shall give to the Relevant Creditors in respect of such Relevant Liabilities the benefit of any proof which it is entitled to make in the liquidation of the Applicant in respect of any such debt or claim against the Applicant, until the remaining Relevant Liabilities of the Relevant

Creditors have been fully paid or have otherwise been discharged, satisfied, released or ceased to exist.

By signing this letter below, the Beneficiary shall be entitled to the benefit of the provisions of this clause 16(a), which shall not be amended, varied, modified or waived in any manner without the prior written consent of each party hereto.

- (b) Following all the Relevant Liabilities of the Relevant Creditors having been fully paid or having otherwise been discharged, satisfied, released or ceased to exist, all debts or claims of the Issuing Bank against the Applicant under or in respect of this letter, the Charge Over Deposit Account and/or under or in connection with any and all Guarantees issued under the Facility, shall rank at least equally with all the other unsecured and unsubordinated obligations of the Applicant at the relevant time.

17. Assignment And Participation

- (a) This letter shall be binding upon and enure to the benefit of each party hereto and its successors.
- (b) Neither the Issuing Bank nor the Applicant shall be permitted to assign or transfer any of its respective rights, benefits, duties or obligations hereunder.
- (c) Subject to Clause 17(a), the Issuing Bank may at any time grant rights of sub-participation in all or any part of its rights or benefits hereunder.

18. Waiver

No waiver of any of the Issuing Bank's rights or powers or any consent by the Issuing Bank shall be valid unless signed by the Issuing Bank in writing. No failure or delay by the Issuing Bank in exercising any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise preclude any other rights, power or privilege. The rights and remedies provided herein are cumulative and not exclusive of any rights or remedies provided by law or any other rights the Issuing Bank may have.

19. Expenses

The Applicant shall forthwith on demand reimburse the Issuing Bank the amount of up to US\$30,000, being the agreed amount of the expenses (including but not limited to legal fees and out-of-pocket expenses) incurred by the Issuing Bank in connection with the negotiation, preparation and execution of this letter and the Charge Over Deposit Account, drawdown under this letter and registration of the Charge Over Deposit Account as a registered charge. It is acknowledged that the agreed amount of the expenses referred to in the immediately preceding sentence are the expenses incurred by the Issuing Bank in connection with the matters referred to in that sentence and would not cover any additional work unconnected with those matters which the Applicant may request the Issuing Bank to undertake in the future.

20. Interest

- (a) If any sum payable by the Applicant under this Facility letter is not paid on its due date, including by reason of the application of the provisions of Clause 16(a) to that sum, the period beginning on the due date and ending on the date upon which the obligation of the Applicant to pay such sum (the balance thereof for the time being unpaid being herein referred to as an "unpaid sum") is discharged in full shall be divided into successive periods, each of which (other than the first) shall start on the last day of the preceding such period and the duration of each of which shall be reasonably selected by the Issuing Bank, acting in good faith.
- (b) During each such period relating thereto as is mentioned in Clause 20(a), an unpaid sum shall bear interest at a rate per annum equal to the average of the prime lending rate for Hong Kong dollars offered by the Issuing Bank at the relevant time for the relevant period. So long as the unpaid sum remains outstanding, interest accrued on such unpaid sum shall be compounded at the end of each such period referred to in Clause 20(a). The Issuing Bank shall notify the Applicant of the duration of each period and each interest rate determined under Clause 20(a) and under this Clause 20(b) respectively, provided that failure on the part of the Issuing Bank to do so will not absolve the responsibility of the Applicant to pay interest in accordance with the terms and provisions herein mentioned.
- (c) Interest shall be calculated on the basis of the actual number of days elapsed and a year of 365 days including the first day of the period during which it accrues but excluding the last.

21. Undertakings

- (a) The Applicant undertakes with the Issuing Bank that so long as any Guarantee remains outstanding, the Applicant will, unless the Issuing Bank otherwise first agrees in writing (such agreement not to be unreasonably withheld or delayed):
 - (i) deliver to the Issuing Bank:
 - (1) as soon as available and in any event within 120 days after the end of each of the Applicant's Financial Years (as defined below), beginning with the Applicant's Financial Year ending on 31 March 2005, its annual audited financial statements both on a consolidated and non-consolidated basis as at the end of and for that Applicant Financial Year;
 - (2) as soon as available and in any event within 90 days after the end of the first six months of each of the Applicant's Financial Years (beginning with the six months ending on 30 September 2004), the Applicant's semi-annual unaudited financial statements both on a consolidated and non-consolidated basis and as at the end of and for the relevant six month period;
 - (3) for so long as any securities issued by the Beneficiary are listed on The Stock Exchange of Hong Kong Limited or any recognised stock exchange, the Applicant's quarterly unaudited financial statements for the quarters ending 30 June and 31 December in each Applicant Financial Year both on a consolidated and non-consolidated basis as soon as the same become available, but in any event not later than

the date falling 60 days after the end of each such quarter of each of the Applicant's Financial Years or, if later, one week after the date of the announcement of the results of the Beneficiary for the six months or, as the case may be, twelve months ended at the end of such quarter. Provided that if a copy of such unaudited financial statements has been delivered by the Applicant prior to the date of such announcement to any third party not being a Group Company (as defined below) and which is not bound by an obligation of confidentiality to the Beneficiary, then such unaudited financial statements shall be delivered not later than the date falling one week after the date on which such unaudited financial statements were delivered to such third party. In the event that all the securities issued by the Beneficiary cease to be so listed, the Applicant shall deliver such quarterly unaudited financial statements as soon as the same become available but in any event within 60 days after the end of such quarter;

- (4) as soon as available and in any event within 180 days after the end of each of the Beneficiary's Financial Years (as defined below), beginning with the Beneficiary's Financial Year ending on 31 December 2004, the Beneficiary's annual audited financial statements on a consolidated basis as at the end of and for that Beneficiary Financial Year;
 - (5) as soon as available and in any event within 120 days after the end of the first six months of each of the Beneficiary's Financial Years (beginning with the six months ending on 30 June 2004), the Beneficiary's consolidated interim report as at the end of and for the relevant six-month period;
- (ii) deliver to the Issuing Bank within 120 days after the end of each Beneficiary Financial Year (beginning with the financial year ending on 31 December 2004), an updated version of the Initial Memorandum (as defined below), in substantially the same form as the Initial Memorandum, to be dated the last day of such Beneficiary Financial Year, which sets out the estimated amount of the outstanding debts and claims against the Beneficiary which, if the date of the relevant updated memorandum were the date of the commencement of the winding up of the Beneficiary, would be admissible in proof against the Beneficiary.
- (b) Each set of financial statements delivered by the Applicant pursuant to sub-Clauses 21(a)(i)(1) to (3) (inclusive) shall be certified by a director of the Applicant, for and on behalf of the Applicant, as fairly representing the financial condition of the Applicant and each of its subsidiaries or, as the case may be, of the Applicant, as at the date as at which those financial statements were drawn up.
 - (c) The Applicant shall procure that each set of Financial Statements delivered pursuant to sub-Clause 21(a)(i)(1) to (3) (inclusive) is prepared using generally accepted accounting principles in Hong Kong ("Hong Kong GAAP") and accounting practices consistent with those applied in the preparation of the audited consolidated financial statements of the Applicant for the Applicant's Financial Year ended 31 March 2004 ("Original Applicant Financial Statements") unless, in

relation to any set of financial statements, it notifies the Issuing Bank that there has been a change in Hong Kong GAAP, the accounting practices or reference periods and its auditors deliver to the Issuing Bank a description of any change necessary for those financial statements to reflect Hong Kong GAAP, accounting practices and reference periods upon which the Original Applicant Financial Statements were prepared.

- (d) The Applicant shall procure that each set of financial statements delivered pursuant to sub-Clause 21(a)(i)(4) and (5) is prepared using Hong Kong GAAP and accounting practices consistent with those applied in the preparation of the audited consolidated financial statements of the Beneficiary for the Beneficiary's Financial Year ended 31 December 2003 ("Original Beneficiary Financial Statements") unless, in relation to any set of financial statements, the Applicant notifies the Issuing Bank that there has been a change in Hong Kong GAAP, the accounting practices or reference periods and the Beneficiary's auditors deliver to the Issuing Bank a description of any change necessary for those financial statements to reflect Hong Kong GAAP, accounting practices and reference periods upon which the Original Beneficiary Financial Statements were prepared.
- (e) The Applicant shall procure that each updated memorandum delivered pursuant to sub-Clause 21(a)(ii) shall be certified by a director of the Beneficiary for and on behalf of the Beneficiary as having been prepared after due enquiry.
- (f) For the purposes of this Clause 21:-
 - (i) "Applicant Financial Year" or "Applicant's Financial Year" means the twelve month period ending on 31 March in each year or such other date as the Applicant may designate at its discretion and notify to the Issuing Bank by not less than three months prior written notice or such shorter period as the Issuing Bank may agree;
 - (ii) "Beneficiary Financial Year" or "Beneficiary's Financial Year" means the twelve month period ending on 31 December in each year or such other date as the Applicant may designate at its discretion and notify to the Issuing Bank by not less than three months prior written notice or such shorter period as the Issuing Bank may agree;
 - (iii) "Group Company" means the Beneficiary and each of its subsidiaries from time to time, or each or any of them, as the context may require;
 - (iv) "Initial Memorandum" means the memorandum dated 31st May, 2004 entitled "Project Dallas - PCCW Estimated Liabilities" which has previously been provided to the Issuing Bank by the Applicant and which sets out the estimated amount of the outstanding debts and claims against the Beneficiary which, if the date of the Initial Memorandum were the date of the commencement of the winding up of the Beneficiary, would be admissible in proof against the Beneficiary.

22. Notice And Service Of Proceedings

- (a) Any notice or other communication given or made under or in connection with the matters contemplated by this letter shall be in writing.

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(b) Any such notice or other communication shall be addressed as provided in paragraph (c) below. All such notices or other communications from the Applicant shall be irrevocable, and shall not be effective until received by the Issuing Bank. All such notices or other communications from the Issuing Bank shall be deemed to have been duly given or made as follows:

(i) if sent by personal delivery, upon delivery at the address of the relevant party;

(ii) if sent by post, two days after the date of posting;

(iii) if sent by facsimile, when despatched.

(c) The relevant addressees and facsimile numbers of the Issuing Bank and the Applicant, respectively, are:

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| <S> | <C> | <C> | <C> |
|-----|---|--|-----------------|
| | Name of party | Address | Facsimile No. |
| | Issuing Bank Standard Chartered Bank (HK) Ltd [GRAPHIC TRANSLATION OMITTED] Attn: Clara Wong, Senior Relationship Manager | 13/F Standard Chartered Bank Building 4-4A Des Voeux Road Central Hong Kong | (852) 2821 1339 |
| | Applicant PCCW-HKT Telephone Limited Attn: Company Secretary | 39th Floor, PCCW Tower TaiKoo Place 979 King's Road Quarry Bay Hong Kong | (852) 2962 5725 |
| | With a copy to:- PCCW-HKT Telephone Limited Attn: Group Treasurer | 39th Floor, PCCW Tower TaiKoo Place 979 King's Road Quarry Bay Hong Kong | (852) 2521 5979 |

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23. Severability

If any provision of this letter is prohibited or unenforceable in any jurisdiction such prohibition or unenforceability shall not invalidate the remaining provisions hereof or affect the validity or enforceability of such provision in any other jurisdiction.

24. Governing Law And Jurisdiction

(a) This letter shall be governed by the laws of Hong Kong.

(b) For the benefit of the Issuing Bank, the Applicant irrevocably agrees that the courts of Hong Kong are to have jurisdiction to settle any disputes which may

arise out of or in connection with this letter and that, accordingly, any legal action or proceedings arising out of or in connection with this letter ("Proceedings") may be brought in those courts and the Applicant irrevocably submits to the jurisdiction of those courts.

- (c) Nothing in this Clause shall limit the right of the Issuing Bank to take proceedings against the Applicant in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the Issuing Bank from taking Proceedings in any other jurisdiction, whether concurrently or not.
- (d) The Applicant irrevocably waives any objection which it may at any time have to the laying of the venue of any Proceedings in any court referred to in this Clause and any claim that any such Proceedings have been brought in an inconvenient forum.
- (e) The Applicant irrevocably consents to any process in any Proceedings anywhere being served by mailing a copy by post in accordance with the Notices provision of this letter. Nothing shall affect the right to serve any process in any other manner permitted by law.
- (f) To the extent that the Applicant has or hereafter may acquire any immunity (sovereign or otherwise) from any legal action, suit or proceeding, from jurisdiction of any court or from set-off or any legal process (whether service of notice, attachment prior to judgment, attachment in aid of execution of judgment, execution of judgment or otherwise) with respect to itself or any of its property, the Applicant hereby irrevocably waives and agrees not to plead or claim such immunity in respect of its obligations under this letter.

We trust that the above terms and conditions are acceptable to you and we look forward to a mutually rewarding relationship. Please signify your acceptance of the Facility upon the terms and conditions of this letter by signing the form of acceptance on the enclosed copy of this letter and returning the copy letter to us by no later than 7 days from the date hereof. In the absence of our written agreement to the contrary, if we do not receive the duly signed acceptance and copy letter by such time and date this offer will automatically lapse.

Yours faithfully,
For and on behalf of
STANDARD CHARTERED BANK (HK) LTD
[GRAPHIC TRANSLATION OMITTED]

Authorised signatory

Authorised signatory

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We hereby accept the offer by Standard Chartered Bank (HK) Ltd [GRAPHIC TRANSLATION OMITTED] to make available to us the Facility on and subject to the terms and conditions contained in its letter dated 13 July 2004 of which this is a true copy.

For and on behalf of
PCCW-HKT TELEPHONE LIMITED

Authorised signatory and director
Date: 13 July 2004

We hereby accept the benefit of the subordination provisions of clause 16(a) of the Facility Letter dated 13 July 2004 of which this is a true copy.

For and on behalf of
PCCW LIMITED

Authorised signatory and director
Date: 13 July 2004

SCHEDULE 1

"Beneficiary" means PCCW Limited, a company incorporated in Hong Kong and having its registered office at 39th Floor, PCCW Tower, TaiKoo Place, 979 King's Road, Quarry Bay, Hong Kong;

"Business Day" means a day on which banks are open for business in Hong Kong.

"Capital Reduction" means a reduction of the capital of the Beneficiary proposed to be effected by eliminating the entire sum standing to the credit of the Beneficiary's share premium account, in order that the credit arising can be applied to eliminate the accumulated losses of the Beneficiary, with the balance of the credit arising being transferred to a special capital reserve to be created by the Beneficiary;

"Drawdown Period" means the period commencing on the date of this letter and expiring on the first anniversary of the date of this letter;

"Drawing" means the issuance of a Guarantee under the Facility;

"Final Maturity Date" means the date falling on the fourth anniversary of the date of this letter;

"Guarantee" means a guarantee denominated in Hong Kong Dollars issued or to be issued by the Issuing Bank at the request of the Applicant pursuant to the Facility in the form set out in Schedule 2 to this letter;

"Guaranteed Amount" means the maximum amount in Hong Kong Dollars guaranteed by the Issuing Bank under a Guarantee issued under this Facility, as stated in clause 1.2(b) of the relevant Guarantee;

"Guarantee Request and Notice of Drawing" means the request for the issuance of a Guarantee and a notice of drawing relating thereto, accompanied by an application form as is normally in use and required by the Issuing Bank, in the form set out in Schedule 3 to this letter;

"HK\$" or "Hong Kong Dollars" means the lawful currency of Hong Kong;

"Hong Kong" means the Special Administrative Region of the People's Republic of China;

"Relevant Creditors" means any creditor or claimant in respect of a Relevant Liability;

"Relevant Liability" means any debt or claim outstanding at the date on which the proposed Capital Reduction becomes effective in accordance with section 61 of the Companies Ordinance which, if that date were the date of the commencement of the winding up of the Beneficiary, would be admissible in proof against the Beneficiary;

"Taxes" includes all present and future taxes, levies, imposts, duties, fees or charges of whatever nature together with interest thereon and penalties in respect thereof and "Taxation" shall be construed accordingly.

In this letter, unless the context otherwise requires:-

- (a) references to Clauses and Schedules are to be construed as references to the clauses of, and schedules to, this letter and references to this letter include its Schedules;
- (b) references to (or to any specified provision of) this letter or any other document shall be construed as references to this letter, that provision or that document as in force for the time being and as amended in accordance with the terms thereof, or, as the case may be, with the agreement of the relevant parties and (where such consent is, by the terms of this letter or the relevant document, required to be obtained as a condition to such amendment being permitted) the prior written consent of the Issuing Bank;
- (c) words importing the plural shall include the singular and vice versa;
- (d) references to a person shall be construed as including references to an individual, firm, company, corporation, unincorporated body of persons or any State or any agency thereof;
- (e) any reference to the "Issuing Bank" shall, where the context permits, be construed so as to include its and any subsequent successors in accordance with their respective interests;
- (f) "including" or "includes" means including or includes without limitation.

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SCHEDULE 2
FORM OF GUARANTEE

1) STANDARD CHARTERED BANK (HK) LTD
[Chinese characters]

(2) PCCW-HKT TELEPHONE LIMITED

(3) PCCW LIMITED

GUARANTEE
in favour of
PCCW LIMITED

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THIS GUARANTEE is made on

BETWEEN:

- (1) STANDARD CHARTERED BANK (HK) LTD [Chinese characters] whose registered office is at 13/F Standard Chartered Bank Building, 4-4A Des Voeux Road Central, Hong Kong (the "Issuing Bank"); and
- (2) PCCW-HKT TELEPHONE LIMITED whose registered office is at 39/F., PCCW Tower, TaiKoo Place, 979 King's Road, Quarry Bay, Hong Kong (the "Applicant");

IN FAVOUR of:

- (3) PCCW LIMITED whose registered office is at 39/F., PCCW Tower, TaiKoo Place, 979 King's Road, Quarry Bay, Hong Kong (the "Beneficiary").

WHEREAS:

- (A) The Beneficiary proposes to present a petition (the "petition") to the High Court ("High Court") of the Hong Kong Special Administrative Region of the People's Republic of China ("Hong Kong"), for the confirmation of a cancellation of the Beneficiary's share premium account (referred to herein as the "capital reduction").
- (B) With a view to obtaining an order of the High Court pursuant to section 60 of the Companies Ordinance (Cap. 32) of the Laws of Hong Kong confirming the capital reduction, the Issuing Bank has agreed at the request of the Applicant to give this guarantee in respect of the Beneficiary's liabilities as is set out in this document.

IT IS AGREED as follows:

1. Guarantee

- 1.1. Subject to the capital reduction being confirmed by the High Court and such capital reduction becoming effective in accordance with Section 61 of the Companies Ordinance, the Issuing Bank hereby undertakes that if the Beneficiary fails to pay or satisfy any debt or claim outstanding at the date on which the proposed capital reduction becomes effective in accordance with Section 61 of the Companies Ordinance (the "Effective Date") and which, if that date were the date of the commencement of the winding up of the Beneficiary, would be admissible in proof against the Beneficiary (any such debt or claim being referred to herein as a "Relevant Liability"), the Issuing Bank will, subject to Clause 1.2, pay or satisfy such Relevant Liability, upon and subject to the terms and conditions of this Guarantee.
- 1.2. Subject to Clause 1.4 below, the liability of the Issuing Bank under this Guarantee shall be limited to the maximum aggregate sum of HK\$[not to

exceed 780,000000 and which amount shall be the amount of the dividends or other distributions proposed to be declared in reliance on the relevant Guarantee plus the fees and expenses of issuing the relevant Guarantee payable under the Facility Letter, the amount of which attributable to the relevant Guarantee will be agreed with the Issuing Bank prior to the issue of the Guarantee].

- 1.3. The Issuing Bank's liability under this Guarantee shall cease and determine at [complete time] on [complete date, which shall not be later than the Final Maturity Date specified in the Facility Agreement] (the "Termination Date"), but without prejudice to the continuing liability of the Issuing Bank to pay or satisfy (subject to Clauses 1.2 and 1.4):-
- (a) a Relevant Liability which is not disputed by the Beneficiary and in respect of which a creditor or claimant in respect of a Relevant Liability ("Relevant Creditor") has made written demand of the Issuing Bank prior to the Termination Date, but which has not been paid or satisfied by the Issuing Bank prior to that date; and
 - (b) a Relevant Liability which is disputed by the Beneficiary, but in respect of which a Relevant Creditor has both (1) made written demand of the Issuing Bank prior to the Termination Date and (2) commenced court proceedings within one month of that written demand, but which has not been paid or satisfied by the Issuing Bank prior to the Termination Date.
- 1.4. The liability of the Issuing Bank shall be extinguished and this Guarantee shall cease to have effect if the amount paid up on the share capital in the Beneficiary has been increased as a result of issues of shares made after the Effective Date for cash or in consideration of property, shares or other assets or on the capitalisation of distributable reserves (save in so far as the proceeds of any such issue are applied in accordance with sections 49A or 49B of the Companies Ordinance) by the sum of HK\$[insert amount of capital reduction].

2. Payment Conditions

No payment shall be made by the Issuing Bank under this Guarantee to any Relevant Creditor unless a written demand has been made by the Relevant Creditor on the Issuing Bank for payment of the Relevant Creditor's Relevant Liability in accordance with Clause 6 below and any one of the following sub-Clauses (a) to (e) is satisfied in relation to the relevant demand:

- (a) the Issuing Bank has received notice in writing from the Beneficiary that the demand is in respect of a Relevant Liability which the Beneficiary has admitted in writing to be then due and payable and outstanding for at least 14 banking days and that such Relevant Liability is properly due and payable under the terms of this Guarantee; or

- (b) the Issuing Bank has received notice in writing from the Beneficiary that the demand is in respect of a Relevant Liability which has been the subject of a final judgement of a court of competent jurisdiction and that such Relevant Liability is properly due and payable under the terms of this Guarantee; or
- (c) if a receiver or receiver and manager has been appointed over all or any of the Beneficiary's revenues and assets and has not been discharged or stayed within 14 days, the Issuing Bank has received confirmation in writing from the receiver or receiver and manager that the Relevant Liability has, as a result, become due and payable under or pursuant to the provisions creating or constituting it and that such Relevant Liability is properly due and payable under the terms of this Guarantee; or
- (d) if a liquidation of the Beneficiary has commenced, the Issuing Bank has received confirmation in writing from the liquidator that the Relevant Creditor would then be entitled to prove in the liquidation of the Beneficiary in respect of a Relevant Liability and that such Relevant Liability is properly due and payable under the terms of this Guarantee; or
- (e) the Issuing Bank has received confirmation in writing by an order of a court of competent jurisdiction that such Relevant Liability is properly due and payable under the terms of this Guarantee.

3. Payments

- 3.1. If a liquidation of the Beneficiary has commenced and the relevant conditions under Clause 2 above have been satisfied, payments shall (subject to the other terms and conditions of this Guarantee) be made by the Issuing Bank under this Guarantee to the Relevant Creditors on a pro-rata basis, according to the amount of the Relevant Liability which each Relevant Creditor is entitled to prove in the liquidation of the Beneficiary, in each case, as confirmed in writing to the Issuing Bank by the liquidator of the Beneficiary in accordance with the instructions contained therein.
- 3.2. In any other case, provided that the relevant payment conditions set out in Clause 2 above have been satisfied and subject to the other terms and conditions of this Guarantee, the Issuing Bank shall satisfy the Relevant Liabilities in the order in which claims in respect of those Relevant Liabilities are received by the Issuing Bank. If at any time the aggregate of claims received by the Issuing Bank in respect of Relevant Liabilities exceeds the maximum aggregate sum detailed in Clause 1.2 above, then the Issuing Bank shall satisfy such claims first received by it up to such maximum aggregate sum and all such claims not satisfied by the Issuing Bank under this Guarantee shall be the responsibility of the Beneficiary.

4. Postponement of Claims

If, pursuant to Clause 1, the Issuing Bank shall pay or satisfy any part of the Relevant Liability owed to a Relevant Creditor, the resulting debt or claim of the Issuing Bank against the Applicant and the resulting debt or claim of the Issuing Bank against the Beneficiary shall each be postponed to the remaining Relevant Liabilities owed to the Relevant Creditors and, accordingly:-

- (a) except in the event of the liquidation of the Applicant (to which the provisions of (c) below shall apply), the Issuing Bank shall not be permitted to recover or enforce or take any action to recover or enforce any such debt or claim of the Issuing Bank against the Applicant, and the Applicant shall not make and the Issuing Bank shall not receive any payment in respect of any such debt or claim against the Applicant, unless and until all of the remaining Relevant Liabilities of the Relevant Creditors have been fully paid or have otherwise been discharged, satisfied, released or ceased to exist;
- (b) the Issuing Bank shall not, on the ground of any such debt or claim against the Applicant (but without prejudice to any other ground which the Issuing Bank may have), claim any set-off, abatement or other extinction or reduction in respect of an amount payable by the Issuing Bank to the Applicant, unless and until all of the remaining Relevant Liabilities of the Relevant Creditors have been fully paid or have otherwise been discharged, satisfied, released or ceased to exist;
- (c) the Issuing Bank shall give to the Relevant Creditors in respect of such Relevant Liabilities the benefit of any proof which it is entitled to make in the liquidation of the Applicant in respect of any such debt or claim against the Applicant, until the remaining Relevant Liabilities of the Relevant Creditors have been fully paid or have otherwise been discharged, satisfied, released or ceased to exist;
- (d) except in the event of the liquidation of the Beneficiary (to which the provisions of (f) below shall apply), the Issuing Bank shall not be permitted to recover or enforce or take any action to recover or enforce any such debt or claim of the Issuing Bank against the Beneficiary, and the Beneficiary shall not make and the Issuing Bank shall not receive any payment in respect of any such debt or claim against the Beneficiary, unless and until all of the remaining Relevant Liabilities of the Relevant Creditors have been fully paid or have otherwise been discharged, satisfied, released or ceased to exist;
- (e) the Issuing Bank shall not, on the ground of any such debt or claim against the Beneficiary (but without prejudice to any other ground which the Issuing Bank may have), claim any set-off, abatement or other extinction or reduction in respect of an amount payable by the Issuing Bank to the Beneficiary, unless and until all of the remaining Relevant Liabilities of the Relevant Creditors have been fully paid or have otherwise been discharged, satisfied, released or ceased to exist;

- (f) the issuing Bank shall give to the Relevant Creditors in respect of such Relevant Liabilities, the benefit of any proof which it is entitled to make in the liquidation of the Beneficiary in respect of any such debt or claim against the Beneficiary, until the remaining Relevant Liabilities of the Relevant Creditors have been fully paid or have otherwise been discharged, satisfied, released or ceased to exist.

Following all the Relevant Liabilities of the Relevant Creditors having been fully paid or having otherwise been discharged, satisfied, released or ceased to exist, the debt or claim of the Issuing Bank against the Applicant and the debt or claim of the Issuing Bank against the Beneficiary, in each case resulting from the Issuing Bank having paid or satisfied any part of the Relevant Liability owed to a Relevant Creditor, shall rank at least equally with all the other unsecured and unsubordinated obligations of the Applicant or the Beneficiary (as the case may be) at the relevant time.

5. Benefit and Substitution of Guarantee

The provisions of Clauses 1 and 4 of this Guarantee shall enure for the benefit of the Relevant Creditors at the Effective Date in respect of any Relevant Liabilities and shall be enforceable against the Issuing Bank by the Relevant Creditors as aforesaid provided that:

- (a) this Guarantee may be terminated or amended with the consent of the Beneficiary, the Applicant and the Issuing Bank and with the approval of the High Court, subject to such conditions as may be imposed by the High Court; and
- (b) the liability of the Issuing Bank under this Guarantee may be reduced or terminated in whole or in part, if and to the extent that a further guarantee, on such terms as the High Court may approve, is entered into to protect creditors of the Beneficiary who would otherwise have had the benefit of this Guarantee.

6. Demands

- 6.1. Demands under this Guarantee shall be delivered personally or by recorded delivery to the Issuing Bank, marked for the attention of Clara Wong, Senior Relationship Manager, at 13/F Standard Chartered Bank Building, 4-4A Des Voeux Road Central, Hong Kong or such other address in Hong Kong as the Issuing Bank may notify the Beneficiary from time to time, accompanied by a declaration from the claimant that the Beneficiary has failed to pay the sums due and that the claimant did not consent to the proposed capital reduction. Such declaration shall be signed by two directors of the claimant (if the claimant is a corporation) or by the claimant (if the claimant is an individual) and, in each case, be accompanied by such evidence as the Issuing Bank may reasonably request to confirm that the claimant is entitled to make demand under this Guarantee.

6.2. The Issuing Bank may rely on any demand or other document or information believed by it to be genuine and correct to have been signed or communicated by the person(s) by whom it purports to be signed or communicated and the Issuing Bank shall not be liable for the consequences of such reliance and shall have no obligation to verify the facts or matters stated therein are true and correct.

6.3. The original copy of this Guarantee should be returned to the Issuing Bank when the obligations under this Guarantee are terminated and in any event no later than one month after the later of:

(a) the Termination Date; or

(b) if on the Termination Date any Relevant Liabilities referred to in sub-Clause 1.3(a) or 1.3(b) remain outstanding, the date on which the last of those Relevant Liabilities is paid or satisfied by the Issuing Bank or the Issuing Bank receives notice in writing from the Beneficiary that the last of those Relevant Liabilities has otherwise been finally resolved.

Except in the circumstances contemplated by sub-Clauses 1.3(a) and 1.3(b), the Issuing Bank shall have no liability under this Guarantee in respect of any demand made after the Termination Date.

7. Law and Jurisdiction

7.1. This Guarantee shall be governed by and construed in accordance with the laws of Hong Kong.

7.2. The Issuing Bank agrees that the Hong Kong courts have jurisdiction to settle any disputes in connection with this Guarantee and accordingly submits to the jurisdiction of the Hong Kong courts.

8. Consent

The Issuing Bank, as a creditor or contingent creditor of the Beneficiary, hereby consents to the capital reduction as referred to in the petition.

9. Amendment

No amendment to this Guarantee is effective for any purpose unless it has been expressly agreed to in writing by the Beneficiary, the Applicant and the Issuing Bank.

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IN WITNESS WHEREOF this Guarantee has been executed as a Deed by the parties hereto the day and year first before written.

STANDARD CHARTERED BANK (HK) LTD)
[Chinese characters])

)
)
By:)

as the duly authorized attorney of)
Standard Chartered Bank (HK) Ltd)
[Chinese characters]

Witness

THE COMMON SEAL of)
PCCW-HKT TELEPHONE LIMITED)
was hereunto affixed)
in the presence of:-)

Witness

THE COMMON SEAL of)
PCCW LIMITED)
was hereunto affixed)
in the presence of:-)

Witness

SCHEDULE 3

GUARANTEE REQUEST AND NOTICE OF DRAWING

To: Standard Chartered Bank (HK) Ltd
[GRAPHIC TRANSLATION OMITTED]

_____, 2004

FACILITY LETTER DATED 13 July 2004 (the "Facility Letter")
DRAWING NO.

We refer to the above Agreement and hereby:-

- (a) request Standard Chartered Bank (HK) Ltd [GRAPHIC TRANSLATION OMITTED] to issue and establish a Guarantee under the Facility, particulars of which are being set out in the application form(s) herewith;
- (b) confirm that the Guarantee is to be issued for the purposes set out in Clause 3 of the Facility letter;
- (c) certify that the representations and warranties in the Facility letter are true and accurate as though made on and as at the date of this Guarantee Request and Notice of Drawing with reference to the facts and circumstances subsisting on such date;
- (d) certify that no event referred to in Schedule 4 of the Facility letter has occurred and is continuing that has not been properly waived or remedied; and
- (e) certify that the covenants and undertakings of the Applicant in the Facility letter have at all times been duly complied with, observed and performed.

Expressions used herein shall have the same meanings defined in the Facility letter.

For and on behalf of
PCCW-HKT Telephone Limited

Director

SCHEDULE 4

The events referred to in Clause 5(a)(vi) of the Facility letter are:-

- (i) Non-payment: the Applicant has failed to pay an amount due under the Facility Letter on the date on which it was due in accordance with the terms of the Facility Letter, except if the failure was caused solely by any administrative error or technical difficulty with the banking system in relation to the transmission of funds and payment was subsequently made within three Business Days of such due date;
- (ii) Other Breaches: the Applicant has failed duly and punctually to comply with any of its other obligations under the Facility letter or the Charge Over Deposit Account and in respect only of a failure which is capable of remedy, has not remedied such failure to the Issuing Bank's satisfaction within 20 Business Days after receipt of written notice from the Issuing Bank requiring it to do so, or if earlier, 20 Business Days of the date on which the Applicant first became aware of such breach;
- (iii) Breach of Representation: any representation or warranty made by or in respect of the Applicant in or pursuant to the Facility letter or the Charge Over Deposit Account is or proves to have been incorrect or misleading in any respect which materially adversely affects the ability of the Applicant to perform its obligations under the Facility letter and/or the Charge Over Deposit Account unless the underlying circumstances (if in the Issuing Bank's reasonable opinion capable of remedy) are remedied to the Issuing Bank's satisfaction within 20 Business Days of the Issuing Bank giving written notice to the Applicant requiring it to remedy or, if earlier, within 20 Business Days of the date on which the Applicant first became aware of such breach;
- (iv) Consents: any consent, authorisation, licence or approval of, or registration with or declaration to, governmental or public bodies or authorities or courts required by the Applicant to authorise, or required by the Applicant in connection with, the execution, delivery, performance, validity, enforceability or admissibility in evidence of the Facility letter or the Charge Over Deposit Account is modified in a manner unacceptable to the Issuing Bank (acting reasonably) or is not granted or is revoked or terminated or expires and is not renewed or otherwise ceases to be in full force and effect;
- (v) Creditors: a creditor has attached or taken possession of, or a distress, execution sequestration or other process has been levied or enforced upon or sued out against, any of the material undertakings, assets, rights or revenues of the Applicant and has not been discharged within 14 days or any step has been taken to enforce any present or future security interest on or over all or any substantial part of the assets or revenues of the Applicant; or
- (vi) Suspension of Debts: the Applicant has stopped or suspended or threatened to stop or suspend payment of all or any material part of its debts or is unable or admits inability to pay its debts as they fall due or has commenced negotiations with its creditors generally or has taken any proceedings or other step with a view to the general readjustment or rescheduling or a moratorium

of all or part of its indebtedness or has proposed a general assignment or entered into any composition or other arrangement for the benefit of its creditors generally or any class of creditors or proceedings have been commenced in relation to the Applicant under any law, regulation or procedure relating to reconstruction or readjustment of debts; or

- (vii) Winding-up: any person has taken any action, or any proceedings have been started or other steps taken by the Applicant or any other person, for (1) the Applicant to be adjudicated or found bankrupt or insolvent, (2) the winding-up, re-organisation, reconstruction (other than a solvent re-organisation or re-construction) or dissolution of the Applicant or (3) the appointment of a liquidator, administrator, trustee, receiver or similar officer of the Applicant of the whole or a material part of the Applicant's undertakings, assets, rights or revenues except those which (x) the Applicant can demonstrate to the satisfaction of the Issuing Bank are frivolous, vexatious or an abuse of the process of the court or (y) are discharged within 14 days ; or
- (viii) Illegality: it has become or will become unlawful for the Applicant to perform all or any of its obligations under the Facility letter or the Charge Over Deposit Account or any of the obligations of the Applicant under the Facility letter or the Charge Over Deposit Account are not or have ceased to be legal, valid and binding and in full force and effect; or
- (ix) Repudiation: the Applicant has repudiated the Facility letter or the Charge Over Deposit Account or has done or caused to be done any act or thing evidencing an intention to repudiate the Facility letter or the Charge Over Deposit Account or any action or proceedings have been commenced (and not withdrawn or dismissed within a period of 14 days after its commencement) to enjoin or restrain the performance of or compliance with any obligation of the Applicant under the Facility letter or the Charge Over Deposit Account or otherwise dispute the ability of the Applicant to enter into, exercise its respective rights or perform or comply with any of its respective obligations under the Facility letter or the Charge Over Deposit Account.

DATED: 13 July 2004

Deed of Charge Over Deposit Account

between

PCCW-HKT Telephone Limited
as Chargor

Standard Chartered Bank (HK) Ltd
[GRAPHIC TRANSLATION OMITTED]
as Issuing Bank

Standard Chartered Bank (HK) Ltd
[GRAPHIC TRANSLATION OMITTED]
as Account Bank

and

PCCW Limited
as Beneficiary
relating to

GUARANTEE FACILITY OF UP TO HK\$780,000,000

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THIS Deed of CHARGE is dated 13 July 2004 and made

BETWEEN:

- (1) PCCW-HKT TELEPHONE LIMITED, (the "Chargor" which expression shall include its lawful successors, assigns and transferees), a company incorporated under the laws of Hong Kong with company number 676 whose registered address is at 39/F., PCCW Tower, TaiKoo Place, 979 King's Road, Quarry Bay, Hong Kong.
- (2) STANDARD CHARTERED BANK (HK) LTD [GRAPHIC TRANSLATION OMITTED], (the "Issuing Bank") whose address is at 4-4A Des Voeux Road, Central, Hong Kong.
- (3) STANDARD CHARTERED BANK (HK) LTD [GRAPHIC TRANSLATION OMITTED], (the "Account Bank") whose address is at 4-4A Des Voeux Road, Central, Hong Kong.
- (4) PCCW LIMITED, (the "Beneficiary"), a company incorporated under the laws of Hong Kong with company number 69030 whose registered address is at 39/F., PCCW Tower, TaiKoo Place, 979 King's Road, Quarry Bay, Hong Kong.

WITNESSES as follows:

1. INTERPRETATION

- 1.1 In this Deed (including the Schedules), all defined terms have the meanings as set out in the Facility Letter unless the context otherwise requires or unless defined below to have the meanings respectively set opposite them:

- "Deposit(s)" all sums of money specified in Schedule 1 to this Deed, which shall include all or any part of the money payable pursuant to such deposit(s) and the debt(s) represented thereby;
- "Facility Letter" the facility letter dated 13 July 2004 between PCCW-HKT Telephone Limited (as Applicant), Standard Chartered Bank (HK) Ltd [GRAPHIC TRANSLATION OMITTED] (as Issuing Bank) and PCCW Limited (as Beneficiary) relating to the Guarantee Facility of up to HK\$780,000,000, which expression shall include any amendments, supplements, accessions, variations or additions to such facility letter;
- "Secured Sums" all money and liabilities now or in the future due, owing or incurred to the Issuing Bank by the Chargor under the Facility Letter, any Guarantees issued under the Facility Letter and this Deed whether actually or contingently and in whatever name or style, together with all interest, discount, commission, fees, charges, costs and expenses for which the Chargor or the Beneficiary may be or become liable to the Issuing Bank; and
- "Security" the security constituted by this Deed.

1.2 In this Deed, unless the context otherwise requires:

- (a) references to this Deed or any other document include references to this Deed or such other document as varied, supplemented, restated and/or replaced in any manner from time to time;
- (b) subject to clause 12 (Assignment and Participation), references to any party shall, where relevant, be deemed to be references to or to include, as appropriate, its lawful successors, assignees or transferees;
- (c) headings are inserted for convenience only and shall be ignored in construing this Deed; and
- (d) references to "the security" or "this security" means the security constituted by this Deed.

2. CHARGING CLAUSE

- 2.1 The Chargor as legal and beneficial owner hereby charges to the Issuing Bank by way of first fixed charge the Deposit(s), together with all interest from time to time accruing on such Deposit(s) (if any), as security for the payment or discharge of all Secured Sums.
- 2.2 The Chargor hereby assigns to the Issuing Bank for the purposes of, and to give effect to this security, its right to require the Account Bank to repay to it the Deposit(s) and to pay interest on such Deposit(s) to it.
- 2.3 For the avoidance of doubt, the Chargor agrees that this Deed is to operate by way of security only in favour of the Issuing Bank and that no release of any indebtedness existing now or in the future from the Issuing Bank or the Account Bank to the Chargor is intended or effected by this Deed.

3. RESTRICTION ON REPAYMENT OF THE DEPOSIT(S)

- 3.1 The Chargor agrees that during the currency of this security and notwithstanding any term (express or implied) pursuant to which any of the Deposit(s) is or may be deposited with the Account Bank or paid to the Account Bank or held by the Account Bank, such Deposit(s) shall only be repayable upon written request or demand and the Chargor shall not be entitled to make any request or demand upon the Issuing Bank or the Account Bank for repayment of such Deposit(s) or for payment of interest on such Deposit(s), unless the Issuing Bank shall first have agreed to release this security insofar as it concerns such Deposit(s).
- 3.2 Notwithstanding the provisions of Clause 3.1, the Issuing Bank and the Account Bank shall permit the Deposit(s) and interest on the Deposit(s) to be repaid to the Chargor (and the Chargor shall be entitled to make a request or demand upon the Issuing Bank and/or the Account Bank for repayment of the Deposit(s) and interest on such Deposit(s)) upon the relevant Guarantee issued by the Issuing Bank under the Facility Letter in respect of which the relevant Deposit(s) has been made having been returned to the Issuing Bank endorsed as discharged by the Beneficiary or the Beneficiary having confirmed in writing to the satisfaction of the Issuing Bank that the Issuing Bank no longer has any further liability under the relevant Guarantees and the obligations and liabilities of the Chargor under the Facility Letter in respect of that Guarantee having been discharged in full to the satisfaction of the Issuing Bank. In these circumstances, the Account Bank shall repay the relevant Deposit(s) made in respect of the relevant Guarantee and interest on such

Deposit(s) to the Chargor and the security constituted by this Deed shall be released in respect of the amount of such Deposit(s) and interest thereon so repaid.

- 3.3 Any repayment permitted by the Issuing Bank shall not be deemed to be a release of this security over any other money or interest then or in the future forming part of the Deposit(s) or accrued on such Deposit(s). It is hereby expressly agreed that the terms of this Deed shall override the terms applicable to the Deposit(s).

4. SUBORDINATION

Except for any debt or claim of the Issuing Bank against the Applicant under sub-clause 5(a)(v) of the Facility Letter (in relation to the initial guarantee issuance fee) or under clause 6 (Commitment Fee and Guarantee Issuance Fee) or clause 19 (Expenses) of the Facility Letter, all other debts and claims of the Issuing Bank and the Account Bank against the Chargor or the Beneficiary under the Facility Letter (including under any document the form of which appears as a schedule to the Facility Letter), this Deed and/or under or in connection with any and all Guarantees issued under the Facility Letter shall be postponed to the remaining Relevant Liabilities owed to the Relevant Creditors and, accordingly:-

- (a) except in the event of the liquidation of the Chargor (to which the provisions of (c) below shall apply), the Issuing Bank and the Account Bank shall not be permitted to recover or enforce or take any action to recover or enforce any such debt or claim of the Issuing Bank or the Account Bank against the Chargor, and the Chargor shall not make and the Issuing Bank and the Account Bank shall not receive any payment in respect of any such debt or claim against the Chargor, unless and until all of the remaining Relevant Liabilities of the Relevant Creditors have been fully paid or have otherwise been discharged, satisfied, released or ceased to exist;
- (b) the Issuing Bank and the Account Bank shall not, on the ground of any such debt or claim against the Chargor (but without prejudice to any other ground which the Issuing Bank and/or the Account Bank may have), claim any set-off, abatement or other extinction or reduction in respect of an amount payable by the Issuing Bank or the Account Bank to the Chargor unless and until all of the remaining Relevant Liabilities of the Relevant Creditors have been fully paid or have otherwise been discharged, satisfied, released or ceased to exist;
- (c) the Issuing Bank and the Account Bank shall give to the Relevant Creditors in respect of such Relevant Liabilities, the benefit of any proof which it is entitled to make in the liquidation of the Chargor in respect of any such debt or claim against the Chargor and the full benefit of the Security in respect of any such debt or claim, until the remaining Relevant Liabilities of the Relevant Creditors have been fully paid or have otherwise been discharged, satisfied, released or ceased to exist;
- (d) except in the event of the liquidation of the Beneficiary (to which the provisions of (f) below shall apply), the Issuing Bank and the Account Bank shall not be permitted to recover or enforce or take any action to recover or enforce any such debt or claim of the Issuing Bank or the Account Bank against the Beneficiary, and the Beneficiary shall not make and the Issuing Bank and the Account Bank shall not receive any payment in respect of any such debt or claim against the Beneficiary, unless and until all of the remaining Relevant Liabilities of the Relevant Creditors have been fully paid or have otherwise been discharged, satisfied, released or ceased to exist;

- (e) the Issuing Bank and the Account Bank shall not, on the ground of any such debt or claim against the Beneficiary (but without prejudice to any other ground which the Issuing Bank and/or the Account Bank may have), claim any set-off, abatement or other extinction or reduction in respect of an amount payable by the Issuing Bank or the Account Bank to the Beneficiary unless and until all of the remaining Relevant Liabilities of the Relevant Creditors have been fully paid or have otherwise been discharged, satisfied, released or ceased to exist;
- (f) the Issuing Bank and the Account Bank shall give to the Relevant Creditors in respect of such Relevant Liabilities, the benefit of any proof which it is entitled to make in the liquidation of the Beneficiary in respect of any such debt or claim against the Beneficiary and the full benefit of the Security in respect of any such debt or claim, until the remaining Relevant Liabilities of the Relevant Creditors have been fully paid or have otherwise been discharged, satisfied, released or ceased to exist.

Following all the Relevant Liabilities of the Relevant Creditors having been fully paid or having otherwise been discharged, satisfied, released or ceased to exist, the debts and claims of the Issuing Bank and the Account Bank against the Applicant or the Beneficiary under the Facility Letter, this Deed and/or under or in connection with any and all Guarantees issued under the Facility Letter, shall rank at least equally with all the other unsecured and unsubordinated obligations of the Applicant or the Beneficiary (as the case may be) at the relevant time.

5. POWERS EXERCISABLE BY THE ISSUING BANK IN RELATION TO THE DEPOSIT(S)

- 5.1 Subject to clause 4, the Issuing Bank may, enforce this security without further notice to the Chargor and without any further or other consent from the Chargor upon or at any time after an amount which is due and payable by the Chargor or the Beneficiary to the Issuing Bank under the Facility Letter or the Guarantee has not been paid on the due date for payment, by applying or transferring as the Issuing Bank thinks fit all or part of any money subject to this security at any time or times (whether on or before or after the expiry of any fixed or minimum period for which such money may have been deposited) in or towards satisfaction of all or such part of the Secured Sums the Issuing Bank may determine as are due and payable to the Issuing Bank under the Facility Letter or any Guarantee issued thereunder but which have not been paid on the due date for payment. Any debt or claim of the Issuing Bank or the Account Bank against the Chargor or the Beneficiary which is subject to the subordination provisions of clause 16 of the Facility Letter or clause 4 of the Guarantee shall not be regarded as (or determined by the Issuing Bank to be) an amount which is due and payable by the Chargor or the Beneficiary, as the case may be, unless and until all the Relevant Liabilities of the Relevant Creditors have been fully paid or have otherwise been discharged, satisfied, released or ceased to exist.
- 5.2 The Issuing Bank is hereby irrevocably empowered and authorised as the Chargor's attorney in its name and at its expense, and as its act or deed or otherwise, to execute and deliver such documents and give such instructions as may be required to give effect to this Deed including (without limitation) instructions for the use of any money or interest subject to this security to purchase any currency or currencies required to effect the application of such money or interest upon and subject to the terms and conditions of this Deed.
- 5.3 The Issuing Bank shall not be liable for any loss sustained by the Chargor in consequence of the exercise of the Issuing Bank's rights under this Deed (other than any loss caused by the wilful neglect and gross negligence of the Issuing Bank), including (without limitation)

any loss of interest caused by the determination before maturity of the Deposit(s) or by the fluctuation in any exchange rate at which currency may be bought or sold by the Issuing Bank.

6. NEGATIVE PLEDGE

The Chargor may not assign or create, or permit to subsist, any fixed or floating charge or other security interest of any kind or any trust over any money or interest subject to this security or its right or interest therein, or agree to do so, except in favour of the Issuing Bank.

7. CONTINUING SECURITY

This security shall be a continuing security notwithstanding any intermediate payments or settlement of accounts or other matters whatsoever and shall be in addition to and shall not prejudice or be prejudiced by any right of set-off, combination, lien, or other rights exercisable by the Issuing Bank against the Chargor or by any security, guarantee, indemnity and/or negotiable instrument now or in the future held by the Issuing Bank, provided that any such rights and any such security, guarantee, indemnity and/or negotiable instrument shall be subject to the provisions of clause 4 above.

8. COSTS, CHARGES AND EXPENSES

8.1 Subject, in each case, to clause 4, all costs, charges, losses and expenses (including all professional fees and disbursements) and all other sums paid or incurred reasonably and properly by the Issuing Bank or the Account Bank under or in connection with this Deed or in respect of the Deposit(s) or the Secured Sums:-

- (a) shall be recoverable (on a full indemnity basis) from the Chargor as a debt payable on demand;
- (b) may be debited without notice to any account of the Chargor (other than the account specified in Part 2 of Schedule 1);
- (c) shall bear interest according to the provisions of clause 20 of the Facility Letter from the date on which the relevant cost, charge, loss, expense or such other sums paid or incurred by the Issuing Bank or the Account Bank would, but for the provisions of clauses 4, 5.1 and/or 9.1 of this Deed, be due and payable hereunder; and
- (d) shall be charged on the Deposit(s).

8.2 Without prejudice to the generality of clause 8.1 but subject to clause 4, the costs recoverable by the Issuing Bank and/or the Account Bank under this Deed shall include (i) all costs (whether or not allowable on a taxation by the Court) of all proceedings for the enforcement of this Deed or for the recovery or attempted recovery of the Secured Sums, (ii) all money expended and all costs arising out of the exercise of any power, right or discretion conferred by this Deed, (iii) all costs and losses arising from any default by the Chargor in the payment when due of any of the Secured Sums or the performance of its obligations under this Deed and (iv) all reasonably and properly incurred administrative charges of the Issuing Bank and/or the Account Bank based on time spent by its employees and agents in connection with the affairs of the Chargor.

9. SET-OFF

9.1 Subject to clause 4, and without prejudice to the Issuing Bank's and/or Account Bank's foregoing rights and as a separate and independent stipulation, the Chargor agrees that, without notice to it, the Issuing Bank and/or Account Bank may at any time after an amount which is due and payable by the Chargor or the Beneficiary to the Issuing Bank under the Facility Letter or the Guarantee has not been paid on the due date for payment, combine or consolidate any or all sums of the money now or subsequently standing to the Chargor's credit upon current account, deposit account or any other account or otherwise in whatever currency in any part of the world (whether opened with the Account Bank or opened by the Issuing Bank on the Chargor's behalf with some third party and whether opened in the Chargor's name or in the Issuing Bank's name in respect of the Chargor's liabilities to the Issuing Bank or otherwise) with all or such part of the Secured Sums the Issuing Bank may determine as are due and payable under the Facility Letter or any Guarantee issued thereunder but which have not been paid on the due date for payment. Subject to clause 4, the Issuing Bank may purchase with any such money any other currency required to effect such combination. Any debt or claim of the Issuing Bank or the Account Bank against the Chargor or the Beneficiary which is subject to the subordination provisions of clause 16 of the Facility Letter or clause 4 of the Guarantee shall not be regarded as (or determined by the Issuing Bank to be) an amount which is due and payable by the Chargor or the Beneficiary, as the case may be, unless and until all the Relevant Liabilities of the Relevant Creditors have been fully paid or have otherwise been discharged, satisfied, released or ceased to exist.

9.2 The Issuing Bank and the Account Bank shall not be entitled to combine or consolidate all or any part of the Deposit(s) with or apply the same in repayment of any sums which are or become owing or are due or become due respectively to the Issuing Bank and the Account Bank by the Chargor other than in the circumstances set out in clause 5.1

10. FORBEARANCE AND PARTIAL INVALIDITY

10.1 No delay or omission of the Issuing Bank and/or the Account Bank in exercising any right, power or privilege under this Deed shall operate to impair such right, power or privilege or be construed as a waiver of it. A single or partial exercise of any right, power or privilege shall not in any circumstances preclude any other or further exercise of it or the exercise of any other right, power or privilege.

10.2 If at any time any provision of this Deed is or becomes illegal, invalid or unenforceable in any respect, the legality, validity or enforceability of the remaining provisions of this Deed shall not in any way be affected or impaired.

11. SERVICE OF DEMANDS AND NOTICES

11.1 Any notice or other communication to be given under this Deed shall be in writing and, in the case of any notice or communication to the Chargor or the Beneficiary, shall be deemed to have been duly served:

- (a) if delivered by hand, at the time of actual delivery;
- (b) if transmitted by facsimile, at the time the facsimile transmission report (or other appropriate evidence) confirming that the facsimile transmission has been transmitted to the addressee is received by the sender; and

(c) if sent by post, at noon on the second Business Day (in the case of an address in Hong Kong) or the fifth Business Day (in the case of an address outside Hong Kong) following the day of posting and shall be effective if it is misdelivered or returned undelivered.

In proving such service it shall be sufficient to prove that personal delivery was made, or that the envelope containing the communication was correctly addressed and posted, or that a facsimile transmission report (or other appropriate evidence) was obtained that the facsimile had been transmitted to the addressee.

11.2 For the purposes of this clause 11 the authorised address of each party shall be the address set out below (including the details of the facsimile number and person for whose attention a notice or communication is to be addressed) or such other address (and details) as that party may notify to the other in writing from time to time in accordance with the requirements of this clause:

- (a) The Chargor: PCCW-HKT Telephone Limited
- Address: 39/F, PCCW Tower
TaiKoo Place, 979 King's Road
Quarry Bay
Hong Kong
- Facsimile No: (852) 2962 5725
- Attention: Company Secretary
- (b) The Issuing Bank: Standard Chartered Bank (HK) Ltd
- [GRAPHIC TRANSLATION OMITTED]
- Address: 13/F Standard Chartered Bank Building
4-4A Des Voeux Road Central
Hong Kong
- Facsimile No: (852) 2821 1339
- Attention: Clara Wong, Senior Relationship Manager
- (c) The Account Bank: Standard Chartered Bank (HK) Ltd
- [GRAPHIC TRANSLATION OMITTED]
- Address: 13/F Standard Chartered Bank Building
4-4A Des Voeux Road Central
Hong Kong
- Facsimile No: (852) 2821 1339
- Attention: Clara Wong, Senior Relationship Manager
- (d) The Beneficiary: PCCW Limited
- Address: 39/F, PCCW Tower

TaiKoo Place, 979 King's Road
Quarry Bay
Hong Kong

Facsimile No: (852) 2962 5725

Attention: Company Secretary

With a copy to: PCCW Limited

Address: 39/F, PCCW Tower
TaiKoo Place, 979 King's Road
Quarry Bay
Hong Kong

Facsimile No: (852) 2521 5979

Attention: Group Treasurer

11.3 Any communication to the Issuing Bank or to the Account Bank shall be sent to the Issuing Bank or the Account Bank at the respective authorised addresses or facsimile numbers and marked for the attention of the person(s) referred to above and shall be deemed to have been given only on actual receipt by the Issuing Bank or the Account Bank, as the case may be.

12. ASSIGNMENT AND PARTICIPATION

The Issuing Bank may not assign or transfer all or any part of its rights in relation to this Deed, the Deposit(s) and/or the Secured Sums to any person or otherwise grant an interest in them to any person. The Issuing Bank may at any time grant rights of sub-participation in all or any part of its rights or benefits under the Facility Letter.

13. CONFLICT

In the event of any conflict between the terms of the Facility Letter and the terms of this Deed, the terms of the Facility Letter shall prevail.

14. FURTHER ASSURANCE

The Chargor shall at its own cost and on demand by the Issuing Bank in writing execute and deliver to the Issuing Bank all such instruments and other documents and take all such action as the Issuing Bank may from time to time reasonably request in order to give full effect to this Deed.

15. AMENDMENT

No amendment to this Deed is effective for any purpose unless it has been expressly agreed to in writing by each party to this Deed.

16. GOVERNING LAW AND JURISDICTION

16.1 This Deed shall be governed by, construed and take effect in accordance with the laws of

Hong Kong.

16.2 The Hong Kong courts shall have jurisdiction to settle any claim, dispute or matter of difference which may arise out of or in connection with this Deed (including without limitation claims for set off or counterclaim) or the legal relationships established by this Deed, but without prejudice to the Issuing Bank's right to commence proceedings against the Chargor in any other jurisdiction.

THIS DEED has been executed as a deed by the Chargor and it shall take effect on the day and year first above written.

SCHEDULE 1

Part 1

Definition of the Deposit(s)

In this Deed the expression "Deposit(s)" means all sums of money in Hong Kong Dollars:-

- (a) deposited or paid by the Chargor now or at any time hereafter to the credit of the account(s) with the Account Bank specified in Part 2 of this Schedule and/or (where the context permits) any additional and/or substitute account(s) in the future opened with the Account Bank for the deposit or holding of all or part of the money or interest subject to this security (including in each case such account as redesignated and/or renumbered from time to time); and
- (b) representing the renewal or replacement of or for any sums deposited or paid or held as set out in the foregoing paragraph; and
- (c) all and any interest payable and/or paid on or in respect of (a) and/or (b) above from time to time.

Part 2

Details of Charged Account(s)

Account Name: PCCW-HKT Telephone Limited Account No: 447-166-10100

SCHEDULE 2

Notice of Charge over Interest in Deposit Account

To: Standard Chartered Bank (HK) Ltd
[GRAPHIC TRANSLATION OMITTED]
(as Account Bank and Issuing Bank)
For the attention of: Clara Wong, Senior Relationship Manager
Fax: (852) 2821 1339

13 July 2004

PCCW-HKT Telephone Limited - Deposit Account

We refer to the Deed of Charge over Deposit Account (the "Deposit Account Charge") dated on or around the date of this notice and made between ourselves as Chargor (1) Standard Chartered Bank (HK) Ltd [GRAPHIC TRANSLATION OMITTED] as Account Bank (2) Standard Chartered Bank (HK) Ltd [GRAPHIC TRANSLATION OMITTED] as Issuing Bank (3) and PCCW Limited as the beneficiary of certain guarantees to be issued under the Facility Letter. Terms as used herein have the same meanings as set out herein or as defined in the Deposit Account Charge.

We hereby give you notice that pursuant to the Deposit Account Charge we, as beneficial owner, have charged by way of first fixed charge to the Issuing Bank all our rights, title and interest in and to all sums which may at any time be standing to the credit of the account listed in the table below, which was opened by us in your books (the "Deposit Account").

| Company/account description | Deposit Account number |
|--|------------------------|
| Account name: PCCW-HKT Telephone Limited | 447-166-10100 |

In connection therewith and by way of security for the Secured Sums (as defined in the Deposit Account Charge) we hereby irrevocably and unconditionally instruct and authorise you (notwithstanding any previous instructions whatsoever which we may have given you to the contrary):

- (a) to disclose to the Issuing Bank without any reference to or further authority from us and without any enquiry by you as to the justification for such disclosure, such information relating to the Deposit Account, the amount from time to time standing to the credit thereof (the "Deposit Account Funds") and the debts represented thereby as the Issuing Bank may, at any time and from time to time, request you to disclose to it;
- (b) at any time and from time to time upon receipt by you of instructions in writing from the Issuing Bank to release or to pay to the Issuing Bank any amount of the Deposit Account Funds and generally to act in accordance with such instructions in relation to the Deposit Account and the Deposit Account Funds, without any reference to or further authority from us and without any enquiry by you as to the justification for such instructions or the validity thereof;

- (c) to comply with the terms of any written notice, statement or instructions in any way relating or purporting to relate to the Deposit Account, the Deposit Account Funds or the debts represented thereby which you may receive at any time and from time to time from the Issuing Bank without any reference to or further authority from us and without any enquiry by you as to the justification for such notice, statement or instructions or the validity thereof;
- (d) not to act upon our instructions with regard to the Deposit Account or the Deposit Account Funds unless the Issuing Bank agrees in writing otherwise.

The instructions and authorisations which are contained in this letter shall remain in full force and effect until we and the Issuing Bank together give you notice in writing revoking them.

In consideration of your accepting the instructions and authorisations which are contained in this letter we undertake not to take or bring any action, suit, proceedings, claim or demand against you in relation to or arising out of your acting on or complying with such instructions and authorisations.

This letter shall be governed by and construed in accordance with Hong Kong law.

Would you please acknowledge receipt of this letter and your acceptances of the instructions and authorisations contained in it by sending a letter addressed to us and to the Issuing Bank in the form attached hereto.

Yours faithfully

For and on behalf of
PCCW-HKT Telephone Limited

Name:
Title:

SCHEDULE 3

Acknowledgement of Notice of Charge over Interest in Deposit Account

[*ON THE HEADED NOTE PAPER OF THE ACCOUNT BANK*]

To: PCCW-HKT Telephone Limited (the "Company")
39/F PCCW Tower
TaiKoo Place
979 King's Road
Quarry Bay
Hong Kong

Attn: Company Secretary

[*date*]

Dear Sirs

Re: Deposit Account No. 447-166-10100

We hereby acknowledge receipt of a letter (a copy of which is attached hereto) dated 13 July 2004 and addressed to us by the Company and hereby accept the instructions and authorisations contained therein and undertake to act in accordance and comply with the terms thereof. Terms as used herein have the same meaning as set out in the attached letter or as defined in the Deposit Account Charge (referred to in the attached letter).

We hereby acknowledge and confirm to the Issuing Bank that:

- (a) without prejudice to our rights under the Deposit Account Charge (referred to in the attached letter), as at this date no rights of counterclaim, rights of set-off or any other equities whatsoever have arisen in our favour against the Company in respect of the Deposit Account Funds or the debts represented thereby or any part thereof and (except as provided in the Deposit Account Charge) we will not make any claim or demands or exercise any rights of counterclaim, rights of set-off or any other equities whatsoever against the Company in respect of the Deposit Account Funds or any part thereof; and
- (b) we have not, as at the date hereof, received any notice that any third party has or will have any right or interest whatsoever in or has made or will be making any claim or demand or taking any action whatsoever against the Deposit Account Funds or the debts represented thereby or any part thereof.

We undertake that in the event of our becoming aware at any time that any person or entity other than the Issuing Bank has or will have any right or interest whatsoever thereby or any part thereof we will forthwith give written notice of the terms thereof to the Issuing Bank.

We have made the acknowledgements and confirmations and have given the undertakings set out in this letter in the knowledge that they are required by the Issuing Bank in connection with the security which has been constituted by the Company in favour of the Issuing Bank under the Deposit Account Charge.

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This letter shall be governed by and construed in accordance with Hong Kong law.

Yours faithfully

.....
For and on behalf of
Standard Chartered Bank (HK) Ltd
[GRAPHIC TRANSLATION OMITTED]
(as Account Bank)

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CHARGOR

THE COMMON SEAL of
PCCW-HKT Telephone Limited
was hereunto affixed (pursuant to
a resolution of its Board of Directors
and its Articles of Association)
in the presence of:

ISSUING BANK

SIGNED for and on behalf of
Standard Chartered Bank (HK) Ltd
[GRAPHIC TRANSLATION OMITTED]
by:

ACCOUNT BANK

SIGNED for and on behalf of
Standard Chartered Bank (HK) Ltd
[GRAPHIC TRANSLATION OMITTED]
by:

BENEFICIARY

SIGNED for and on behalf of
PCCW Limited
by:

Dated October 28, 2004

- (1) ASIAN MOTION LIMITED
- (2) LEHMAN BROTHERS ASIA LIMITED

PLACING AGREEMENT
relating to
shares in the capital of
PACIFIC CENTURY PREMIUM DEVELOPMENTS LIMITED

RICHARDS BUTLER
20/F, Alexandra House
16-20 Chater Road
Central
Hong Kong

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THIS AGREEMENT is dated October 28, 2004 and made

BETWEEN:

1. ASIAN MOTION LIMITED, a company incorporated in the British Virgin Islands and whose registered office is at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands (the "Vendor");
2. LEHMAN BROTHERS ASIA LIMITED, whose principal place of business in Hong Kong is at Level 38, One Pacific Place, 88 queensway, Hong Kong (the "Placing Agent").

WHEREAS the Vendor [(together with its associates)] is the beneficial owner of Placing Shares (as defined below) and the Vendor has agreed to appoint the Placing Agent as placing agent for the purpose of procuring, as agent of the Vendor, purchasers for the Placing Shares on the terms and subject to the conditions set out in this Agreement,

THE PARTIES AGREE THAT:

1. INTERPRETATION

1.1 Definitions: In this Agreement and the Introduction:

| | |
|-----------------------|--|
| "Accounts" | the audited consolidated profit and loss accounts of the Property Group for the financial year ended on the Accounts Date and the audited consolidated balance sheet of the Property Group as at the Accounts Date, both as set out in Appendix I of the circular issued by the Company dated 2nd April, 2004; |
| "Accounts Date" | 31st December, 2003; |
| "Associates" | the meaning given to that term in the Listing Rules; |
| "Business Day" | any day (excluding a Saturday) on which banks generally are open for business in Hong Kong; |
| "CCASS" | the Central Clearing and Settlement System operated by Hong Kong Securities Clearing Company Limited; |
| "Companies Ordinance" | the Companies Ordinance (Cap. 32 of the Laws of Hong Kong); |

| | |
|---------------------------|--|
| "Company" | Pacific Century Premium Developments Limited (stock code: 432), a company whose Shares are listed on the Stock Exchange; |
| "Completion" | completion of the Placing in accordance with Clause 4; |
| "Group" | the Company and its Subsidiaries and the expression "member of the Group" shall be construed accordingly; |
| "HK\$" | Hong Kong currency; |
| "Hong Kong" | the Hong Kong Special Administrative Region of the People's Republic of China; |
| "Listing Rules" | the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited; |
| "Placee" | any institutional investor procured by the Placing Agent to purchase any of the Placing Shares pursuant to the Placing Agent's obligations hereunder; |
| "Placing" | the offer by way of a private placing of the Placing Shares procured by the Placing Agent to selected investors on the terms and subject to the conditions set out in this Agreement; |
| "Placing Announcement" | the press announcement in the agreed form proposed to be issued by the Company and the Vendor jointly immediately following the execution of this Agreement; |
| "Placing Completion Date" | 1st November, 2004 or such other date as the Vendor and the Placing Agent shall agree in writing; |
| "Placing Period" | the period commencing upon the execution of this Agreement and terminating at 2:00 p.m. on the Business Day prior to the Placing Completion Date, unless terminated earlier pursuant to the terms of this Agreement; |
| "Placing Price" | the price of HK\$2.18 per Placing Share; |
| "Placing Shares" | 118,000,000 Shares; |
| "Property Group" | has the meaning ascribed thereto in the circular issued by the Company dated 2nd April, 2004 |
| "Regulation S" | Regulation S under the US Securities Act; |
| "Shares" | fully paid ordinary shares of HK\$0.10 each in the capital of the Company; |

| | |
|----------------------|--|
| "SFC" | the Securities and Futures Commission of Hong Kong; |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited; |
| "Subsidiary" | has the same meaning as in Section 2 of the Companies Ordinance; |
| "Takeovers Code" | Hong Kong Code on Takeovers and Mergers; |
| "Transfer Documents" | has the meaning given to it in Clause 4.1; |
| "United States" | has the meaning given in Regulation S; and |
| "US Securities Act" | the United States Securities Act of 1933, as amended. |

1.2 Agreed Form: Any reference to a document being "in the agreed form" means in the form of a document or and the draft thereof signed for identification on behalf of the Vendor and the Placing Agent with (in the case of a draft) such alterations (if any) as may be agreed between the Vendor and the Placing Agent.

1.3 Reference: References in this Agreement to persons include references to bodies corporate and references to the singular include references to the plural and vice versa. References to "Clauses" are references to the clauses of this Agreement.

1.4 Headings: Headings are inserted for convenience only and shall not affect the interpretation of this Agreement.

2. APPOINTMENT OF PLACING AGENT

2.1 Appointment: The Vendor hereby agrees to appoint the Placing Agent and the Placing Agent, relying on the representations, warranties and undertakings herein contained, agrees to act as the placing agent for the Vendor in connection with the Placing on the terms provided for in this Agreement.

2.2 Placing Agent's powers: The Vendor hereby confirms that this appointment confers on the Placing Agent, in accordance with the provisions hereof, all powers, authorities and discretion on behalf of the Vendor which are necessary for, or reasonably incidental to, the Placing (including, without limiting the foregoing and if necessary, the completion of the relevant contract notes on behalf of the Vendor and the submission of such contract notes and other documents for stamping and registration).

2.3 Sub-placing agents: The Placing Agent may in turn appoint other sub-placing agents to procure purchasers for the Placing Shares. The Placing Agent confirms and undertakes that it shall require any sub-placing agent or other person through whom it may effect the Placing or offer any Placing Shares to observe the provisions of this Agreement. Any transaction legally, properly and reasonably carried out by the Placing Agent (and any sub-placing agent) shall constitute a transaction carried out at the request of the

Vendor and as its agent and not in respect of the Placing Agent's own account.

2.4 Information: The Vendor shall:

- (a) provide to the Placing Agent, at its request, with all such information known to it or which on reasonable enquiry ought to be known to it and relating to the Group as may be reasonably required by the Placing Agent in connection with the Placing for the purposes of complying with all requirements of applicable law or of the Stock Exchange or of the SFC; and
- (b) promptly provide to the Placing Agent particulars of every significant new matter known to them which is in their reasonable opinion capable of materially affecting assessment of the Placing Shares in the context of the Placing which arises between the date hereof and 12:00 noon on the Placing Completion Date.

2.5 The Vendor shall sell the Placing Shares to be sold pursuant to the Placing free from all liens, charges and encumbrances and together with all rights attaching to them as of the Placing Completion Date, including the right to receive all dividends declared, made or paid after the Placing Completion Date.

2.6 Further assurances: The Vendor undertakes with the Placing Agent that it shall do all such other acts and things as may be reasonably required to be done by it to carry into effect the Placing in accordance with the terms of this Agreement.

3. PLACING AGENT'S UNDERTAKINGS

3.1 Placing: The Placing Agent undertakes on or before the end of the Placing Period to procure purchasers for, or failing which to purchase itself, all of the Placing Shares at the Placing Price (together with such Hong Kong stamp duty, SFC transaction levy and Stock Exchange transaction levy as may be payable by buyers).

3.2 Placees: The Placing Shares shall be offered by the Placing Agent to the Placees in board lots of the Shares. The choice of Placees for the Placing Shares shall be determined solely by the Placing Agent, subject to the requirements of the Listing Rules (in particular, the Placing Agent shall use all reasonable endeavours to ensure that Placees shall be third parties independent from the Vendor and its Associates and the directors, chief executive or substantial shareholders of the Company or its Subsidiaries or any of their respective Associates and shall not be parties acting in concert with the Vendor for the purposes of the Vendor for the purposes of the Takeovers Code). If there should be less than six Placees, the Placing Agent shall procure that all necessary consents are obtained from the Placees for the publication of their identities as required by Rule 13.28(7) of the Listing Rules, and shall use its best endeavours to ensure that such information is available for incorporation in the Placing Announcement so that no separate or further announcement is required to be made by the Company in respect thereof.

3.3 Placee details and Transfer Documents: To the extent any transfer of Placing Shares will not be settled by book-entry settlement through CCASS, by no later than 2:00 p.m. on the Business Day prior to the Placing Completion Date, the Placing

Agent shall deliver to the Vendor a schedule showing details of the Placees including their names, the number of Placing Shares purchased by each Placee, country of incorporation (if a corporation), addresses (or registered address if a corporation), and as soon as practicable thereafter and in any event not later than 12:00 noon on the third Business Day thereafter deliver to the Stock Exchange and, if required under the Takeover Code, the SFC such substantially completed details of the Placees in the form from time to time prescribed by them.

- 3.4 Oral contracts: Without limitation to Clause 3.5, the Placing Agent undertakes that the Placing shall be effected by telephone conversations leading to concluded contracts which shall then be confirmed by letter of confirmation. The Placing Agent undertakes that the terms and conditions on which each Placee will purchase Placing Shares, and the number of such Shares to be purchased, are covered in precise terms and agreed with each Placee and to be in substantially the same form as the letter of confirmation and will not make any representation in connection with the Placing Shares other than contained in the Placing Announcement or previously approved by the Vendor.
- 3.5 Compliance with laws: The Placing Agent confirms and undertakes to the Vendor and the Company that:
- (a) it will not, directly or indirectly, engage in price stabilisation in relation to the Placing;
 - (b) it will not, directly or indirectly, offer, sell or deliver any Placing Shares or distribute or publish any documents (including, without limitation, any prospectus, form of application, offering circular, advertisement or other offering material or any report or other document calculated to invite or lead to offers or agreements being made to purchase Placing Shares) in any country or jurisdiction except such as, and under circumstances that, will not result in or constitute a breach by it of any applicable laws and regulations provided that this will not apply where the breach arises, directly or indirectly, by reason of (i) a breach by the Vendor or by the Company of a representation, warranty or undertaking in Clause 7.1 or (ii) any public written information or statements issued by the Vendor or the Company;
 - (c) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Placing Shares other than to persons whose ordinary business it is to buy or sell shares or debentures, whether as principal or as agent, or otherwise in circumstances which do not constitute an offer to the public within the meaning of such term as used in the Companies Ordinance (Cap. 32 of the Laws of Hong Kong);
 - (d) (i) it has not offered or sold and, prior to the expiry of the period of six months from the Placing Completion Date, will not offer or sell any Placing Shares to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995; (ii) 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")) relating to the Placing Shares in circumstances in which section 21(1) of the FSMA does not apply; and (iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done or to be done by it in relation to the Placing Shares in, from or otherwise involving the United Kingdom;

- (e) (i) it acknowledges that the Placing Shares have not been and will not be registered under the US Securities Act, and have not been and may not be offered or sold in the United States or to or for the account or benefit of US persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act; it has not offered or sold, and will not offer or sell, any Placing Shares outside the United States except in offshore transactions (as defined in Regulation S) in accordance with Rule 903 of Regulation S including complying with the offering restrictions required of Regulation S; accordingly, neither it, its affiliates nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts (as such term is defined in Regulation S) with respect to the Placing Shares or any Shares; and (ii) it will offer or sell the Placing Shares (A) as part of their distribution at any time, or (B) otherwise until 40 days after the later of the commencement of the offering of the Placing Shares and the Placing Completion Date (the "Restricted Period"), only to or for the benefit of persons other than US persons in accordance with Rule 903 of Regulation S under the US Securities Act and, at or prior to the confirmation of a sale of the Placing Shares, it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Placing Shares from it or through it during the restricted period a confirmation or other notice setting forth the restrictions on offers and sales of Placing Shares within the United States or to, or for the account or benefit, of U.S. persons.

- 3.6 No representations: The Placing Agent confirms and undertakes that it has not made and shall not make to any person to whom Placing Shares may be offered any representation or statement regarding the Placing Shares, the Company, the Group or the financial or business position or prospects of the Company or the Group which (i) is not contained in the Placing Announcement or (ii) is not, at the time of making the same, general public knowledge in the marketplace.

4. COMPLETION

- 4.1 Vendor's obligations: By no later than 2:00 p.m. on the Business Day prior to the Placing Completion Date, the Vendor shall deliver to the Placing Agent to facilitate settlement on the Placing Completion Date:

- (a) the instruments of transfer (to the extent any transfer of Placing Shares will not be settled by book-entry settlement through CCASS) (the "Transfer Document") in respect of the Placing Shares duly executed by or on behalf of the legal and beneficial owners of the Placing Shares;

- (b) if the transfer of some or all of the Placing Shares is not to be settled by book-entry settlement through CCASS, the share certificate(s) for the relevant Placing Shares; and
- (c) if the transfer of some or all of the Placing Shares is to be settled by book-entry settlement through CCASS, evidence satisfactory to the Placing Agent that the Vendor has given an irrevocable delivery instruction to effect a book-entry settlement on the Placing Completion Date of the Placing Shares through CCASS to credit to the CCASS stock account of the Placing Agent, which the Placing Agent shall have notified the Vendor on the date of this Agreement.

4.2 Placing Agent's obligations: Against compliance by the Vendor with its obligations under Clause 4.1, the Placing Agent (or its nominees or agents) shall, in respect of the Placing Shares, on or before 2:00 p.m. on the Placing Completion Date:

- (a) make or procure the making of payments to the Vendor in cleared funds in Hong Kong dollars of the aggregate Placing Price of the Placing Shares (less the amounts referred to in Clause 5.1), the payment of which shall constitute a complete discharge of the obligations of the Placing Agent to place the Placing Shares hereunder and such payment shall be made for value on the Placing Completion Date to such bank account held with a bank in Hong Kong as may be notified by the Vendor to the Placing Agent no later than 12:00 noon one Business Day before Placing Completion Date; and
- (b) (if appropriate) present the Transfer Document and the share certificates in respect of the Placing Shares to the share registrar of the Company and liaise with the share registrar to issue new share certificates in the names of the Placees.

5. PAYMENT OF FEES COMMISSIONS AND EXPENSES

5.1 Placing Agent fees and expenses: In consideration of the services of the Placing Agent in relation to the Placing, the Vendor shall pay to the Placing Agent:

- (a) provided that completion of the Placing occurs in accordance with Clause 4, in Hong Kong dollars, (i) a placing fee of [] per cent. of the amount equal to the Placing Price multiplied by the number of the Placing Shares and (ii) sellers brokerage at 0.25 per cent. of the Placing Price;
- (b) Hong Kong seller's ad valorem stamp duty (if any) at the relevant rate on the amount equal to the Placing Price multiplied by the number of Placing Shares;
- (c) seller's Stock Exchange trading levy, SFC transaction levy and investor compensation levy, if any, and fixed stamp duty on the instrument of transfer as may be payable in respect of the sale and transfer of the Placing Shares to the Placees,

which amounts the Placing Agent is hereby authorised to deduct from the payments to be made by it to the Vendor pursuant to Clause 4.2(a).

5.2 Placing not completed: If for any reason (other than any breach by the Placing Agent of its obligations hereunder) this Agreement is terminated or the Placing is not completed, the Vendor shall remain liable for the payment of all costs and expenses referred to in Clause 5.1(b) and (c) only to the extent already incurred.

5.3 Brokerage: The Vendor hereby acknowledges that, in addition to the commissions, costs, charges and expenses referred to in Clause 5.1, the Placing Agent shall be entitled to keep for its own account any brokerage that it may receive from the Placees.

5.4 No deductions: All payments to be made by the Vendor pursuant to this Clause 5 shall be made in full without any set-off, deduction or withholding whatsoever.

6. WARRANTIES AND UNDERTAKINGS

6.1 Warranties: In consideration of the Placing Agent entering into this Agreement and agreeing to perform its obligations hereunder to, the Vendor hereby represents, warrants and undertakes to the Placing Agent as follows:

- (a) the Vendor is the beneficial owner of the Placing Shares and has the necessary power and authority and has obtained all necessary consents to enable it to sell the Placing Shares hereunder and this Agreement constitutes valid and legally binding and enforceable obligations of the Vendor;
- (b) the Placing Shares are fully paid up, rank pari passu in all respects with the existing Shares in issue, include the right to receive all dividends and distributions which may be declared made or paid after the Placing Completion Date and the Vendor warrants that the Placing Shares are free and clear of all liens, encumbrances, equities or other third party rights;
- (c) all statements of fact contained in the Placing Announcement are true and accurate in all material respects and not misleading in any material respect in the context of the Placing and all statements of opinion, intention or expectation of the directors of the Company in relation to the Company or any of its Subsidiaries contained therein are truly and honestly held and have been made after due and careful consideration and there is no other fact or matter omitted therefrom the omission of which would make any statement therein misleading in any material respect or which is otherwise material in the context of the Placing;
- (d) the Accounts:
 - (i) have been prepared on a recognised and consistent basis and in accordance with generally accepted accounting principles, standards and practice in Hong Kong;
 - (ii) comply in all material respects with all applicable ordinances, statutes and regulations and show a true and fair view of the state of affairs of the Group and of its results for the period in question;

(iii) are not affected by any unusual or non-recurring items and do not include transactions not normally undertaken by the relevant member of the Property Group (save as disclosed in the said accounts); and

(iv) make adequate provision for all taxation whether in Hong Kong or any other part of the world in respect of all accounting periods ended on or before the respective date for which the relevant member of the Property Group was then or might at any time thereafter become or have been liable;

(e) since the Accounts Date, there has been no material adverse change in the Group's condition, financial or otherwise, or the earnings, business affairs or business prospects (whether or not arising in the ordinary course of business) and no event has occurred which in the reasonable opinion of the Vendor may give rise to a material adverse change in such position in the foreseeable future;

(f) (i) none of the Company nor the Vendor nor any of its or their affiliates (as defined in Rule 501(b) of Regulation D) nor any person acting on its or their behalf has engaged or will engage in any directed selling efforts (as defined in Regulation S under the US Securities Act) with respect to the Placing Shares; (ii) the Vendor, the Company, their affiliates and any person (other than the Placing Agent) acting on its or their behalf have complied with and will comply with the offering restrictions requirement of Regulation S under the US Securities Act; and (iii) the Company is a "foreign issuer" as such term is defined in Rule 902 under the US Securities Act and is not subject to the reporting requirements of the US Exchange Act;

(g) neither the Company nor the Vendor nor any of its or their affiliates nor any person acting on its or their behalf has offered or sold, or will offer or sell, any securities under circumstances that would require the registration of any of the Placing Shares under the US Securities Act; neither the Company nor the Vendor nor any of its or their affiliates nor any person acting on its or their behalf has engaged or will engage in any form of general solicitation or general advertising within the meaning of Regulation D in connection with the offer or sale of the Placing Shares in the United States; and

(h) the Company is required to register as an investment company as defined in the United States Investment Company Act of 1940 and will not become an open-end investment company, unit investment trust or closed-end investment company that is required to be registered under Section 8 of such Act.

6.2 Warranties repeated: The representations and warranties set out in Clause 6 are given as at the date hereof and shall be deemed to be repeated by Vendor as at the Placing Completion Date as if given or made at such time, with reference in each case to the facts and circumstances then subsisting. The Vendor undertakes up to and until completion of this Agreement or its earlier termination to notify the Placing Agent of any matter or event coming to its attention prior to the Placing Completion Date which would or would reasonably be considered to render or have rendered any of the representations and warranties made by it set out in Clause 6.1 untrue, inaccurate or

misleading in any material respect. The Vendor shall not, and shall use all reasonable endeavours to procure that no member of the Group shall, at any time prior to or on the Placing Completion Date do or omit to do anything which may cause any of the representation and warranties made by the Vendor and set out in Clause 6.1 to be untrue in any material respect.

6.3 No claims: No claim shall be made against the Placing Agent or any person, appointed as a sub-placing agent pursuant to Clause 2.3 by the Vendor to recover any damage, cost, charge or expense which the Vendor may suffer or incur by reason of or arising from the carrying out by the Placing Agent of the work to be done by it pursuant hereto or the performance of its obligations hereunder or otherwise in connection with the Placing provided that such damage, cost, charge or expense is not suffered or incurred directly or indirectly as a result of any fraud, default or negligence on the part of the Placing Agent or in connection with a breach by the Placing Agent of the provisions of this Agreement.

6.4 No merger: The foregoing provisions of this Clause 6 shall remain in full force and effect notwithstanding completion of the Placing.

8. GENERAL

8.1 Announcements: Save for the Placing Announcement and save as required by law or by the Stock Exchange or the SFC, each of the party hereby undertakes to use its best endeavours to procure that no public announcement or communication to the press, the Stock Exchange or the shareholders of the Company concerning the Company and/or its Subsidiaries which is material in relation to the Placing shall be made by or on behalf of the Company between the date hereof and the Placing Completion Date without prior written approval from the other parties hereto as to the content, timing and manner of making thereof, such approval not to be unreasonably withheld or delayed.

8.2 Time of the essence: Any time, date or period mentioned in this Agreement may be extended by mutual agreement between the Vendor and the Placing Agent but, as regards any time, date or period originally fixed or any date or period so extended as aforesaid, time shall be of the essence.

8.3 Waiver: No failure or delay by any party in exercising any right, power or remedy under this Agreement shall operate as a waiver thereof, nor shall any single or partial exercise of the same preclude any further exercise thereof or the exercise of any other right, power or remedy. Without limiting the foregoing, no waiver by any party of any breach of any provision hereof shall be deemed to be a waiver of any subsequent breach of that or any other provision hereof.

8.4 Assignment: No party hereto shall assign any of its rights under this Agreement (all of which shall be incapable of assignment) or purport to do so unless agreed by the other parties hereto. This Agreement shall be binding on and enure for the benefit of each party's successors and permitted assigns.

8.5 Counterparts: This Agreement may be executed in any number of counterparts by the

Parties hereto on separate counterparts, each of which when executed shall constitute an original and all of which when taken together shall constitute one and the same document.

9. NOTICES

9.1 Notices: All notices delivered hereunder shall be in writing in the English language and shall be communicated to the following addresses:-

If to the Vendor:

39th Floor, PCCW Tower
Taikoo Place
979 King's Road, Quarry Bay
Hong Kong

Fax no.: (852) 2902 5725
Attention: Company Secretary

If to the Placing Agent:

Level 38, One Pacific Place,
88 Queensway
Hong Kong

Fax no.: (852) 2860 3690
Attention: Compliance Department

9.2 Deemed service: Any such notice shall be served either by hand or by facsimile. Any notice shall be deemed to have been served, if served by hand, when delivered and if sent by facsimile, on receipt of confirmation of transmission. Any notice received on a day which is not a Business Day shall be deemed to be received on the next Business Day.

10. GOVERNING LAW

10.1 Hong Kong Law: This Agreement is governed by and shall be construed in accordance with the laws of Hong Kong for the time being in force and the parties hereto hereby irrevocably submit to the non-exclusive jurisdiction of the Hong Kong courts in connection herewith.

10.2 Vendor's service agent: The Vendor irrevocably appoints PCCW Secretaries Limited of 39th Floor, PCCW Tower, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong as its process agent to receive on its behalf service of process of any proceedings in Hong Kong. If for any reason the process agent ceases to be able to act as process agent or no longer has an address in Hong Kong, the Vendor irrevocably agrees to appoint a substitute process agent with an address in Hong Kong acceptable to the Placing Agent

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and to deliver to the Placing Agent a copy of the substitute process agent's acceptance of that appointment within 30 days. In the event that the Vendor fails to appoint a substitute process agent, it shall be effective service for the Placing Agent to serve the process upon the last known address in Hong Kong of the last known process agent for that Vendor notified to the Placing Agent notwithstanding that such process agent is no longer found at such address or has ceased to act provided that a copy of the proceedings is also sent to that the Vendor's current registered office or principal place of business wherever situated. Nothing in this Agreement shall affect the right to serve process in any other manner permitted by law.

AS WITNESS the hands of the duly authorised representatives of the Parties on the day and year first before written.

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EXECUTION PAGE

SIGNED by)
)
for and on behalf of)
ASIAN MOTION LIMITED)
in the presence of)

SIGNED by)
)
for and on behalf of)
LEHMAN BROTHERS ASIA LIMITED)
in the presence of)
Teresa Chan)
Compliance Manager)

Dated 28th October, 2004

(1) ASIAN MOTION LIMITED

(2) PACIFIC CENTURY PREMIUM DEVELOPMENTS LIMITED

SUBSCRIPTION AGREEMENT
relating to
shares in the capital of
PACIFIC CENTURY PREMIUM DEVELOPMENTS LIMITED

RICHARDS BUTLER
20/F, Alexandra House
16-20 Chater Road
Central
Hong Kong

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THIS AGREEMENT is dated 28th October, 2004 and made
BETWEEN:

1. ASIAN MOTION LIMITED, a company incorporated in the British Virgin Islands and whose registered office is at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands (the "Subscriber"); and
2. PACIFIC CENTURY PREMIUM DEVELOPMENTS LIMITED, a company incorporated in Bermuda and whose principal place of business in Hong Kong is at 8th Floor, Cyberport 2, 100 Cyberport Road, Hong Kong (the "Company").

WHEREAS:

- (A) the Subscriber is the beneficial owner of 1,411,333,335 Shares and the Subscriber has agreed to appoint the Placing Agent (as defined below) as placing agent for the purpose of procuring, as agent of the Subscriber, purchasers for the Placing Shares (as defined below) on the terms and subject to the conditions set out in the Placing Agreement; and
- (B) the Company has agreed to issue, and the Subscriber has agreed to subscribe for, the Subscription Shares subject to and on the terms set out in this Agreement

THE PARTIES AGREE THAT:

1. INTERPRETATION

1.1 Definitions: In this Agreement and the Introduction:

| | |
|-----------------|--|
| "Accounts" | the audited consolidated profit and loss accounts of the Property Group for the financial year ended on the Accounts Date and the audited consolidated balance sheet of the Property Group as at the Accounts Date, both as set out in Appendix I of the circular issued by the Company dated 2nd April, 2004; |
| "Accounts Date" | 31st December, 2003; |
| "Announcement" | the press announcement in the agreed form proposed to be issued by the Company and PCCW Limited jointly in substantially such form immediately following the execution of this Agreement; |
| "Associates" | the meaning given to that term in the Listing Rules; |
| "Business Day" | any day (excluding a Saturday) on which banks generally are open for business in Hong Kong; |

| | |
|---------------------------|--|
| "CCASS" | the Central Clearing and Settlement System operated by Hong Kong Securities Clearing Company Limited; |
| "Companies Ordinance" | the Companies Ordinance (Cap. 32 of the Laws of Hong Kong); |
| "Group" | the Company and its Subsidiaries and the expression "member of the Group" shall be construed accordingly; |
| "HK\$" | Hong Kong currency; |
| "Hong Kong" | the Hong Kong Special Administrative Region of the People's Republic of China; |
| "Listing Rules" | the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited; |
| "Placee" | any institutional investor procured by the Placing Agent to purchase any of the Placing Shares pursuant to the Placing Agent's obligations under the Placing Agreement; |
| "Placing" | the offer by way of a private placing of the Placing Shares procured by the Placing Agent to selected investors on the terms and subject to the conditions set out in the Placing Agreement; |
| "Placing Agreement" | the placing agreement between the Subscriber and the Placing Agent of even date in respect of the placing of the Placing Shares at the Placing Price; |
| "Placing Agent" | Lehman Brothers Asia Limited; |
| "Placing Completion Date" | 1st November, 2004 or such other date as the Subscriber and the Placing Agent shall agree in writing; |
| "Placing Price" | the price of HK\$2.18 per Placing Share; |
| "Placing Shares" | 118 million Shares; |
| "Property Group" | has the meaning ascribed thereto in the circular issued by the Company dated 2nd April, 2004 |
| "Regulation S" | Regulation S under the US Securities Act; |
| "Shares" | fully paid ordinary shares of HK\$0.10 each in the capital of the Company; |
| "SFC" | the Securities and Futures Commission of Hong Kong; |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited; |

| | |
|-------------------------------|--|
| "Subscription" | the subscription by the Subscriber for the Subscription Shares on the terms and subject to the conditions set out in this Agreement; |
| Subscription Completion Date" | the Business Day immediately after the date upon which the last of the conditions set out in Clause 2.2 shall have been satisfied provided that the Subscription Completion Date shall not be later than the date falling 14 days from the date of this Agreement or such later time and/or date as the Company and the Subscriber may agree in writing, such agreement not to be unreasonably withheld or delayed and subject to compliance in full with the connected transaction requirements of the Listing Rules; |
| "Subscription Completion" | the meaning given to that term in Clause 2.5; |
| "Subscription Price" | HK\$2.18 per Subscription Share; |
| "Subscription Shares" | 118 million new Shares; |
| "Subsidiary" | has the same meaning as in Section 2 of the Companies Ordinance; |
| "United States" | has the meaning given in Regulation S; and |
| "US Securities Act" | the United States Securities Act of 1933, as amended. |

1.2 Agreed Form: Any reference to a document being "in the agreed form" means in the form of a document or and the draft thereof signed for identification on behalf of the Subscriber and the Company with (in the case of a draft) such alterations (if any) as may be agreed between the Subscriber and the Company.

1.3 Reference: References in this Agreement to persons include references to bodies corporate and references to the singular include references to the plural and vice versa. References to "Clauses" are references to the clauses of this Agreement.

1.4 Headings: Headings are inserted for convenience only and shall not affect the interpretation of this Agreement.

2. SUBSCRIPTION

2.1 Subscription: subject to the fulfilment of the conditions set out in Clause 2.2, the Subscriber agrees to subscribe as principal for the Subscription Shares and the Company agrees to issue the Subscription Shares at the Subscription Price on the Subscription Completion Date free from all liens, charges and encumbrances together with all rights attaching to them, including the right to receive all dividends declared, made or paid, on and after the Subscription Completion Date.

2.2 Conditions: Completion of the Subscription is conditional upon:

- (a) the Stock Exchange granting listing of and permission to deal in the Subscription Shares;
- (b) the Bermuda Monetary Authority approving the issue of the Subscription Shares (if required); and
- (c) completion of the Placing having occurred pursuant to the terms of the Placing Agreement.

2.3 Fulfilment: The Company and the Subscriber shall each use their respective best endeavours to procure the fulfilment of the conditions set out in Clause 2.2 and in particular shall furnish such information, supply such documents, pay such fees, give such undertakings and do all such acts and things as may reasonably be required by each other, the SFC and/or the Stock Exchange in connection with the fulfilment of such conditions.

2.4 Non-Fulfilment: If the conditions set out in Clause 2.2 are not fulfilled on or prior to 30th November, 2004 or such later date as may be agreed in writing between the Company and the Subscriber, the obligations of the Company and the Subscriber under this Clause 2 shall terminate and neither of the parties shall have any claim against the others for costs, damages, compensation or otherwise in respect of the Subscription.

2.5 Completion: Subject to the fulfilment of the conditions set out in Clause 2.2, completion of the Subscription ("Subscription Completion") shall take place at the office of the Company at or before 4:00 p.m. on the Subscription Completion Date or such other time as the Company and the Subscriber may agree in writing (subject to compliance with the Listing Rules) all but not some only of the following business shall be transacted:

- (a) the Company shall :
 - (i) allot and issue to the Subscriber or its nominee the Subscription Shares and shall promptly thereafter register the Subscriber or its nominee as the holder of the Subscription Shares and shall cause to be delivered to the Subscriber definitive certificates of title in respect of the Subscription Shares in the name of the Subscriber or its nominee; and
 - (ii) deliver to the Subscriber certified copies of the resolutions of the board of directors of the Company allotting the Subscription Shares pursuant to Clause 2.5(a) (i); and
- (b) the Subscriber shall make or procure the making of payment in Hong Kong dollars for value on the Subscription Completion Date to the Company of the aggregate Subscription Price of the Subscription Shares less the expenses properly incurred by it in connection with the Subscription and the Placing to the bank account nominated for the purpose by the Company (such nomination being made) not less than 2:00 pm on the Subscription Completion Date or in such other manner as may be agreed between the parties, which shall constitute a

complete discharge of the Subscriber's obligations in respect thereof.

3. WARRANTIES AND UNDERTAKINGS

3.1 Company Warranties: In consideration of the Subscriber entering into this Agreement and agreeing to perform its obligations hereunder to, the Company hereby represents, warrants and undertakes to the Subscriber as follows:

- (a) the Subscription Shares will when issued be fully paid up, rank pari passu in all respects with the existing Shares then in issue, include the right to receive all dividends and distributions which may be declared made or paid after the Subscription Completion Date and be free and clear of all liens, encumbrances, equities or other third party rights;
- (b) all statements of fact contained in the Announcement are true and accurate in all material respects and not misleading in any material respect in the context of the Subscription and the Placing and all statements of opinion, intention or expectation of the directors of the Company in relation to the Company or any of its Subsidiaries contained therein are truly and honestly held and have been made after due and careful consideration and there is no other fact or matter omitted therefrom the omission of which would make any statement therein misleading in any material respect or which is otherwise material in the context of the Subscription and the Placing;
- (c) the Accounts:
 - (i) have been prepared on a recognised and consistent basis and in accordance with generally accepted accounting principles, standards and practice in Hong Kong;
 - (ii) comply in all material respects with all applicable ordinances, statutes and regulations and show a true and fair view of the state of affairs of the Property Group and of its results for the period in question;
 - (iii) are not affected by any unusual or non-recurring items and do not include transactions not normally undertaken by the relevant member of the Property Group (save as disclosed in the said accounts); and
 - (iv) make adequate provision for all taxation whether in Hong Kong or any other part of the world in respect of all accounting periods ended on or before the respective date for which the relevant member of the Property Group was then or might at any time thereafter become or have been liable;
- (d) since the Accounts Date, there has been no material adverse change in the Property Group's condition, financial or otherwise, or the earnings, business affairs or business prospects (whether or not arising in the ordinary course of business) and no event has occurred which in the reasonable opinion of the

Company may give rise to a material adverse change in such position in the foreseeable future;

- (e) (i) none of the Company nor any of its affiliates (as defined in Rule 501(b) of Regulation D) nor any person acting on its or their behalf has engaged or will engage in any directed selling efforts (as defined in Regulation S under the US Securities Act) with respect to the Placing Shares; (ii) the Company, its affiliates and any person (other than the Placing Agent) acting on its or their behalf have complied with and will comply with the offering restrictions requirement of Regulation S under the US Securities Act; and (iii) the Company is a "foreign issuer" as such term is defined in Rule 902 under the US Securities Act and is not subject to the reporting requirements of the US Exchange Act provided that no warranty is given by the Company in connection with Subscriber or its affiliates (other than the members of the Group);
- (f) neither the Company nor any of its affiliates nor any person acting on its or their behalf has offered or sold, or will offer or sell, any securities under circumstances that would require the registration of any of the Placing Shares under the US Securities Act; neither the Company nor any of its affiliates nor any person acting on its or their behalf has engaged or will engage in any form of general solicitation or general advertising within the meaning of Regulation D in connection with the offer or sale of the Placing Shares in the United States provided that no warranty is given by the Company in connection with Subscriber or its affiliates (other than the members of the Group); and
- (g) the Company is required to register as an investment company as defined in the United States Investment Company Act of 1940 and will not become an open-end investment company, unit investment trust or closed-end investment company that is required to be registered under Section 8 of such Act.

3.2 Warranties repeated: The representations and warranties set out in Clause 3 are given as at the date hereof and shall be deemed to be repeated by the Company as at the Subscription Completion Date as if given or made at such time, with reference in each case to the facts and circumstances then subsisting. The Company undertakes up to and until completion of this Agreement or its earlier termination to notify the Subscriber of any matter or event coming to its attention prior to the Subscription Completion Date which would or would reasonably be considered to render or have rendered any of the representations and warranties made by it set out in Clause 3.1 untrue, inaccurate or misleading in any material respect. The Company shall not, and shall use its reasonable endeavours to procure that no member of the Group shall, at any time prior to or on the Subscription Completion Date do or omit to do anything which may cause any of the representation and warranties made by the Company and set out in Clause 3.1 to be untrue in any material respect.

3.3 Subscriber Warranties: The Subscriber hereby represents, warrants and undertakes to the Company that (a) the Subscriber has the necessary power and authority and has obtained all necessary consents to enable it to sell the Placing Shares under the Placing Agreement and (b) this Agreement constitutes valid and legally binding and enforceable obligations of the Subscriber.

- 3.4 No merger: The foregoing provisions of this Clause 3 shall remain in full force and effect notwithstanding completion of the Subscription.
- 3.5 Undertaking by the Subscriber: The Subscriber undertakes to accept the Subscription Shares subject to the constitutional documents of the Company and (subject to and conditional upon Subscription Completion) to pay to the Company any interest accrued on the net proceeds from the Placing for the period commencing on the Placing Completion Date and ending on the Subscription Completion Date.
4. GENERAL
- 4.1 Announcements: Save for the Announcement and save as required by law or by the Stock Exchange or the SFC, each party hereby undertakes to use its best endeavours to procure that no public announcement or communication to the press, the Stock Exchange or the shareholders of the Company concerning the Company and/or its Subsidiaries which is material in relation to the Subscription shall be made by or on behalf of the Company between the date hereof and the Subscription Completion Date without prior written approval from the other party hereto as to the content, timing and manner of making thereof, such approval not to be unreasonably withheld or delayed.
- 4.2 Time of the essence: Any time, date or period mentioned in this Agreement may be extended by mutual agreement between the Subscriber and the Company but, as regards any time, date or period originally fixed or any date or period so extended as aforesaid, time shall be of the essence.
- 4.3 Waiver: No failure or delay by any party in exercising any right, power or remedy under this Agreement shall operate as a waiver thereof, nor shall any single or partial exercise of the same preclude any further exercise thereof or the exercise of any other right, power or remedy. Without limiting the foregoing, no waiver by any party of any breach of any provision hereof shall be deemed to be a waiver of any subsequent breach of that or any other provision hereof.
- 4.4 Assignment: No party hereto shall assign any of its rights under this Agreement (all of which shall be incapable of assignment) or purport to do so unless agreed by the other party hereto. This Agreement shall be binding on and enure for the benefit of each party's successors and permitted assigns.
- 4.5 Counterparts: This Agreement may be executed in any number of counterparts by the party hereto on separate counterparts, each of which when executed shall constitute an original and all of which when taken together shall constitute one and the same document.

5. NOTICES

5.1 Notices: All notices delivered hereunder shall be in writing in the English language and shall be communicated to the following addresses :-

If to the Subscriber :

39th Floor, PCCW Tower
TaiKoo Place
979 King's Road, Quarry Bay
Hong Kong

Fax no.: (852) 2962 5725
Attention: Company Secretary

If to the Company :

8th Floor, Cyberport 2
100 Cyberport Road
Hong Kong

Fax no.: 2989 6268
Attention: Company Secretary

5.2 Deemed service: Any such notice shall be served either by hand or by facsimile. Any notice shall be deemed to have been served, if served by hand, when delivered and if sent by facsimile, on receipt of confirmation of transmission. Any notice received on a day which is not a Business Day shall be deemed to be received on the next Business Day.

6. GOVERNING LAW

6.1 Hong Kong Law: This Agreement is governed by and shall be construed in accordance with the laws of Hong Kong for the time being in force and the parties hereto hereby irrevocably submit to the non-exclusive jurisdiction of the Hong Kong courts in connection herewith.

6.2 Subscriber's service agent: The Subscriber irrevocably appoints PCCW Secretaries Limited of 39th Floor, PCCW Tower, TaiKoo Place, 979 King's Road, Quarry Bay, Hong Kong as its process agent to receive on its behalf service of process of any proceedings in Hong Kong. If for any reason the process agent ceases to be able to act as process agent or no longer has an address in Hong Kong, the Subscriber irrevocably agrees to appoint a substitute process agent with an address in Hong Kong acceptable to the Company and to deliver to the Company a copy of the substitute process agent's acceptance of that appointment within 30 days. In the event that the Subscriber fails to appoint a substitute process agent, it shall be effective service for the Company to serve the process upon the last known address in Hong Kong of the last known process agent for that Subscriber notified to the Company notwithstanding that such process agent is

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no longer found at such address or has ceased to act provided that a copy of the proceedings is also sent to that the Subscriber's current registered office or principal place of business wherever situated. Nothing in this Agreement shall affect the right to serve process in any other manner permitted by law.

AS WITNESS the hands of the duly authorised representatives of the parties on the day and year first before written.

SIGNED by)
Alexander Anthony Arena)
for and on behalf of)
ASIAN MOTION LIMITED)
in the presence of)

SIGNED by)
Yuen Tin Fan Director)
for and on behalf of)
PACIFIC CENTURY PREMIUM)
DEVELOPMENTS LIMITED)
in the presence of)

BLOCK TRADE AGREEMENT

Pricing Terms and Closing Arrangements

Seller: Asian Motion Limited (BVI Subsidiary)

450,000,000 ordinary shares ("Shares") of Pacific Century Premium Developments Limited. (the "Issuer"):

Per Share purchase price: HK\$2.48

Aggregate Purchase Price: HK\$ 1,116,000,000 Closing Time: 10:00 am (Hong Kong time) 3 December 2004

The Seller agrees with Deutsche Bank AG, Hong Kong branch ("Deutsche Bank") that the Seller shall sell and Deutsche Bank shall purchase, the Shares on the terms and subject to the conditions set forth in this Agreement.

Settlement in relation to the Shares will be effected either (i) on a delivery versus payment basis in the Central Clearing and Settlement System ("CCASS") operated by Hong Kong Securities Clearing Company Limited or (ii) (to the extent any transfer of the Shares will not be settled through CCASS) by (a) the delivery of the share certificate(s) in respect of the Shares by the Seller to Deutsche Bank together with the relevant instruments of transfer duly executed by the Seller no later than 4:00 p.m. on 1 December 2004 and (b) the payments by Deutsche Bank to the Seller in cleared funds the aggregate purchase price for the Shares at or before the Closing Time to such bank account as may be notified by the Seller to Deutsche Bank.

Closing Conditions, Representations and Warranties and Indemnity

Deutsche Bank's obligations under this Agreement are subject to the conditions specified in Annex I, and the Seller shall indemnify Deutsche Bank to the extent specified in Annex I.

The Seller makes the representations and warranties and provides the undertakings specified in Annex II.

Deutsche Bank makes the representations and warranties and provides the undertakings specified in Annex II

Undertakings

The Seller undertakes with Deutsche Bank that it will bear and pay any Seller's stamp or other duties or taxes on or in connection with the sale, distribution and transfer and delivery of the Shares to Deutsche Bank.

Notices, Rights of Third Parties, Governing Law and Counterparts

No statement, notice or waiver under, or amendment to, this Agreement shall be valid unless it is in writing and, in the case of amendments, executed by each party. Notices shall be delivered by facsimile as indicated below.

Deutsche Bank AG, Hong Kong Branch

Fax number: +852 2203 7202
Attn: Jorge Munoz

Seller
Fax number: +852 2962 5725
Attn: the Company Secretary

This Agreement shall be binding upon, and inure to the benefit of, Deutsche Bank and the Seller and their respective successors and permitted assigns and, to the extent provided herein, their directors, officers, employees and controlling persons and no other person shall acquire or have any rights under or by virtue of this Agreement, except as otherwise specified herein. Time shall be of the essence in this Agreement, and neither party may assign any of its rights or obligations under this Agreement to any other party.

This Agreement shall be governed by and construed in accordance with the laws of Hong Kong, and the parties agree that the courts of Hong Kong are the most appropriate and convenient courts to hear any dispute under or arising out of this Agreement and, accordingly, submit to the exclusive jurisdiction of such courts. This Agreement may be executed by either of the parties hereto in any number of counterparts, each of which shall be deemed to be an original, but all such counterparts shall together constitute one and the same instrument.

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DEUTSCHE BANK AG, HONG KONG BRANCH

By: /s/ Stephen Lau

Name: Stephen Lau
Title:
Date: 30 November 2004

By: /s/ Sunjay Arova

Name: Sunjay Arova
Title: Managing director
Date: 30 November 2004

ASIAN MOTION LIMITED

By: /s/ Yuen Tin Fan

Name: Yuen Tin Fan
Title: Director
Date: 30th November, 2004

Conditions

The obligations of Deutsche Bank under this Agreement are subject to the conditions set forth below. Deutsche Bank may waive, in its sole discretion, any of these conditions by written notice to the Seller.

Delivery of the Shares. The Shares shall be delivered at the Closing Time in accordance with the terms of this Agreement.

Accuracy of Representations and Warranties. Each of the representations and warranties of the Seller shall have been correct when given or made and shall be correct in all material respects at the Closing Time as though it had been given or made at the Closing Time.

No Force Majeure Event Has Occurred. None of the following events shall have occurred between the date of this Agreement and the Closing Time: (A) a suspension of trading generally on the Hong Kong Stock Exchange, or a limitation on prices for the Shares or securities of the Issuer on the Hong Kong Stock Exchange, (B) any outbreak or escalation of hostilities or declaration of war or national emergency or other national or international calamity or crisis or change in economic or political conditions if the effect of such outbreak, escalation, declaration, emergency, calamity, crisis or change on the financial markets of Hong Kong would, in Deutsche Bank's sole judgement, make it impracticable or inadvisable to market the Shares or to enforce contracts for the sale of the Shares, or (C) the declaration of a banking moratorium by the Hong Kong or the United States authorities.

In the event that Seller shall not have delivered the Shares as required, or any of the above conditions shall not have been satisfied (or waived in writing), by or at the Closing Time, Deutsche Bank shall not be bound to proceed with any purchase of the Shares and this Agreement shall cease to have effect, except for the liability of the Seller arising before or in relation to such termination and as otherwise provided herein, provided that, if the Seller delivers less than all of the Shares by or at the Closing Time, Deutsche Bank shall also have the option to effect the purchase of any number of such Shares as are delivered at the agreed purchase price per share, but such partial purchase shall not relieve the Seller from liability for its default with respect to the Shares not purchased.

Indemnification

The Seller agrees to indemnify and hold harmless Deutsche Bank against any losses, claims, damages, demands or liabilities (together "Losses") to which Deutsche Bank may become subject in so far as such Losses, (or actions in respect hereof) relate to or arise out of any breach or alleged breach of the terms of this Agreement or as a result of any of the representations and warranties of the Seller being, or alleged to be, untrue or misleading in any respect. This indemnity shall not, however, apply to the extent that it is judicially determined that such losses, claims, damages or liabilities resulted primarily from Deutsche Bank's default or gross negligence. The Seller agrees to reimburse Deutsche Bank promptly for any duly itemized expenses (including reasonable counsel's fees) reasonably incurred by Deutsche Bank in connection with investigating or defending any such action or claim. The indemnification obligations of the Seller are in addition to any liability the Seller may otherwise have and shall extend, upon the same terms and conditions, to the respective directors, officers, employees and controlling persons of Deutsche Bank. The indemnification obligations of the Seller shall survive termination of this Agreement but for the avoidance of doubt shall not extend to Losses incurred in connection with a claim by the Seller itself against Deutsche Bank.

Annex II

Representations, Warranties and Undertakings of the Seller

The Seller represents and warrants to, and agrees with, Deutsche Bank that:

This is a Valid and Binding Agreement. This Agreement has been duly authorized, executed and delivered by the Seller and constitutes a valid and legally binding agreement of the Seller.

Regulation S. The Seller reasonably believes that there is no "substantial U.S. market interest", as defined in Regulation S under the Securities Act, with respect to any equity securities of the Issuer. None of the Seller, its affiliates or any persons acting on its behalf (other than Deutsche Bank, as to whom no representation is made) have engaged or will engage in any directed selling efforts, as defined in Regulation S under the Securities Act, with respect to the Shares. None of the Seller, its affiliates or any persons acting on its behalf (other than Deutsche Bank, as to whom no representation is made), directly or indirectly, (a) has made or will make offers or sales of any security or deliver any security, (b) has solicited or will solicit offers to buy any security or (c) otherwise has negotiated or will negotiate in respect of any security, in any case under circumstances that would require the registration of the Shares under the Securities Act. The Seller, its affiliates and any persons acting on its behalf have and will comply with the offering restrictions requirement of Regulation S under the Securities Act.

Absence of Further Requirements. No filing with, or authorization, approval, consent, license, order, registration, qualification or decree, whether governmental, corporate or other, is necessary or required for the execution and delivery by the Seller of this Agreement, for the performance of the Seller's obligations hereunder, in connection with the offering, issuance or sale of the Shares hereunder or for the consummation of the transactions contemplated by this Agreement, except such as have been already obtained or made and are in full force and effect.

Absence of Defaults and Conflicts. The execution, delivery and performance of this Agreement and the consummation of the transactions contemplated herein do not and will not, whether with or without the giving of notice or passage of time or both, conflict with or constitute a breach of, or default under, any applicable law, statute, rule, regulation, judgment, order, writ or decree of any government, government instrumentality or court, domestic or foreign, having jurisdiction over the Seller or any of its assets, properties or operations.

Seller Will Transfer Good and Valid Title to the Shares, Free of Restrictions. The Seller has good and valid title to the Shares to be delivered at Closing Time free and clear of liens, encumbrances, equities or claims; and upon delivery of the Shares to Deutsche Bank, pursuant to this Agreement, good and valid title to the Shares, free and clear of liens, encumbrances, equities or claims, will pass to Deutsche Bank.

The Seller has not Manipulated the Price of any of the Issuer's Securities. Neither the Seller nor anyone acting on its behalf has made or will make bids for, or purchases of, any security (A) for the purpose of creating actual or apparent trading in, or of raising the price of, any security of the Issuer or (B) which are designed to cause, have caused, or might reasonably be expected to cause, manipulation of the price of any security of the Issuer.

The Seller is not Violating "Insider Trading" Laws. The Seller does not have any non-public information concerning the Issuer that is material or price-sensitive and the sale of the Shares hereunder will not constitute a violation by such Seller of any applicable law prohibiting "insider dealing".

No Material Adverse Change. That to the best of the Seller's knowledge and belief there has been no material adverse change or any development involving a prospective material adverse change in the condition (financial or otherwise) of the Issuer since 30 September 2004 and that is not described in the Issuer's most recent annual report or subsequent releases of information to the public.

No Litigation. That to the best of the Seller's knowledge and belief the Issuer is not involved in any material litigation or arbitration proceedings relating to claims or amounts or in breach of any agreement which is material in the context of the sale of the Shares nor so far as the Seller is aware is any such litigation or arbitration pending or threatened.

The Seller undertakes to immediately notify Deutsche Bank in writing if any of the above representations or warranties was not correct when made or ceases to be correct at the Closing Time.

Representations, Warranties and Undertakings of Deutsche Bank

Deutsche Bank represents and warrants to, and agrees with, the Seller that:

This is a Valid and Binding Agreement. This Agreement has been duly authorized, executed and delivered by Deutsche Bank and constitutes a valid and legally binding agreement of Deutsche Bank

Deutsche Bank will comply with all applicable laws in connection with the purchase of the Shares.

THIS AGREEMENT is made the 21st day of December Two Thousand and Four

BETWEEN the Vendor whose name(s), address(es)/registered office(s) and identification number/business registration number are more particularly set out in Part A of Schedule 1 hereto ("the Vendor") of the one part and the Purchaser whose names(s), address(es)/registered office(s) and identification number/business registration number are more particularly set out in Part B of Schedule 1 hereto ("the Purchaser") of the other part.

WHEREAS :-

- (A) Under and by virtue of an Agreement for Lease dated 21st May 1992 and registered in the Land Registry by Memorial No.5342490 as supplemented by a Supplemental Agreement dated 13th December 2000 and registered in the Land Registry by Memorial No.8276621 and the Lease dated 13th December 2000 and registered in the Land Registry by Memorial No.8276622 as rectified by a Deed of Rectification and Confirmation dated 12th March 2001 and registered in the Land Registry by Memorial No.8340656 issued pursuant thereto (the Lease Memorial No. 8276622 as so rectified "the Lease"), Taikoo Place Holdings Limited ("the Owner") as owner let and Monance Limited ("the Lessee") as lessee took the Land and the Premises more particularly described in Part C of Schedule 1 hereto for the term of 999 years from and including 2nd February 1882, less the last 3 days thereof ("the Term") subject to the payment of rent and other amounts thereby reserved and to the terms and conditions therein contained including the restriction on alienation contained in Clause 5.9 of the Lease.
- (B) Under and by virtue of an Assignment dated 6th September 2002 and registered in the Land Registry by Memorial No.8777848, the Lessee assigned to the Vendor by way of sale the Land and the Premises held by the Lessee under the Lease for the residue of the Term created under the Lease subject to the rent and other amounts payable under the Lease and to the covenants, conditions and provisos contained in the Government Lease of Quarry Bay Marine Lot No.1 ("the Government Lease") and the Lease.
- (C) The Vendor has agreed to sell and the Purchaser has agreed to purchase the Land and the Premises held by the Vendor under the Lease for the residue of the Term created under the Lease subject to the rent and other amounts payable under the Lease and to

the covenants, conditions and provisos contained in the Government Lease and the Lease in the manner hereinafter appearing.

NOW IT IS HEREBY AGREED as follows :-

1. 1.1 The Vendor shall sell and the Purchaser shall purchase All That the Land and the Premises held by the Vendor under the Lease (the Land and the Premises held by the Vendor under the Lease are hereinafter referred to as "the Property") together with all the estate rights title benefit interest privileges and appurtenances thereunto belonging or appertaining including the furniture, chattels, fittings, facilities, equipment and all other effects now installed therein at the date hereof (collectively "Furniture and Fittings") for the residue of the Term created under the Lease subject to the payment of the rent and other amounts payable under the Lease and subject also to the covenants, conditions and provisos contained in the Government Lease and the Lease at the purchase price referred to in Clause 2 hereof ("the Purchase Price").
- 1.2 The Vendor shall assign the Property by one assignment to the Purchaser which shall be prepared by and at the expense of the Purchaser.
- 1.3 The Purchaser shall not sub-sell the Property or transfer the benefit of this Agreement, whether by way of a direct or indirect reservation, right of first refusal, option, trustee or power of attorney, nomination or any other method, arrangement or document of any description, conditional or unconditional or enter into any agreement so to do before the completion of the sale and purchase and execution of the Assignment to the Purchaser and the Purchaser hereby covenants to that effect with the Vendor. The Purchaser shall not be entitled to require the Vendor to assign the Property to anyone other than the Purchaser. TMW Asia Property Fund I GmbH & Co., KG. shall remain the ultimate beneficial owner of not less than 50% of the entire issued share capital of the Purchaser on completion.
- 1.4 The Property is sold and will be assigned subject to and with the benefit of all rights of way, lights, drainage and other easements and quasi-easements and rights of adjoining owners (if any) and/or the Government adversely or beneficially affecting the Property.

- 1.5 For the purpose of completing the purchase herein, the Purchaser shall as from completion comply with all the terms and conditions of the Lease including but not limited to enter into direct covenants with the Owner to perform and observe all the Lessee's covenants and provisions of the Lease including without limitation the restriction on alienation contained in Clause 5.9 of the Lease. The Purchaser shall before completion enter into direct covenants with the Owner in accordance with Clause 5.9 of the Lease.
2. The Purchase Price of the Property shall be in the sum set out in Part H of Schedule 1 hereto which shall be paid and satisfied by the Purchaser to the Vendor in the manner set out in Schedule 2 hereto.
3. 3.1 Completion shall take place at the offices of Messrs Woo, Kwan, Lee & Lo at Room 2801, Sun Hung Kai Centre, No.30 Harbour Road, Wanchai, Hong Kong on the date specified in Part G of Schedule 1 hereto between the hours of 9:30a.m. and 5:00p.m. on weekdays and 9:30a.m. and 1:00p.m. on Saturdays Provided that the Vendor shall have the right to call for early completion by giving not less than 14 days notice in writing to the Purchaser whereupon completion shall take place on the date of expiry of such notice Provided Further that such notice may not be served earlier than 25 January 2005. The parties hereto expressly agree that completion of the sale and purchase shall be implemented by way of the usual solicitors' undertaking subject to the usual Law Society Qualifications.
- 3.2 Notwithstanding Clause 3.1 above, either party may by written notice served to the other party not less than seven business days before completion request for formal completion in which case formal completion shall take place and the balance of purchase price shall be paid by cashier orders.
4. Time shall in every respect be of the essence of this Agreement.
5. 5.1 Completion of the sale and purchase under this Agreement is subject to and conditional upon the compliance by Pacific Century Premium Developments Limited (the holding company of the Vendor), with the requirements of The

Stock Exchange of Hong Kong Limited ("the Stock Exchange") and in particular the requirements under The Rules Governing the Listing of Securities on the Stock Exchange ("the Listing Rules") in relation to this Agreement and the transactions contemplated under this Agreement, including without limitation (if required) the passing of a resolution by the shareholders of Pacific Century Premium Developments Limited at a general meeting approving this Agreement and the transactions contemplated under this Agreement in accordance with the Listing Rules.

5.2 In the event that the condition precedent referred to in Clause 5.1 hereof is not fulfilled on or before 31 January 2005, or such later date as the parties hereto may agree, this Agreement shall immediately determine in which event :-

- (a) all the deposits and/or part payment (if any) of the Purchase Price paid by the Purchaser to the Vendor hereunder shall be returned to the Purchaser within 7 days with interest;
- (b) if possession of the Land and/or the Premises or any part(s) thereof has already been delivered by the Vendor to the Purchaser, the Purchaser shall re-deliver the same to the Vendor within 7 days thereof; and
- (c) such determination shall not prejudice any rights and/or remedies that either party may have against the other in respect of any antecedent breach of obligations.

6. 6.1 (a) The Property is to be assigned to the Purchaser upon completion with good title and free from encumbrances.

(b) The Purchaser has reviewed the Vendor's title to the Property before signing this Agreement and the Purchaser shall be deemed to have accepted the Vendor's title to the Property as at the date hereof upon signing this Agreement and no objections and requisitions (if any) may be made by the Purchaser in respect of such title to the Property.

6.2 For proof of title purposes, the Vendor shall undertake to get all the assurance and act (if any) which shall be required for getting in, surrendering or

releasing any outstanding estate, right, title or interest or for completing or perfecting the Vendor's title or for stamping any unstamped or insufficiently stamped document or for any other purpose shall be prepared, made and done by and at the expenses of the Vendor.

6.3 The Vendor shall not be required to prove that the Property sold corresponds with the description contained in the muniments of title, and if there shall be any immaterial error, mis-statement, mis-description or omission, the same shall not annul the sale nor entitle the Purchaser to be discharged from his purchase, nor shall any compensation be allowed or paid by the Vendor in respect thereof.

7. 7.1 The Property shall be sold to the Purchaser on an "as is" basis. The Purchaser acknowledges that it has been invited to inspect the Property or has caused it to be inspected on its behalf. The Purchaser is deemed to have full knowledge of the physical state and condition of the Property.

7.2 The Vendor gives no warranty expressly or by implication as to:

- (a) the fittings and finishes or the installations and appliances (if any) incorporated in the Property or in the building or buildings of which the Property form(s) part;
- (b) the state and condition of the Property or of the said building or buildings or of the fittings, finishes, installations, chattels or appliances therein or thereof;
- (c) the composition of the said building or buildings or the nature or manner of its or their construction;
- (d) the floor area of the Property;
- (e) the permitted user of the Property; and
- (f) the fitness or otherwise of the Property for development or re-development.

- 7.3 The Vendor gives no warranty whatsoever whether the Property is included in any lay-out plans (draft or approved) under the Town Planning Ordinance (Cap.131). The Purchaser shall in respect of the matters aforesaid be responsible for making its own inquiry and investigation regarding any provisions or redevelopment restrictions affecting the Property under the said Ordinance and/or any other relevant ordinance for the time being in force and the Purchaser is deemed to have agreed to purchase the Property subject to such provisions and/or restrictions, if any, and the Purchaser shall be bound to complete the purchase notwithstanding any notice which may be given or issued or published in pursuance of the said Ordinance and/or any other relevant ordinance for the time being in force after the signing of this Agreement.
- 7.4 The Vendor does not warrant or represent that each and every fixture, fitting, erection, structure and building works (if any) on the Property or any part or parts thereof is erected in all respects in compliance with the Buildings Ordinance, the Fire Safety (Commercial Premises) Ordinance and/or their respective subsidiary legislations and/or any other legislation or regulation. The Vendor shall be under no liability whatsoever if it is discovered at any time (whether before or after completion of the purchase) that the present use of the Property or any part or parts thereof is not a permitted use or that at the date hereof or before completion, there is or are any erection, structure, fittings, fixture and/or building works (if any) in any part or parts of the Property which is in contravention of the Buildings Ordinance, the Fire Safety (Commercial Premises) Ordinance and their respective subsidiary legislations and/or other legislation or regulation, and the Vendor shall not be held responsible for the demolition, alteration, removal, reinstatement, reinforcement and/or any other works relating to such illegal erection, structure, fixture, fittings and/or building works (if any) or for any costs and expenses of and incidental thereto whether or not such works are required by the Building Authority or the incorporated owners or the manager of the building or buildings of which the Property form(s) part or any other public authorities or body or otherwise. The Purchaser shall not be entitled to rescind this Agreement or to annul the sale or to claim any compensation or damages from the Vendor by reason of or in connection with any such

contravention.

- 7.5 The Vendor gives no warranty whatsoever as to whether the Property is affected by any notice under the Government Lands Resumption Ordinance, Cap.124 or the Mass Transit Railway (Land Resumption and Related Provisions) Ordinance Cap.276 or any other form of notice of similar nature. The Purchaser shall be personally responsible for making its own inquiry and investigation in respect of the matters aforesaid and of any provisions or redevelopment restrictions affecting the Property under any Ordinance. If it shall be ascertained at any time before completion of the purchase that the Property is affected by any of the said Ordinances, the Purchaser is deemed to have agreed to purchase the Property subject to such provisions and/or restrictions, if any, and the Purchaser shall be bound to complete the purchase notwithstanding any notice which may be given or issued or published in pursuance of any Ordinance after signing of this Agreement.
- 7.6 The Purchaser hereby expressly declares and agrees to purchase the Property subject to any notice(s) and/or order(s) from time to time and at any time issued or to be issued by the Government or other competent authority or the manager of the Property either requiring, without limitation, the Vendor to demolish, alter, reinstate, repair, renovate or improve any part of the Property and/or requiring the Vendor as one of the co-owners of the Property to effect any demolition, alteration, reinstatement, repair, renovation or improvement to any common part or facility of the building or buildings of which the Property form(s) part and/or to any adjacent slope(s) the repairing obligation of which lies with the co-owners of the Property and/or to contribute towards the expenses incurred or to be incurred in connection with all or any of the foregoing. All costs and expenses for such demolition, alteration, reinstatement, repair, renovation or improvement or contribution shall be borne by the Purchaser absolutely and the Purchaser shall indemnify the Vendor against non-payment.
8. 8.1 All stamp duties (whether ad valorem or otherwise) and land registration fees payable in connection with this sale and purchase (including but not limited to the stamp duty and land registration fees payable on the preliminary agreement for sale and purchase as specified in Part F of Schedule 1 hereto

("the Preliminary Agreement"), this Agreement and the subsequent Assignment made pursuant to this Agreement) shall be borne by the Purchaser absolutely. In the event of the consideration stated in the Preliminary Agreement, this Agreement and the subsequent Assignment not being accepted by the Collector of Stamp Revenue as representing the true value of the Property the additional stamp duties charged by him in accordance with his valuation of the Property shall be borne by the Purchaser absolutely who shall indemnify and keep the Vendor fully indemnified against any loss or damage suffered by the Vendor resulting from any delay or default in payment of the said stamp duty.

8.2 The Purchaser undertakes to deposit the appropriate amount in respect of stamp duty with the Purchaser's solicitors at completion and further undertakes to procure that the Purchaser's solicitors shall confirm with the Vendor's solicitors that such appropriate amount has been so deposited with them together with documentary evidence in support.

9. Each party shall bear his own solicitors' costs of and incidental to this Agreement and the subsequent Assignment.

10. 10.1 The Vendor declares that Messrs. Woo, Kwan, Lee & Lo are the Vendor's agent for the purposes of receiving all monies payable to the Vendor pursuant to this Agreement including the balance of the Purchase Price payable upon completion.

10.2 The Vendor further declares that the payment to such agent of any deposit, instalments of the purchase price and the balance thereof (if any) shall be a full and sufficient discharge of the Purchaser's obligations hereunder.

10.3 The Vendor may revoke the authority of the agent and appoint another solicitor as an agent in his place. No such revocation shall be valid unless:

- (a) it is in writing addressed to the Purchaser;
- (b) it is delivered to the Purchaser care of his solicitors at least seven clear days prior to completion; and
- (c) it specifically identifies this Agreement.

11 If, between the date of this Agreement and completion, the Property or any part thereof is damaged or destroyed due to fire, earthquake, or other calamities, force majeure or Act of God, the following provisions shall apply:

- (a) if the total costs and expenses for reinstating the damaged or destroyed portion of the Property together with all professional fees in relation thereto (the "Reinstatement Costs") are less than HK\$200,000,000, the Purchaser shall be obliged to pay the balance of the purchase price and complete the purchase of the Property in accordance with Clause 3 above;
- (b) if the Reinstatement Costs are HK\$200,000,000 or more, the Purchaser shall have the option to either (i) proceed to completion in accordance with Clause 3 above; or (ii) postpone completion until after the relevant damaged or destroyed portion has been reinstated to its original condition prior to such damage or destruction by, and at the cost of, the Vendor. Such postponed completion shall take place on a date specified by the Vendor in a written notice to the Purchaser provided that (1) the completion of the reinstatement work shall be completed on or before 31 December 2005 and the Vendor shall produce evidence by way of a copy of a certificate of fitness for occupation from an Authorized Person (as defined in the Buildings Ordinance) appointed by the Vendor for such reinstatement work; (2) the specified date must not be less than 30 days from the date of such notice; and (3) if the reinstatement is not completed by 31 December 2005 (in respect of which the time shall be of the essence) the Purchaser shall have the right to terminate this Agreement by written notice to the Vendor and not complete the purchase of the Property hereunder and all moneys paid towards the purchase price by the Purchaser to the Vendor pursuant to the provisions of this Agreement shall be forthwith refunded by the Vendor to the Purchaser.

The Purchaser shall take out sufficient insurance over the Property effective from the date of this Agreement covering damage and destruction due to reasons stated above as a minimum. If the Purchaser is obliged to or elects to complete the purchase of the Property (other than a postponed completion under paragraph (b)(ii) above), the Purchaser shall reinstate the Property at its own costs.

The Reinstatement Costs shall be determined by taking the arithmetic mean of the

written quotations given by three independent firms of qualified surveyors in Hong Kong as being the costs for reinstating the relevant damaged or destroyed portion. The three firms are Davis Langdon & Seah (HK) Limited, Levett and Bailey Chartered Quantity Surveyor Limited and WTP (Hong Kong) Limited and the fees and expenses of such firms shall be borne by the Vendor and the Purchaser in equal shares.

12. Should the Purchaser fail to complete the purchase of the Property in accordance with the terms and conditions herein contained the Vendor may (without being obliged to tender an Assignment to the Purchaser) forthwith determine this Agreement and the Vendor shall thereupon be entitled to re-enter upon the Property and repossess the same if possession shall have been given to the Purchaser free from any right or interest of the Purchaser therein and the Vendor shall be entitled to forfeit all the said deposit or further deposits or instalments of the Purchase Price paid to the Vendor absolutely.
13. Upon determination or rescission of this Agreement pursuant to any provision herein, the Vendor may resell the Property either as a whole or in lots and either by public auction or by tender or by private contract or partly by one and partly by the other(s) of such methods subject to such stipulations as to title or otherwise as the Vendor may think fit and any increase in price on resale shall belong to the Vendor. Without prejudice to the Vendor's right to recover the actual loss which may flow from the Purchaser's breach of this Agreement after taking into account the amount of the said deposit forfeited by the Vendor, on such resale any deficiency in price shall be made good and all reasonable expenses attending such resale or any attempted resale shall be borne by the Purchaser and such deficiency and expenses shall be recoverable by the Vendor. This Clause shall not preclude or be deemed to preclude the Vendor from taking other steps or remedies to enforce the Vendor's rights hereunder or otherwise or prevent the Vendor from recovering, in addition to the above, damages representing interest paid or lost by him by reason of the Purchaser's failure. On the exercise of the Vendor's right to determine or rescind this Agreement pursuant to any provision herein, the Vendor shall have the right, if this Agreement shall have been registered at the Land Registry, to register at the Land Registry an instrument signed by the Vendor alone evidencing such determination or rescission as aforesaid of the sale of the Property and to vacate the registration of this Agreement and on the signing of the said instrument by the Vendor, the Purchaser shall be deemed to have

been divested of any interest in the Property under this Agreement.

14. In the event of the Vendor failing to complete the sale of the Property in accordance with the terms hereof, all moneys paid by the Purchaser to the Vendor pursuant to the provisions of this Agreement shall be forthwith returned to the Purchaser who shall also be entitled to recover from the Vendor damages (if any) which the Purchaser may sustain by reason of such failure on the part of the Vendor and it shall not be necessary for the Purchaser to tender an Assignment to the Vendor for execution.
15. Nothing in this Agreement shall be so construed as to prevent either the Vendor or the Purchaser from bringing an action and obtaining a decree for specific performance of this Agreement either in lieu of the aforesaid damages or in addition to such damages as the party bringing such action may have sustained by reason of the breach by the other party to this Agreement and it shall not be necessary for the Purchaser to tender an Assignment to the Vendor for execution before bringing such action for specific performance.
16. Notwithstanding anything herein provided, if the date fixed for completion of the sale and purchase of the Property and/or any of the date(s) stipulated for payment herein shall fall on a day which is not a business day (defined as a day on which The Hongkong and Shanghai Banking Corporation Limited is open for business in Hong Kong) or shall fall on a day on which typhoon signal No.8 or above or black rainstorm signal is hoisted in Hong Kong at any time between 9:30a.m. to 5:00p.m. on a weekday or at any time between 9:30a.m. to 1:00 p.m. on a Saturday, such date for completion or date(s) of payment (as the case may be) shall automatically be postponed to the next business day or such next succeeding day on which no typhoon signal No.8 or above or black rainstorm signal is hoisted (as the case may be).
17. Pursuant to Section 29B of the Stamp Duty Ordinance Cap.117, the Vendor and the Purchaser hereby state the specified information in Schedule 1 hereto to the best knowledge and belief of both parties.
18. The parties hereto hereby declare that they fully understand and acknowledge that no other date than the date of the Preliminary Agreement, this Agreement and the date of the Assignment pursuant thereto (which respective dates will be filled in the Questionnaire Form I.R.S.D. 26 for stamping purpose) may be claimed as the relevant

dates for valuation of the Property for stamping.

19. If the Purchaser makes default in the payment of any money ("the money") or any part thereof to be payable, transferred or refunded to the Vendor hereunder (including but not limited to the deposit(s), the balance of the Purchase Price, utility and/or management deposit(s), if any, and money payable under the apportionment account) on the relevant due date(s), without prejudice to any other rights or remedies of the Vendor against the Purchaser, the Vendor may at its absolute discretion charge interest on the money or such part thereof as shall for the time being remain unpaid at the rate of 2% per annum over the best lending rate from time to time stipulated by The Hongkong and Shanghai Banking Corporation Limited from the date or respective dates when the money or any part thereof falls due or becomes payable until the date(s) of payment. Such payment of interest shall be in addition to and shall be without prejudice to any other rights and remedies which the Vendor may have against the Purchaser on account of the Purchaser's default in payment on the due date(s) under this Agreement.
20. 20.1 In respect of each payment of Purchase Price or deposit(s) or any part thereof required to be made hereunder, the party making such payment ("the Payer") shall deliver to the party to whom such payment is to be made ("the Payee") a cashier order issued by a licensed bank in Hong Kong or a solicitor's cheque for the relevant amount.
- 20.2 Where the purchase price or any part thereof is required to be applied by the Payee to discharge an existing mortgage, charge or encumbrance, or to pay any person(s) who will be a party to the assignment on completion of the sale and purchase herein, the Payee or the Payee's solicitors shall be entitled to require the Payer to split such payment and deliver to the Payee's solicitors one or more cashier order(s) or solicitor's cheque(s) issued in favour of the person(s) or party(ies) entitled to such payment(s) and a separate cashier order or a solicitor's cheque in favour of the Payee or the Vendor's solicitors for the balance. The provisions of Clause 20.1 hereof shall apply to such cashier orders and solicitor's cheques.
- 20.3 The Payer shall not be deemed to have discharged the obligation to make payment hereunder unless in making such payment, the Payer also complies

with the provisions of this Clause 20.

21. 21.1 Any notice, request or other communication given by or on behalf of any party hereto pursuant to or in connection with this Agreement shall be deemed to have been validly given if addressed to the party to whom the notice is given or such party's solicitors. Any such notice, request, or other communication, if addressed to the party to whom it is given at such party's address in Hong Kong herein mentioned or such other address in Hong Kong as may from time to time be notified in writing by such party to the other party or his solicitors, or if addressed to the solicitors of such party at its office address, shall be deemed to have been validly given:-
- (a) if delivered by hand, at the time of such delivery; and
 - (b) if sent by ordinary prepaid post, forty-eight(48) hours after the date of posting.
- 21.2 The Vendor hereby irrevocably appoints PCPD Corporate Services Limited whose registered office is situate at Units 701-705, Level 7, Cyberport 3, 100 Cyberport Road, Hong Kong to be its agent for the purpose of accepting service of any process or writ of action in respect of any proceedings in the Hong Kong Courts in connection with this Agreement.
22. Words importing the singular number shall include the plural number and vice versa and words importing the masculine gender shall include the feminine gender and the neuter gender.
23. The parties hereto agree and declare that this Agreement sets out the full agreement between the parties and that their rights and liabilities relating to the sale and purchase of the Property are governed solely by this Agreement and that neither of them is bound by any statements or representations not contained herein.
24. The Property comprises non-residential property within the meanings of Section 29A(1) of the Stamp Duty Ordinance (Cap.117).
25. 25.1 The Property is sold subject to and with the benefit of the existing tenancies, lettings and licences (collectively, "the Tenancies"), brief particulars of which are set out in Schedule 3 hereto. For the avoidance of doubt, such

particulars are for the Purchaser's information only. The Purchaser hereby acknowledges that it has been supplied with copies of the leases/tenancy agreements/licences/licence agreement in respect of the Tenancies and has inspected or deemed to have inspected the same. The Purchaser is deemed to purchase the Property with full knowledge of the Tenancies and shall take the Property subject to the rights of the tenants thereunder or by reason thereof.

- 25.2 The Vendor gives no warranty as to the accuracy of the particulars of the Tenancies set out in Schedule 3 hereto, whether there is any sub-tenancy from each of the tenants and the particulars thereof, if any, and gives no warranty as to the amount of rent lawfully recoverable from the tenants and the effect of any legislation in relation to the Tenancies or as to compliance with any legislation affecting the same. No error or mis-statement in Schedule 3 regarding the Tenancies shall give rise to any right of or action by the Purchaser for rescission compensation or damages. The Vendor warrants that apart from those tenancies set out in Schedule 3, the Vendor has not granted or agreed to grant any other tenancy or lease or licence in respect of the whole or any part of the Property.
- 25.3 If any part of the Tenancies shall expire or shall for any reason terminate and the relevant tenant(s) shall have delivered vacant possession of such part of the Property prior to the completion date, the Vendor shall deliver vacant possession of such part of the Property to the Purchaser on completion subject to the terms of the Deed of Appointment of Leasing Agent and Manager referred to in Clause 26 hereof.
- 25.4 The Vendor hereby expressly excepts and reserves unto itself the right, after as well as before completion, to claim from the tenants of the Property any arrears of rent and other monies due and owing under the Tenancies up to and inclusive of the actual date of completion and all damages in respect of any breach of the Tenancies before completion. The Purchaser shall give all reasonable assistance to the Vendor to recover such arrears of rent and other monies from the tenants on condition that the Vendor bears all costs and expenses including legal costs in connection with such recovery. The obligations of the Purchaser contained in this Clause 25.4 shall remain effective notwithstanding completion of the sale and purchase herein and shall not be merged or otherwise extinguished by the subsequent Assignment. In the event the tenants shall settle

and pay to the Purchaser any arrears of rent (which accrued before the date of Completion) after completion the Purchaser shall account and refund to the Vendor such arrears of rent collected by the Purchaser within 7 days of receipt.

- 25.5 On completion, the Vendor shall account to the Purchaser for the deposit held by the Vendor pursuant to the terms of the relevant lease or tenancy agreement of the Tenancies, subject to any deduction which (pursuant to the terms of such lease or tenancy agreement) may be made by the Vendor therefrom in respect of any loss, damage, costs or expenses which may be sustained by the Vendor as a result of any non-observance or non-performance of such lease or tenancy agreement by the relevant tenant. The Purchaser shall give and execute an undertaking to the relevant tenant that the Purchaser shall deal with such deposit in accordance with the relevant lease or tenancy agreement of the Tenancies. The Purchaser undertakes to produce a duplicate copy of such undertaking to the Vendor.
- 25.6 The Vendor also reserves the right prior to completion to renew/extend any of the Tenancies and/or grant any new tenancies of any part of the Property on such terms and subject to such conditions as the Vendor acting in good faith shall in its absolute discretion deems fit without the necessity of seeking any prior approval from the Purchaser Provided that each such renewal, extension or grant of any new tenancy shall not extend beyond the expiry date of the Guaranteed Period (i.e. 5 years from the date of completion) and shall not contain any option to renew which if exercised will extend beyond the said date or any option to purchase by the tenants. The Vendor shall notify the Purchaser of the details of such renewal or new tenancy, as soon as the offer letters have been issued and accepted.
- 25.7 The Vendor further reserves the right prior to completion to serve any notices to quit / termination or further notices to quit / termination on the tenants concerned or enter into any agreement with the tenants and/or any occupants of any part of the Property to surrender such part of the Property and accept any such surrender on such term as it thinks fit prior to completion and further reserves the rights to perform the obligations on its part of such agreement to surrender after completion.

26. 26.1 It is an essential condition of this Agreement that (a) the Purchaser shall upon completion enter into a Deed of Appointment of Leasing Agent and Manager with Pacific Century Paramount Real Estate Company Limited in the form set out in Appendix I hereto and agreed between the parties; and (b) the Vendor and Ipswich Holdings Limited shall upon completion execute a Rental Guarantee in the form set out in Appendix II hereto and agreed between the parties.
- 26.2 The Purchaser hereby irrevocably authorizes and directs the Vendor to pay to the Agent the rental deposits payable by the Vendor to the Purchaser pursuant to Clause 25.5 hereof. The Purchaser further declares that the payment to the Agent as aforesaid shall be a full and sufficient discharge of the Vendor's obligation to pay the rental deposit to the Purchaser under Clause 25.5 hereof.
27. The Vendor shall from time to time before completion upon reasonable prior notice of the Purchaser provide access of the untenanted portion of the Property to the Purchaser (with or without any surveyor or bank staff of the Purchaser's mortgagee bank) for the purpose of viewing the untenanted portion of the Property and/or carrying out valuation and/or carrying on ongoing due diligence on the Tenancies. The Vendor shall also provide access of the untenanted portion of the Property to the Purchaser immediately before completion to verify vacant possession of the untenanted portion of the Property. The Vendor shall use reasonable endeavours to arrange inspection of those tenanted portion of the Property.
28. The rents and profits shall be received and all outgoings shall be discharged by the Vendor up to and inclusive of the actual day of completion, and as from but exclusive of that day all outgoings shall be discharged by the Purchaser. Subject to the production of the apportionment account to be prepared by the Vendor 10 business days before completion together with the relevant receipts or evidence of payment, the apportioned amount shall be settled on completion.
29. The Vendor covenants with the Purchaser that after the signing of this Agreement, the Vendor shall not assign, mortgage, charge or otherwise dispose of or cause or permit any encumbrance to be created against the Property or any part thereof save and except lettings and tenancies to be created by the Vendor in accordance with Clause 25.6 of this Agreement before completion.

30. The Vendor declares and warrants that (save and except the disclosed tenancies in Schedule 3) there is no third party having any interest over the Property. In the event of there being any valid third party claim to the Property which the Vendor is unable to remove on or before completion, the Purchaser shall have the option to rescind this Agreement whereupon all deposit and purchase monies paid by the Purchaser to the Vendor hereunder shall be returned to the Purchaser but without prejudice to the Purchaser's rights against the Vendor for all losses and damages suffered by the purchaser and it shall not be necessary for the Purchaser to tender an assignment to the Vendor for execution.

31. The Vendor shall use its reasonable endeavour to assist the Purchaser in the Purchaser's discussion with the Owner for the entering into a "Deed of Variation of Lease" with the Owner to vary the terms of the Lease in the following manner:-

- (a) to substitute the term "Telecom Subsidiary" and the meaning thereof specified in the Lease by the term "Lessee Subsidiary" which shall mean "a company which is a subsidiary whether directly or indirectly of the Lessee";
- (b) to replace the terms "Telecom Subsidiary" mentioned in the Lease by "Lessee Subsidiary" throughout;

PROVIDED THAT nothing contained in this Clause shall amount to any warranty by the Vendor as to whether the Owner would agree to enter into the said Deed of Variation nor impose any obligation on the part of the Vendor to procure the successful execution of the said Deed of Variation or to incur any additional legal costs and expenses for the purpose of the preparation and execution of the said Deed of Variation and PROVIDED FURTHER THAT all costs and expenses in relation to the preparation and execution of the said Deed of Variation shall be borne by the Purchaser absolutely.

32. 32.1 Upon completion the Vendor may serve notice(s) ("Notice") to the service providers and contractors ("Contractor(s)") under existing maintenance and/or services contracts ("Contract(s)") for the provision of electrical mechanical lift fire cleaning security and other services for the Property requesting the

Contractors to consent to the assignment and novating of the Vendor's rights and obligations under the Contracts to the Purchaser.

- 32.2 If the Contractor(s) does not consent to the assignment/novation referred to in Clause 32.2 above or if no response is received from the Contractor(s) within 3 months from the date of service of the Notice, the Vendor may give notice to the Contractor(s) and terminate the relevant Contract(s) if the Vendor has the right to do so thereunder.
- 32.3 In the event one or more Contracts are terminated under Clause 32.2 above, the Purchaser shall enter into such replacement Contract(s) with such service provider(s) and on such terms and conditions as the Vendor may request provided that such replacement Contract(s) are for a term of not more than 5 years from the date of completion of the sale and purchase herein or they contain a right on the part of the Purchaser to terminate by giving notice without penalty or damages.

SCHEDULE 1

PART A

The Vendor

Name : PARTNER LINK INVESTMENTS LIMITED
Registered Office : P.O. Box No.957, Offshore Incorporations Centre, Road Town,
Tortola, British Virgin Islands
Business Registration Number : 3296317

PART B

The Purchaser

Name : RICHLIY LEADER LIMITED
Registered Office : Unit B, 22nd Floor, Bank of China Tower, No. 1 Garden Rod,
Hong Kong
Business Registration Number : 35095705

PART C

The Land

ALL THAT Portion of the Remaining Portion of Quarry Bay Marine Lot No.1 as shown
coloured Red on Plan 1 annexed to the Lease

The Premises

All THOSE the following portions of the building known as Dorset House (which
comprises a 4 level basement car park, a podium and 2 contiguous tower blocks
above the podium) (the "Building") erected on Portions of Section S and the
Remaining Portion of Quarry Bay Marine Lot No.1:

- (1) All Those portions of the Building now known as PCCW Tower (formerly known
at the date of the Lease as Hongkong Telecom Tower (Tower A)) as shown
coloured Yellow on Plans 2 to 51 annexed to the Lease; and
- (2) All Those loading and unloading bays on the Ground Floor of the Building as
shown coloured Yellow hatched Black on Plan 6 annexed to the Lease; and
- (3) All Those car parking spaces on Basement Levels 1 to 4 of the Building as
shown coloured Yellow hatched Black on Plans 2 to 5 annexed to the Lease

PART D

The Property is non-residential property within the meanings of Section 29A(1) of the Stamp Duty Ordinance Cap.117.

PART E

This Agreement was made on the date as specified on page one.

PART F

The Preliminary Agreement

This Agreement was preceded by a preliminary agreement made between the same parties hereto and on the same terms on 19 November 2004.

PART G

The agreed date for a conveyance on sale pursuant to this Agreement shall be on or before 3 March 2005.

PART H

The agreed consideration for the conveyance on sale that is to, or may, take place pursuant to this Agreement is DOLLARS TWO THOUSAND EIGHT HUNDRED AND EIGHT MILLION ONLY HONG KONG CURRENCY (HK\$2,808,000,000).

PART I

Amount or value of any other consideration which each person executing the document knows has been paid or given or has been agreed to be paid or given to any person for or in connection with the agreement for sale or any conveyance on sale (excluding legal expenses and estate agent's commission): Nil

S C H E D U L E 2

Payment of Purchase Price

The Purchase Price shall be paid by the Purchaser to the Vendor in the manner as follows:

- (a) The Purchaser shall pay to the Vendor the sum of HK\$280,800,000 being deposit and in part payment of the Purchase Price upon signing hereof.
- (b) The balance of the Purchase Price in the sum of HK\$2,527,200,000 shall be paid by the Purchaser to the Vendor upon completion.

SIGNED by YUEN TIN FAN, FRANCIS) For and on behalf of
) PARTNER LINK INVESTMENTS LIMITED
 for and on behalf of the Vendor)
 in the presence of) -----
) Authorised Signature(s)

Alice Y. L. Chan
 Solicitor
 Hong Kong SAR

RECEIVED on or before the day and year first above)
 written of and from the Purchaser the above)
 mentioned deposit of DOLLARS TWO HUNDRED)
 EIGHTY MILLION EIGHT HUNDRED)
 THOUSAND ONLY Hong Kong Currency) HK\$280,800,000

For and on behalf of
 PARTNER LINK INVESTMENTS LIMITED

 Authorised Signature(s)

 the Vendor

I hereby verify the signature of
 Yuen Tin Fan, Francis

Luz Yiu Fai
 Solicitor, Hong Kong SAR
 Luoo, Kwan, Lee & Lo

<PAGE>

SIGNED by) For and on behalf of
LEONG CHI MENG) PARTNER LINK INVESTMENTS LIMITED
)
for and on behalf of the Purchaser) -----
whose signature(s)is/are verified by :-) Authorised Signature(s)

Cheung Yun Kwan, Monica
Koo and Partners
In association with
Paul, Hastings, Janofsky & Walker LLP
Solicitor, Hong Kong, SAR

A P P E N D I X I

Deed of Appointment of Leasing Agent and Manager

"Tenants/Licensees" and individually "Tenant/Licensee"), whether existing or prospective, in relation to the leasing or licensing (including renewal thereof) of the Property or any part(s) thereof on such terms and conditions as the Agent shall in its discretion think fit but subject always to the terms of Clause 2A,

- (ii) To promote and/or advertise the leasing of the Property or any part(s) thereof through any media and marketing tools using such wording and/or graphics as the Agent shall in its discretion think fit;
- (iii) To organize and/or co-ordinate such leasing promotion activities as the Agent shall in its discretion think fit.

PROVIDED ALWAYS THAT in exercising its discretion under this Deed, the Agent shall act for the benefit and advantage of the Owner and the Agent shall not act or allow or suffer anything to be done whereby the Owner's interest in the Property will be prejudicially or adversely affected.

- (b) Subject to the provisions of Clause 2A hereof, to enter into offer letter(s), letter(s) of intent or confirmation(s) for lease/tenancy, licence(s), agreement(s) for lease/tenancy and lease(s)/tenancy agreements(s) and to grant or renew licences, tenancy agreements and leases in respect of the Property or any part(s) thereof (collectively called "the Letting Agreements" and individually called "the Letting Agreement") at such rent or licence fee and on such terms and conditions as the Agent shall in its discretion think fit and to receive any earnest money or deposit and advance licence/rental payment from the Tenants/Licensees and to give receipts therefor; and for this purpose, sign, seal, deliver, execute and perform as the Owner's act and deed any Letting Agreements, surrenders, memorials, undertakings or any other ancillary or related agreements or instruments.
- (c) To demand, collect, receive and recover from all present and future Tenants/Licensees of the Property or any part(s) thereof rents, licence fees, management and service charges, air-conditioning charges and sums of money payable under the Letting Agreements (collectively called "Rents/Fees") from time to time and to give receipts therefor.
- (d) On non-payment of any Rents/Fees to enter into and upon the relevant part of the Property and to distrain for arrears of the Rents/Fees and on receipt of the same or any part thereof (including all moneys realized under distress) to sign and deliver proper and effectual receipts or other discharges or acknowledgements.
- (e) To sign and give lawful notices to my Tenants/Licensees to quit, to repair, to abate nuisance or to remedy a breach of covenant under the Letting Agreements and to accept surrenders of any Letting Agreements, cancellation of letters of intent, cancellation of confirmation letters or cancellation of licence agreement on such terms as the Agent may think fit.

- (f) To recover possession of the Property or any part(s) thereof by means of all lawful proceedings or legal actions from any Tenants/Licensees or occupiers as the Agent may think fit.
- (g) To take such steps at law to commence and defend any action or other legal proceedings in any court or tribunal to enforce any covenants and conditions contained in any Letting Agreement and upon any breach or non-performance or non-observance of any such covenants or conditions to preserve the Owner's rights and interests in the Property as the Agent may think fit.
- (h) To accept delivery of possession from Tenants/Licensees whether on expiry or termination of the Letting Agreement or otherwise.
- (i) To ask demand receive and recover from all intending Tenants/Licensees or any part thereof all deposits, advance payments and sums of money now or at any time hereafter to become due owing and payable in respect of the Property or any part thereof in any manner whatsoever and also on non-payment thereof or of any part thereof to take such steps including legal proceedings to recover such payments or any part thereof as the Agent shall from time to time think fit.
- (j) To hold all rental and other deposits in respect of the Property or any part thereof whether present or future and to deduct therefrom any arrears of Rents/Fees which the Owner as landlord is entitled to make under the Letting Agreements and to pay over such deducted sum to the Vendor direct during the subsistence of the Deed of Rental Guarantee.
- (k) To enter upon when and as often as the Agent shall think proper the Property or any part thereof to view the state of repair thereof and where appropriate to order and direct all necessary or proper repairs refurbishment and improvements of or concerning the same and in that behalf to sign and give notices to any lessees, tenants and licensees and occupiers of the Property or any part thereof concerning any defects in the repair or condition of the same and requiring them to make good such defects.
- (l) To enforce all covenants conditions and stipulations contained in the Letting Agreements or any letter of intent or confirmation letter or agreement for lease or agreement for tenancy agreement or agreement for licence agreement or lease or tenancy agreement or licence agreement or surrender of lease or surrender of tenancy agreement or cancellation of letter of intent or cancellation of confirmation letter, or cancellation of licence agreement affecting the Property or any part thereof or in any provisions contained in any Ordinance of Hong Kong relating to the same or any part thereof and upon breach of non-performance or non-observance of any such covenants conditions or stipulations to enter into and upon the Property or any part thereof in relation to which such breach non-performance or non-observance shall have happened and to take possession of the same to the intent that the Letting Agreement or the letter of intent or confirmation letter or agreement for lease or agreement for

tenancy agreement or agreement for licence agreement or lease or tenancy agreement or licence agreement under which the Property or any part thereof is held shall become void according to the laws of Hong Kong or the provisions in that behalf contained in such Letting Agreement or letter of intent or confirmation letter or agreement for lease or agreement for tenancy agreement or agreement for licence agreement or lease or tenancy agreement or licence agreement.

- (m) To settle compromise or submit to arbitration all accounts, claims and disputes arising under the Letting Agreement between the Owner and any Tenants/Licensees thereof.
- (n) To do all other acts and things which the Agent may think expedient or necessary for the proper and efficient agreement for leasing, leasing, agreement for letting, letting, agreement for licensing, licensing, management, services and control of the Property or any part thereof.
- (o) For all or any of the purposes aforesaid to sign the Owner's name to all contracts and other deeds documents and writings and to sign seal and as the Owner's act and deed deliver and execute on the Owner's behalf all Letting - Agreements, letters of intent, confirmation letters, agreements for leases, agreements for tenancy agreements, agreements for licence agreements, leases, tenancy agreements, licence agreements, supplements to letters of intent, supplements to confirmation letters, supplements to agreements for leases, supplements to agreements for tenancy agreements, supplements to agreements for licence agreements, supplements to leases, supplements to tenancy agreements, supplements to licence agreements, assignments of leases, assignments of tenancy agreements; assignments of licence agreements, novations of leases, novations of tenancy agreements, novations of licence agreements, surrenders, cancellation agreements, termination agreements, side letters, agreements, contracts and other deeds, documents and instruments requisite in the premises whatsoever.

2A. (a) The provisions of this paragraph (a) shall apply to Letting Agreements (1) which expire on or before [insert a date which is 5 years from completion] (whether under the original term or any renewed term); or (2) with an option to renew and the renewed term expires on or after [insert a date which is 5 years from completion] but the renewed rent is current market rent and the renewed term is not more than 3 years:-

- (i) The Agent shall only make offers for lease/tenancy ("Offer Letters") to prospective Tenant/Licensees/ Licensees in the form of the pro forma offer letter set out in Schedule 2 hereto ("Pro Forma Offer Letter").
- (ii) The Agent shall send a draft of each Offer Letter to the Owner for approval on all the terms of an offer letter other than Clauses I to 5 of the Pro Forma Offer Letter ("Major Terms") whose approval shall not be unreasonably withheld or delayed and provided that the Owner's

approval shall be deemed to have been given if the Owner does not raise any objection within 2 calendar days after the date of the receipt of the draft Offer Letter.

- (iii) The Agent shall only enter into Letting Agreements in the form of the pro forma tenancy agreement set out in Schedule 3 hereto ("Pro Forma Tenancy Agreement") with such amendments and variations as the Agent may in its absolute discretion deemed fit provided that in respect of all the terms of the Letting Agreement other than those terms which embody Clauses 1 to 5 of the Pro Forma Offer Letter ("Important Terms"), any material variation of any of the Important Terms must be approved by the Owner whose approval shall not be unreasonably withheld or delayed and provided that the Owner's approval shall be deemed to have been given if the Owner does not raise any objection within 3 calendar days after the date of the receipt of the draft Letting Agreement.
- (b) The provisions of this paragraph (b) shall apply to Letting Agreements which (1) expire on or after [insert a date which is 5 years from completion]; or (2) expire on or before [insert a date which is 5 years from completion] but with an option to renew at a rent other than current market rent or for a renewed term of more than 3 years:-
 - (i) The Agent shall only issue Offer Letters to prospective Tenant/Licensees/Licensees in the form of the Pro Forma Offer Letter.
 - (ii) The Agent shall send a draft of each Offer Letter to the Owner for approval on all the terms thereof whose approval shall not be unreasonably withheld or delayed and provided that the Owner's approval shall be deemed to have been given if the Owner does not raise any objection within 2 calendar days after the date of the receipt of the draft Offer Letter.
 - (iii) The Agent shall only enter into Letting Agreements in the form of the Pro Forma Tenancy Agreement and incorporating the terms of the draft Offer Letter which have been approved by the Owner with such amendments and variations as the Agent may in its absolute discretion deemed fit provided that any material variation to any of the Important Terms must be approved by the Owner whose approval shall not be unreasonably withheld or delayed and provided that the Owner's approval shall be deemed to have been given if the Owner does not raise any objection within 3 calendar days after the date of the receipt of the draft Letting Agreement.
- (c) If the Owner disapproves in writing of one or more of the terms of an Offer Letter under paragraph (b)(ii) above (or one or more of the Major Terms with respect to paragraph (a)(ii) above) or, as the case may be, one or more Important Terms of a Letting Agreement, the Agent may refer the matter to an

independent firm of qualified surveyors decided by the Agent among Jones Lang LaSalle, Chesterton Petty and CB Richard Ellis. If none of the three firms stated above is independent, the matter will be referred to another firm agreed to by the Owner and the Agent and failing agreement within 3 Business Days, appointed by the President for the time being of the Hong Kong Institute of Surveyors or the professional body succeeding to such Institute on the application of either the Owner or the Agent. The firm of qualified surveyors shall be instructed to determine if the offer set out in the relevant Offer Letter or, as the case may be, the terms of the relevant Letting Agreement are not unreasonable and are in line with the then current market practice within 2 Business Days of the instructions. The decision of the agreed or appointed firm of surveyors shall be conclusive and binding on the Agent and the Owner and such firm of surveyors shall act as an expert and not as an arbitrator. The Agent shall be entitled to enter into the relevant Offer Letter or, as the case may be, the relevant Letting Agreement if the agreed or appointed firm of surveyors determines that the terms thereof are not unreasonable and are in line with the then current market practice. All costs and disbursements relating to the appointment, services and determination of the firm of surveyors shall be borne by the Owner and the Agent in equal shares.

2B. (a) The Agent shall:-

(i) prepare an agency report ("Agency Report") setting out the particulars of the Letting Agreements entered during the preceding calendar month which particulars shall include the following and such additional information as the Owner may from time to time reasonably request:

- (1) the name of the Tenant/Licensee;
- (2) the registered company address of the Tenant/Licensee;
- (3) the portion of the Property rented to the Tenant/Licensee;
- (4) the lettable floor area;
- (5) major terms and conditions including the term, monthly rental, management fee, rent-free period;
- (6) the amount of the rental deposit and the form of deposit (cash, bank guarantee or others).

(ii) send a copy of the Agency Report to the Owner on or before the 16th business day of the following month; and

(iii) send to the Owner such additional information as the Owner may reasonably require within 7 days of receipt of a written request from the Owner.

(b) The Owner has the right to assess the performance of the Agent by comparing the overall annual rental yield achieved for properties comparable to the Property and if the Agent consistently and substantially fails to achieve a comparable yield for the Property which causes damages to the Owner, the Owner has the right to require the Agent to provide a written explanation of such failure. If such failure continues for a period of 6 months or more, the Owner may, at its own cost and expenses, appoint an independent qualified quantity surveyor to confirm the Owner's view. If the Owner's

view is confirmed in writing by the quantity surveyor, the Owner has the right to terminate the appointment of the Agent under this Deed by giving the Agent 1 month's notice.

3. In exercising any duty, responsibility and authority conferred on the Agent hereunder, the Agent shall act lawfully, honestly and reasonably and shall exercise due care and diligence. The Agent shall fully indemnify the Owner against all loss, damage, claim, demand and legal actions or proceedings directly arising out of, in connection with or in relation to any breach by the Agent of any covenants, undertakings, terms and conditions of this Deed.

4. The Owner hereby appoints the Agent to be its attorney and in its name and on its behalf to execute, sign and do all such deeds, instruments, acts and things whatsoever which is necessary for the purpose of carrying out or exercising all or any of the powers conferred on the Agent under this Deed and further agrees to ratify whatsoever the Agent shall lawfully do in accordance with the power given under this Clause 4. The Owner, during the term of the appointment of the Agent under this Deed hereby further authorizes and directs the Agent to pay to the Vendor all Rents/Fees received by the Agent from the Tenants/Licensees during the subsistence of the Deed of Rental Guarantee.

5. For the avoidance of doubt, it is agreed that during the term of the appointment of the Agent as set out herein and subject to the Deed of Rental Guarantee not having been terminated and subject to the Agent paying and assuming full responsibility for all costs and expenses including legal fees in connection with enforcement proceedings the Owner shall delegate to the Agent all its rights to enforce the terms and conditions of the Letting Agreements and agrees, unless with the prior written consent of the Agent (save that such consent is not required in respect of the matters set out in Clause 18), not to enforce the terms and conditions of the Letting Agreements or exercise, whether in its name or otherwise any of its rights thereunder which include but are not limited to the institution of any legal proceeding against any Tenants/Licensees under such Letting Agreement. The Agent shall not, without the prior written consent of the Owner which consent shall not be unreasonably withheld, grant, permit, allow or suffered any waiver, time or indulgence to any Tenants/Licensees, occupier or any person whatsoever as to the payment of Rents/Fees.

6. For the avoidance of doubt, the Agent shall account to the Owner for all rental and other deposits paid to or collected by the Agent under the Letting Agreements in respect of the Property on the expiration or earlier termination of this Deed.

SECTION II

APPOINTMENT OF MANAGER

7. The Owner hereby further appoints the Agent as the manager for the Owner to undertake the management, operation, servicing, renovation, improvement and security of the Property in accordance with the provisions of this Deed for a term of five (5) years commencing from the date of this Deed Provided always that any contract entered into by the Agent in connection with the management, operation, servicing, renovation,

improvement and security of the Property must not extend beyond [insert a date which is 5 years from completion] ("Guaranteed Period") and must not have any renewal right to extend beyond the expiry date of the Guaranteed Period without the prior written consent of the Owner.

8. During the term of its appointment as the manager, the Agent is authorized to manage the Property at the Agent's own costs and expenses in accordance with the provisions of this Deed but subject always to the Lease dated 13 December 2000 registered in the Land Registry by Memorial No.5276622 ("Lease") and the Owner hereby appoints the Agent as agent for the Owner in respect of any matters concerning the Property in accordance with the provisions of this Deed with full power to enforce the provisions of this Deed. The Agent shall have full power and authority to do all such acts and things as may be necessary or expedient for the proper management of the Property, all to be performed at the Agent's own costs and expenses (save and except costs and expenses of a capital or non-recurring nature) and without in any way limiting the generality of the foregoing and subject to the Lease, the Agent shall have the following duties and powers:-

- (a) To do all things which the Agent shall in its discretion deem necessary or desirable for the purposes of maintaining and improving all plant machinery equipment facilities and services in or on the Property;
- (b) To commence, conduct, carry on and defend legal and other proceedings touching or concerning the management of the Property in the name of the Agent;
- (c) To prevent any person from occupying or using otherwise than in accordance with the written permission of the Agent or the provisions of the Lease any of part of the Property;
- (d) To prevent any person detrimentally altering damaging or injuring any part of the Property;
- (e) To demand collect and receive all amounts payable under the provisions of this Deed;
- (f) To recruit dismiss engage and employ and appoint in the name of the Agent such staff accountants auditors legal advisers architects surveyors engineers or persons for provision of computer services and other consultants whatsoever as may from time to time be necessary to enable the Agent to exercise its powers on such terms as the Agent shall in its absolute discretion decide;
- (g) To manage and control within the Property parking and loading and unloading and to maintain all forms of traffic management and to do all such acts and things as may be necessary to provide unimpeded access by the persons entitled for the time being to the use of the car parking spaces and loading and unloading bays in the Property;

- (h) To delegate or subcontract the management maintenance operation and control of any part of the Property and any of its facilities to other agents or contractors or managers on such terms and conditions as the Agent shall in its discretion think fit;
 - (i) To do all such other things as are reasonably incidental to the management of the Property.
- 9.
- (a) The Owner shall establish and maintain a fund ("Capital Reserve Fund") to meet expenditure of works (1) of a capital or non-recurring nature; or (2) as required by government authorities; or (3) that are necessary for the Owner to comply with the covenants and conditions in the Lease; or (4) of ad hoc improvement nature; or (5) for expected and/or scheduled maintenance purposes("Capital Works"). The Agent may prepare and submit to the Owner for the Owner's approval an annual capital expenditure budget provided that the Owner's approval shall be deemed to have been given if the Owner does not raise any objection within 7 calendar days of the receipt of the proposed annual capital expenditure budget. Such proposed budget must include details of the nature of the Capital Work, the timing for carrying out such Capital Work and the anticipated drawdown schedule for payment from the Capital Reserve Fund. Provided that such Capital Work has been approved by the Owner, the Owner will pay into the Capital Reserve Bank Account (as defined below) the amount of capital expenditure approved by the Owner for that financial year.
 - (b) The Owner shall open and maintain an interest-bearing account with a licensed bank of the Hong Kong Special Administrative Region in the name of the Owner ("Capital Reserve Bank Account"), the title of which shall refer to the Capital Reserve Fund for the Property, and shall use that Capital Reserve Bank Account exclusively for the purpose of meeting expenditure of Capital Works that have been approved by the Owner.
 - (c) The Agent shall have full power to carry out all Capital Works in accordance with the capital expenditure budget approved by the Owner and draw on the Capital Reserve Bank Account for such purpose. During the term of the appointment of Agent under the Deed, the Owner shall authorize and permit the Agent to be the sole signatory to operate the Capital Reserve Bank Account, such authorization to the Agent shall not be revoked by the Owner unless and until there is a material breach of the Agent's obligations hereunder.
 - (d) The Agent in its capacity as the manager of the Property shall apply as agent of the Owner all moneys and deposits withdrawn by it from the Capital Reserve Bank Account. Such moneys and deposits shall belong to the Owner but shall be held and applied as aforesaid by the Agent.
 - (e) If the amount in the Capital Reserve Bank Account is or is expected to be insufficient to meet the cost and expenses of any Capital Works approved by the Owner, the Agent shall discuss with the Owner as to the further contributions that need to be made to such Capital Reserve Fund.

- (f) Any surplus in the Capital Reserve Fund shall be carried forward to the next financial year and shall be used for paying Capital Works for the next financial year.

10. The Agent shall:-

- (a) within two (2) months after the end of each financial year, prepare a statement of account for that year showing details of Capital Reserve Fund drawn and the remaining balance; and
- (b) send a copy to the Owner such statement of account for reference purpose only.

11. Each financial year shall be a period of twelve months with the first financial year commencing on the date of this Deed.

SECTION III

TERMINATION AND MISCELLANEOUS

12. All lawful acts of the Agent carried out in accordance with the provisions of this Deed shall be binding in all respects on the Owner.

13. The Owner shall fully indemnify the Agent and its officers, employees, servants and agents against all actions, proceedings, claims and demands arising directly or indirectly out of or in connection with the Agent acting as the Owner's agent under this Deed other than (i) those resulting from the wilful default, negligence or unlawful act or the breach of the terms of this Deed by the Agent or of its officers, employees, servants and agents and (ii) the costs and expenses, outgoings agreed to be borne by the Agent under Clauses 4(1)(a) & (b) of the Deed of Rental Guarantee.

14. (a) The Owner shall open and maintain in the name of the Owner with a licensed bank in Hong Kong ("Collection Account"). The Agent shall arrange for all Rents/Fees, security deposits and other sums payable under the Letting Agreements to be paid by the Tenants/Licensees into the Collection Account. During the term of the appointment of Agent under this Deed, the Owner shall authorize and permit the Agent to be the sole signatory to operate the Collection Account, such authorization to the Agent shall not be revoked by the Owner unless and until there is a material breach of the Agent's obligations hereunder.

(b) The Agent shall on or before the 16th business day of the following month, deliver to the Owner the following:

- (i) monthly property management reports;
- (ii) monthly accounts;
- (iii) details of all legal proceedings commenced in the name of the Owner or commenced against the Owner in respect of the Property;

(iv) details of all service or management contracts entered into by the Agent in the name of the Owner pursuant to Clause 7;

(v) copies of all Letting Agreements and other contracts entered into by the Agent in the name of the Owner,

pertaining to the preceding calendar month and which have been instituted or signed within the preceding calendar month.

(c) At least two (2) weeks prior to the expiry of the Guaranteed Period, the Agent will grant all reasonable access and assistance to the Owner's representatives to arrange for a smooth hand over of all information and documents pertaining to the Property on expiry of the Guaranteed Period.

15 (a) The Agent's appointment hereunder shall commence on the date of this Deed and shall expire at the end of the fifth year unless terminated earlier pursuant to the terms of this Deed PROVIDED ALWAYS THAT the Owner is entitled to terminate the appointment of the Agent herein at any time without cause by giving 3 months' prior written notice to the Agent.

(b) In the event that the Deed of Rental Guarantee is terminated then the Agent's appointment under this Deed is also terminated.

(c) The Owner may by written notice to the Agent forthwith terminate this Deed:-

(i) if the Agent shall go into liquidation either compulsorily or voluntarily (except in the course of a voluntary liquidation for the purpose of reconstruction or amalgamation) or shall enter into composition or arrangement with its creditors or a receiver or manager shall be appointed in respect of any substantial part of the properties or assets of the Agent; or

(ii) if the Agent shall default in the performance or observance of any material terms and conditions contained in this Deed and the Agent shall neglect or otherwise fail to remedy such breach (if capable of remedy) within 14 days of being required in writing to do so by the Owner.

16. Upon expiration or early termination of the Agent's appointment as set out herein:-

(a) this Deed shall terminate and be of no further force or effect but without prejudice to the rights and liabilities of each party against the other in respect of any antecedent breach which may arise or have arisen before the date of expiration or termination;

(b) the Agent shall within 14 days deliver to the Owner (i) all documents signed or executed by it on behalf of the Owner in respect of the Property and (ii) all books (other than the books of account which will be delivered within 30 days), records, funds, assets and property of the Owner, which are held by or under the control of

the Agent;

- (c) the Agent shall within 30 days render to the Owner an apportionment account for payment of Rents/Rees, rates, management fees, air-conditioning charges and other outgoings in respect of the Property and account to the Owner for of any surplus in the Capital Reserve Bank Account for the Owner's verification; and the apportionment account shall be settled within 14 days thereafter.

17. Subject to the Agent bearing all costs and expenses, the Owner agrees to grant the Agent a power of attorney as its attorney in its name and on its behalf to demand, collect, receive and recover from all Tenants/Licensees of the Property or any part(s) thereof any arrears of Rents/Rees which are payable to the Vendor under the terms of the Deed of Rental Guarantee, to take such steps at law to commence any action or other legal proceedings in any court or tribunal and to give receipts therefore. All sums of money recovered from such Tenants/Licensees pursuant to this clause after payment of all legal costs and expenses shall be paid to the Vendor. This Clause will continue to be applicable notwithstanding the expiry of the Guaranteed Period.

18. In respect of those disabled toilets of the Property which had been converted into pantries, the Agent will use its best endeavour and at the costs and expense of the Vendor and/or the Agent to effect the reinstatement of such disabled toilets during the Guaranteed Period, and such reinstatement works shall be carried out as soon as practicable in respect of those floors used by PCCW Services Limited, and for those located on the other floors it is intended that subject to the agreement of the tenants the reinstatement shall be carried out at the next renewal of the existing tenancies for such premises provided that nothing herein shall require the Agent to commence any legal proceedings in order to effect such reinstatement work and provided further that nothing herein shall preclude the Owner from taking all actions including legal proceedings against the Tenants/Licensees to effect such reinstatement works.

19. The Agent hereby undertakes that it shall remain a subsidiary company of Pacific Century Premium Developments Limited before the expiry or termination of its appointment.

20. In this Deed, "Business Day" means a day (other than Sunday) on which commercial banks are generally opened for business in Hong Kong.

21. This Deed shall be governed by and construed in accordance with the laws of Hong Kong Special Administrative Region of the People's Republic of China ("Hong Kong") and the parties hereto agree to submit to the non-exclusive jurisdiction of the courts of Hong Kong.

22. All written notices, requests, demands, and other communications under this Deed or in connection herewith shall be given by letter (delivered by hand, by courier, or by prepaid registered air mail) or by facsimile transmission with confirmed answerback, and shall be addressed to the respective parties as follows:

<PAGE>

Owner: Richly Leader Limited

c/o Pramerica Real Estate Investors (Asia) Pte Ltd
501 Orchard Road #11-02
Wheelock Place

Singapore 238880

Attention: Mr Leong Chi Meng/Ms Wong Ping
Facsimile No: (65) 6735 2806

Agent: []

[]
[]
[]

Attention: []
Facsimile No: []

Any party may change its address at any time by written notice to the other parties.

SCHEDULE 1

The Land

ALL THAT Portion of the Remaining Portion of Quarry Bay Marine Lot No.1 as shown coloured Red on Plan 1 annexed to the Lease (as defined in the Agreement)

The Premises

ALL THOSE the following portions of the building known as Dorset House (which comprises a 4 level basement car park, a podium and 2 contiguous tower blocks above the podium) (the "Building") erected on Portions of Section S and the Remaining Portion of Quarry Bay Marine Lot No.1:

- (1) All Those portions of the Building now known as PCCW Tower (formerly known at the date of the Lease as Hongkong Telecom Tower (Tower A)) as shown coloured Yellow on Plans 2 to 51 annexed to the Lease; and
- (2) All Those loading and unloading bays on the Ground Floor of the Building as shown coloured Yellow hatched Black on Plan 6 annexed to the Lease; and
- (3) All Those car parking spaces on Basement Levels 1 to 4 of the Building as shown coloured Yellow hatched Black on Plans 2 to 5 annexed to the Lease

HELD for the residue of the term created under the Lease.

SCHEDULE 2

Proforma Offer Letter

Date: _____

To: [Name]
[Address]

Re: [Description of premises to be let]

We have pleasure to confirm our offer for the lease of the above premises upon the following basic terms and conditions:

- 1. Tenant : [Name of Tenant]
B/R#
- 2. Tenancy Term :
- 3. Rental : HK\$[] per month exclusive/inclusive of
[Management Fee, Government Rent, Rates
Air-conditioning Charges but exclusive of all
Utility Charges.]
- 4. Rent Free Period :
- 5. Deposit : HK\$[]
- 6. Formal/Tenancy Agreement : To be signed on or before []
- 7. The Tenant shall sign the Formal Tenancy Agreement in substantially the form prepared by the Landlord.
- 8. Stamp duty : To be equally shared by the Landlord and the Tenant.
- 9. Other Terms

Yours faithfully,

Signed and accepted by

S C H E D U L E 3

Pro Forma Tenancy Agreement

Dated the day of 200

[]
(as Landlord)

AND

(as Tenant)

LEASE

of

th Floor of PCCW Tower,
Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong

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SECTION I

LEASE

1. This Lease made this day of

Two Thousand and Four BETWEEN

Parties (i) [] having a principal place of business at [] ("the Landlord" which expression shall include its successors in title and assigns) of the one part and

(ii) The party particulars of whom are set out in Part I of the First Schedule hereto ("The Tenant") of the other part.

WHEREAS:-

Recitals (1) Under and by virtue of a Lease dated 13th December 2000 and registered in the Land Registry by Memorial No. 8276622 ("the Head Lease"), Taikoo Place Holdings Limited (formerly known as Parker Valley Estates Limited) ("the Head Landlord") as Owner let and the Landlord as lessee took the Building more particularly described in Part I1 of the First Schedule ("the Building") for the term of 999 years from and including the 2nd February 1882, less the last 3 days thereof.

(2) The Landlord has agreed to grant to the Tenant a tenancy of the Premises ("the Premises") more particularly described in Part I1 of the First Schedule and forming part of the Building for the term and subject to the conditions hereinafter appearing, for which the Head Landlord's approval has been given.

(3) This Lease is a Permitted Short Term Underlease within the meaning of the Head Lease.

NOW IT IS HEREBY AGREED as follows:-

Premises 1.01 The Landlord hereby agrees to let to the Tenant and the Tenant hereby agrees to take a tenancy of ALL THOSE the premises forming part of all that the Building TOGETHER WITH the use in common with the Landlord the Head Landlord and all others having the like right of (i) the landlord's driveways, entrances, staircases, landings and passages in the Building in so far as the same are necessary for the proper use and enjoyment of the Premises; (ii) the lift service and air-conditioning service in the Building and (iii) the free and uninterrupted passage and running of water soil gas electricity and other services through the sewers drains pipes cables wires and other service media in or upon the Building or the raised floors therein and serving the Premises and subject to the terms of the Head Lease FOR Term THE TERM specified in Part III of the First Schedule hereto ("the Term") YIELDING AND PAYING therefore throughout the Term the rent Rent set out in Part I of the Second Schedule (subject to a rent-free period as provided for and subject to the terms as set out in Part IV of the First Schedule) and by way of additional rent the air-conditioning charges and management charges as set out in Parts I, II and III of the Second Schedule which rent and additional rent shall be paid exclusive of rates in advance free and clear of all deductions on the first day of each calendar month throughout the Term the first and last of such payments to be apportioned according to the number of days in the calendar month in which the Term commences or ends.

Rent Review 1.02 If the Term shall be longer than 36 months each succeeding period of 36 months after the first such period of the Term shall be referred to as "a Review Period". The rent payable during a Review Period is referred to as "the New Rent". Where the New Rent payable as set out in Part I of the Second Schedule is to be calculated by reference to current market rental for the Premises the following provisions shall apply:-

- (a) If agreement is reached between the Landlord and the Tenant as to the rent to be payable throughout a Review Period such agreement shall be in writing signed by both parties and in each such case the rent payable during such Review Period shall be the New Rent as so agreed.
- (b) If such an agreement has not been made two (2) months before the commencement of any Review Period either the Landlord or the Tenant may serve a notice upon the other calling for an independent surveyor and valuer ("The Surveyor") to be appointed to determine the New Rent. The Surveyor may be appointed by agreement between the Landlord and the Tenant or in default of such agreement within one month before the commencement of any Review Period the Surveyor may be appointed at the request of either of the parties in the first instance by the chairman for the time being of the Royal Institution of Chartered Surveyors (Hong Kong Branch) or in default of such appointment the Surveyor may be appointed at the request of either of the parties by the President for the time being of the Hong Kong Institute of Surveyors or equivalent professional body. The Surveyor so appointed shall give a written decision with reasons and such decision as to what shall be the New Rent shall be conclusive and binding on the parties hereto.
- (c) In determining the New Rent the Surveyor shall act as an expert and not as an arbitrator and shall take into account the open market rent for other whole floor office accommodation elsewhere in the Development and/or in similar office buildings in Hong Kong having attributes comparable to those of the Building obtainable at the time of commencement of the relevant Review Period on the following assumptions that at that date :-

- (i) the Premises are fitted out and equipped and fit for immediate occupation and use complete with floor and wall coverings, false ceilings, raised floors and air-conditioning throughout and that no work which has been carried out thereon by the Tenant or its permitted sub-tenants (if any) or predecessors in title has diminished the rental value of the Premises and that in case the Premises have been destroyed or damaged, they have been fully reinstated and restored.
- (ii) the Premises are available for letting by a willing landlord to a willing tenant without a premium but with vacant possession.
- (iii) that the covenants herein contained on the part of the Tenant have been fully performed and observed.

but disregarding:-

- (iv) any effect on rent of the fact that the Tenant has been in occupation of the Premises.
- (v) any goodwill attached to the Premises by reason of the carrying on thereat of the business of the Tenant.

- (vi) any effect on rental value of the Premises attributable to any special improvement to the Premises or any part thereof carried out by the Tenant with the Landlord's consent where required (otherwise than in pursuance of an obligation of the Tenant) including any special improvements made by the Landlord at the expense of the Tenant prior to the commencement or during the continuance of the Term.
- (vii) any suspension of rent under Clause 7.01
- (d) The Surveyor shall afford to each of the parties an opportunity to make representations to him.
- (e) If the Surveyor shall die delay or become unwilling or incapable of acting or if for any other reason the Chairman for the time being of the Royal Institution of Chartered Surveyors (Hong Kong Branch) or the President for the time being of the Hong Kong Institute of Surveyors as the case may be or the person acting on his behalf shall in his absolute discretion think fit he may by writing discharge the Surveyor and appoint another in his place.

- (f) If the New Rent shall not have been determined before the commencement of a Review Period pending determination of the New Rent that shall be payable in respect of any Review Period, the Tenant shall continue to pay an account of the New Rent the rent that was payable immediately before the beginning of the Review Period in question and within fourteen (14) days of the determination of the New Rent, the Tenant shall pay to the Landlord the difference between the rent actually paid by the Tenant during the period pending determination as aforesaid and the New Rent payable for the period pending determination plus interest on the difference between the old rent and the New Rent at the prime lending rate from time to time of the Hongkong and Shanghai Banking Corporation Limited from the commencement date of the Review Period until the date of payment and in the event of the New Rent being less than the rent actually paid the Landlord shall within fourteen (14) days of the determination of the New Rent refund to the Tenant the difference between the New Rent and the rent actually paid by the Tenant during the period pending determination plus interest at the rate as aforesaid from the commencement of the Review Period until the date of refund.
- (g) The costs and expenses of the Surveyor including the cost of his appointment shall be borne by the Landlord and the Tenant in equal shares. All other costs and expenses incurred by the Landlord or the Tenant in respect of or in connection with any rent review shall be borne by themselves separately.

SECTION II

PAYMENT OF RENT AND OTHER CHARGES

2. The Tenant hereby agrees with the Landlord as follows:-

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Rent 2.01 To pay on the days and in the manner hereinbefore provided without deduction or set off in Hong Kong Currency

Additional the rent and by way of further or additional rent in
Rent respect of the Premises:-

- Air-conditioning Charges
- (a) the Air-Conditioning Charges from time to time payable by the Tenant as Set out in Part II of the Second Schedule.
 - (b) in addition to the Air-Conditioning Charges referred to in Part II of the Schedule, if at any time during the Term the cost of providing the air-conditioning service including (without limitation) the amount payable in respect thereof by the Landlord to the Manager under the Head Lease, the cost of maintenance, staff, replacement parts, depreciation, electricity and all other costs related to such service shall have increased, the Landlord shall be entitled to increase the Air-Conditioning Charges payable by the Tenant by an appropriate amount to cover the increase in the cost of providing the service in the first instance since the date hereof and on each occasion thereafter since the last increase. When any notice of increase shall be sent by the Landlord or the Manager to the Tenant the notice (as the Landlord in its absolute discretion may decide) may be accompanied by an explanatory memorandum but the assessment by the Landlord or the Manager of the appropriate increase shall be conclusive and final.
 - (c) any Air-Conditioning Charges payable by the Tenant for additional air-conditioning services provided by the Landlord from time to time as provided in Clause 4.06(b) of Section IV; and

Management
Charges

- (d) Management Charges for management services provided by the Manager and/or the Landlord and the monthly recurring amounts (except those of a capital nature) expended by the Landlord in relation to the management and maintenance of all non-structural portions of the Development which are not let or intended to be let to or occupied by individual tenants ("the Common Areas") from time to time payable by the Tenant as set out in Part III of the Second Schedule.

- (e) in addition to the Management Charges referred to in Part III of the Second Schedule, if at any time or times during the Term the cost to the Landlord of providing the management service to the Common Areas, including (without limitation) the amount payable in respect thereof by the Landlord to the Manager under the Head Lease, the cost of maintenance of plant and machinery, staff, replacement of parts, depreciation, cost of electricity or other services and all other costs related to such service shall have increased, the Landlord shall have the right to increase the amount of the Management Charges payable by the Tenant to cover the increase in the cost to the Landlord of providing the management service since in the first instance the date hereof and thereafter since the date of the last increase. When any notice of increase shall be sent by the Landlord or the Manager to the Tenant the notice (as the Landlord in its absolute discretion may decide) may be accompanied by an explanatory memorandum but the assessment by the Landlord or the Manager of the appropriate increase shall be conclusive and final and not less than one month's prior notice in writing notifying the Tenant of an increase in the Management Charge and setting out the reasons for the increase shall be served.

Rates etc. 2.02 To pay and discharge all rates, taxes assessments, duties, impositions, charges and outgoings of an annual or recurring nature now or hereafter to be imposed or levied on the occupier of the Premises by the Government of Hong Kong Special Administrative Region (Government Rent and Property Tax and payments of a capital or non-recurring nature alone excepted). Without prejudice to the generality of this sub-clause the Tenant shall pay all rates imposed on the Premises in the first place to the Landlord who shall settle the same with the Government of Hong Kong Special Administrative Region and in the event of the Premises not yet having been assessed or not having been separately assessed to rates the Tenant shall until such time as the Premises are so assessed to rates pay to the Landlord monthly and in advance a sum equal to the rates which would be charged by the Government of Hong Kong Special Administrative Region for each month on the basis of a rateable value equal to twelve months' rent payable by the Tenant, on account of the Tenant's liability under this Clause.

Utility Charges and Deposits 2.03 To pay and discharge all deposits and charges in respect of water, electricity and telephone as may be shown by or operated from the Tenant's own metered supplies or by accounts rendered to the Tenant by the appropriate utility companies in respect of all such utilities consumed on or in the Premises.

Cleaning Charges 2.04 To pay the cost of the daily cleaning of the Premises.

SECTION III
TENANT'S OBLIGATIONS

3. The Tenant hereby agrees with the Landlord:-

Compliance with Ordinances

3.01 To obey comply with and to indemnify the Landlord against the breach of all ordinances, regulations, bye-laws, rules and requirements of any Governmental or other competent authority relating to the use and occupation of the Premises by the Tenant or any other act, deed, matter or thing done, permitted, suffered or omitted therein or thereon by the Tenant or any employee agent licensee or permitted sub-tenant of the Tenant and without prejudice to the foregoing to obtain and maintain in force and to observe and comply with the terms of any approval licence or permit required by any Governmental or other competent authority in connection with the Tenant's use and occupation of the Premises prior to the commencement of the Tenant's business and to indemnify the Landlord against the consequences of any breach of this provision.

To permit access

3.02 To permit the Landlord and all persons authorized by it upon prior reasonable notice (except in the case of emergency) to enter upon the Premises for any purpose which in the reasonable opinion of the Landlord is necessary to enable it to comply with the covenants on the part of the lessee and the conditions contained in the Head Lease.

Fitting out

3.03 To fit out the interior of the Premises in accordance with such plans and specifications as shall have been first submitted to and approved by the Landlord in writing (such approval not to be unreasonably withheld) in a good and proper workmanlike manner, such fitting out to include but not be limited to the following :-

- (a) Connection and reticulation of all electrical wiring including wiring to light fittings together with control switching etc. within the Premises (whether underneath the raised flooring above the false ceilings or otherwise).

- (b) All floor finishes and partitioning within the Premises provided that any partitioning installed by the Tenant within the Premises shall be dry partitioning only.
- (c) Any alteration to the sprinkler system necessitated by the Tenant's layout of the Premises the same to be in all respects in accordance with all permits and consents and in compliance with the requirements of the Fire Services Department.
- (d) Any alteration to the air-conditioning ducting that may be required by the Tenant's internal layout of the Premises.
- (e) Internal decoration, furnishings and specialized Tenant's equipment.
- (f) Any alteration to the raised flooring including the alignment, re-alignment or removal of the raised flooring system, the creation of openings in the raised floor panels and the cutting or sub-division of the raised floor panels.

Provided:

- (A) The Tenant shall at its own cost prepare and submit to the Landlord suitable drawings, plans and specifications of the works to be carried out by the Tenant together with schematic sketches showing intent as to the Tenant's design and layout proposals (hereinafter collectively called "the Tenant's Plans") to enable the Premises to be fitted out and completed for the purposes specified in this Lease. The Tenant's Plans shall, without limitation:-

- (a) Include detailed drawings, plans and specifications for all interior layout, decorations, fittings, installations, partitionings and floor coverings.
 - (b) Include detailed drawings, plans and specifications of all electrical installations which shall be connected to the electrical system installed by the Landlord.
 - (c) Include details of any proposed amendments, additions or alterations to any electrical mechanical or other building services.
 - (d) Comply with all relevant Ordinances, regulations and bye-laws from time to time issued by the Government of Hong Kong.
- (B) The Landlord shall inform the Tenant within 14 days from the submission of the Tenant's Plans to the Landlord as to whether the Tenant's Plans are approved or disapproved or whether any modifications thereto are required.
- (C) The Tenant acknowledges and agrees that no delay howsoever occasioned in submitting or re-submitting the Tenant's Plans including any delay on the part of the Landlord in the approval of the same shall entitle him to any extension of the rent free period as specified in Part IV of the First Schedule, and subject to Clause 1.2 of the Fourth Schedule hereto all interior fitting out and decoration works (including any alterations required to the Building's services) shall be at the Tenant's own cost and expense.

- (D) Under no circumstances shall the Tenant be entitled to commence any fitting out work to the Premises before the Tenant's Plans shall have been approved by the Landlord.
- (E) Any and all work involving any alteration to or modification of or in any way associated with the electrical system, the sprinkler system, the security system, the plumbing and drainage system and piping and the fixed air-conditioning ducting, chilled water pipes and air-conditioning controls shall be carried out only by contractors in respect of whom the prior approval in writing of the Landlord shall have been obtained (such approval not to be unreasonably withheld or delayed) IT BEING AGREED that in no circumstances shall any such work be commenced or be permitted to be commenced by any contractor who shall not first have been approved in writing by the Landlord. All works to be carried out by the Tenant its contractors or sub-contractors shall be carried out in accordance with any FITOUT RULES as may be issued by the Landlord or the Manager from time to time provided that the same shall be reasonable and the Tenant shall pay and reimburse to the Landlord on demand any fees and/or costs incurred by the Landlord in consulting outside architect and/or outside specialist consultants in respect of the Tenant's fitting out plans.
- (F) That the Tenant will not cause or permit to be made any subsequent variation to the approved fitting out plans and specifications or to the approved interior design or layout of the Premises without the previous approval in writing of the Landlord (such approval not to be unreasonably withheld or delayed) and in the event of such approval being requested it shall be a condition precedent to the granting thereof that the Tenant shall pay to the Landlord

any fees and/or costs incurred by the Landlord in consulting outside architect and/or outside specialist consultants in respect of such variations irrespective of whether approval is ultimately granted.

- To Keep the Interior in Good Repair
- 3.04 To keep and maintain at the expense of the Tenant all the interior parts of the Premises including the flooring raised flooring and cables and wires installed thereunder the interior plaster or other finishing material or rendering to walls floors and ceilings and the Landlord's fixtures and fittings therein including (without limitation) all doors, windows, electrical installations and wiring, light fittings, suspended ceilings, fire fighting apparatus and air-conditioning ducting and all waste, drain, water and other pipes and sanitary apparatus and fittings therein and all painting, papering and decoration thereof in good clean tenantable substantial and proper repair and condition and as may be appropriate from time to time properly painted and decorated (fair wear and tear excepted).
- Installation of Wires Cables and Services
- 3.05 (a) To install all wires pipes and cables and Wires Cables other services serving the Premises in and and Services through the ducts trunkings and conduits in the Building provided by the Landlord for such purposes and at all times in accordance with the Landlord's directions and not to install any such wires pipes cables or other services without first providing the Landlord with full particulars and a fully detailed plan and diagram of such intended installation and obtaining the Landlord's consent in regard thereto (which consent shall not be unreasonably withheld or delayed).

- (b) To provide to the Landlord a full coloured diagram of all electrical wiring to be installed by the Tenant within or serving or connected to the Premises and/or within the ducts, trunkings or conduits provided by the Landlord within the Building for the installation of electrical and/or fibre-optical or other wires or cables or means of passing receiving or transmitting information and all telephone and other service wires conduits and cables installed by or at the order of the Tenant and to clearly label and in accordance with any directions given by the Landlord colour-code all such wires conduits and cables to identify the same as being the Tenant's and if required by the Landlord at the expiration or sooner determination of the Term at the Tenant's expense to remove the same from all ducts conduits or trunkings within the Building taking care not to disturb damage or interfere with any wires cables or other means of communication belonging to the Landlord or to other occupiers of any part or parts of the Building or of any other part of the Development that may have been installed within any such ducts conduits or trunkings and making good any damage caused by the Tenant in so doing and the Tenant will indemnify and hold the Landlord harmless against any claim action or demand that may be brought by any person suffering any loss or damage or interference with business or inconvenience caused by or arising from the Tenant's action in complying with its obligations hereunder.

Repair of
Electrical
Installations

3.06 To repair or replace if so required by the appropriate utility company, authority or statutory undertaker as the case may be under the terms of the Electricity Supply Ordinance or any statutory modification or re-enactment thereof or any Orders in Council or Regulations made thereunder all the electrical wiring installations and fittings within the Premises installed by the Tenant and the wiring from the Tenant's Meter or Meters to the Premises.

Good Repair
of Toilets
and Water
Apparatus

3.07 To maintain all toilets and sanitary and water apparatus located within the Premises (or elsewhere if used exclusively by the Tenant its employees invitees and licensees) in good clean and tenantable state and in proper repair and condition (excepted as in Clause 3.04 hereof is excepted) at all times during the Term in accordance with the Regulations of the Public Health or other Government Authority concerned.

Cleaning of
Drains

3.08 To pay on demand to the Landlord the cost incurred by the Landlord in cleansing and clearing any of the drains in the Building that become choked or stopped up owing to the improper or careless use of any toilet or water or sanitary or drainage equipment by the Tenant or its employees invitees contractors or licensees.

Repair of
Windows and
Glass

3.09 TO reimburse to the Landlord the cost of repairing or replacing all broken or damaged windows or glass or glass curtain wall of or corresponding to the Premises whether or not the same was broken or damaged by the negligence of the Tenant, and to pay or reimburse to the Landlord the cost of repairing and replacing all broken or damaged part or parts of the glass curtain wall of any other part or parts of the Building or of the Development whether or not used exclusively by the Tenant if the damage is caused by the act, default, neglect or omission of the Tenant or any of its servants, agents, employees, contractors or licensees.

Indemnification
of Landlord
and Insurance

3.10 To be wholly responsible for any loss damage or injury caused to any person whomsoever or to any property whatsoever directly or indirectly through the defective or damaged condition or operation of any part of the interior of the Premises or any machinery or plant or any fixtures or fittings or wiring or piping therein for the repair of which the Tenant is responsible hereunder or in any way or by or owing to the spread of fire smoke or fumes or the leakage or overflow of water of whatsoever origin from the Premises or any part thereof or through the act default or neglect of the Tenant its servants agents contractors licensees partners or customers and to make good the same by payment or otherwise and to indemnify the Landlord against all costs claims demands actions and legal proceedings whatsoever made upon the Landlord by any person in respect of any loss damage or injury as aforesaid and all costs and expenses incidental thereto and to effect adequate insurance cover in respect of such risks in accordance with the provisions of Clause 3.26 thereof.

Protection
from
typhoon

3.11 To take all reasonable precautions to protect the interior of the Premises from storm or typhoon damage or heavy rainfall or the like.

To permit
Landlord to
enter and view

3.12 To permit the Landlord its agents and all persons authorized by it with or without workmen or others and with or without appliances at all reasonable times and upon prior reasonable notice (save in the case of an emergency) to enter upon the Premises to view the condition thereof and to take inventories of the Landlord's fixtures and fittings therein and to carry out any work or repair required to be done provided that in the event of an emergency the Landlord its servants or agents may enter without notice and forcibly if need be.

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| To execute repair on receipt of notice | 3.13 To proceed to make good all defects and wants of repairs to the Premises for which the Tenant may be liable within the space of one month from the receipt of written notice from the Landlord to repair and make good the same, and if the Tenant shall fail to proceed to execute such works or repairs as aforementioned to permit the Landlord to enter upon the Premises and execute the same and the cost thereof shall be a debt due from the Tenant to the Landlord and be recoverable forthwith by action. |
| Outside windows | 3.14 To keep all windows of the Premises closed at all times. |
| Inform Landlord of Damage | 3.15 To give notice to the Landlord or its agent of any damage that the Premises may suffer and of any defect in the water and gas pipes electrical wiring or fittings, fittings fixtures or other utility supply equipment provided by the Landlord as soon as the Tenant becomes aware of any such damage and defect. |
| Cleaning and Cleaning Contractors | 3.16 To keep the Premises at all times in a clean and sanitary state and condition, and for the better observance hereof to employ as cleaners of the Premises (at the expense of the Tenant) a firm of specialist cleaners to be nominated by the Landlord. |
| Refuse and Garbage Removal | 3.17 To be responsible for the removal of refuse and garbage from the Premises to such location within or adjacent to the Building as shall be specified by the Landlord or the Manager from time to time and to use only such type of refuse container as is specified by the Landlord from time to time. In the event of the Landlord or the Manager providing a collection service for refuse and garbage the same shall be used by the Tenant to the exclusion of any other similar service and the Tenant shall bear an appropriate proportion of the reasonable cost of such service. |

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| Installation of Telephone Cables | 3.18 Subject to sub-clause 3.03(E) of this Clause the Tenant shall make its own arrangements with regard to the installation of telephones or other communication systems in the Premises, but the installation of telephone and communication lines outside the Premises must be in the common ducting provided in the Building for that purpose and in all respects in accordance with the Landlord's directions. |
| Directory Boards | 3.19 To pay the Landlord immediately upon demand the reasonable cost of affixing repairing or replacing as necessary the Tenant's name in lettering to the directory board at the entrances to the Building and to the directory board on the floor on which the Premises are situated. |
| Contractors Employees Invitees and Licensees | 3.20 To be liable for any act default negligence or omission of the Tenant's contractors employees invitees licensees as if it were the act default negligence or omission of the Tenant and to indemnify the Landlord against all costs claims demands expenses or liability to any third party in connection therewith. |
| Damage to Building | 3.21 To pay to the Landlord immediately on demand the costs of repairing any part of the Building or the Development or any of the lifts or other services and facilities installed therein that may be damaged by reason of any act default or neglect on the part of the Tenant its agents servants invitees or licensees. |
| Building Rules and Regulations | 3.22 To obey and comply with the Building Rules and Carpark Rules made by the Manager from time to time pursuant to the provisions of the Head Lease and also such Regulations as may from time to time be made or adopted by the Landlord in accordance with Section X hereof. |
| User | 3.23 To use the Premises for the purposes described in the Third Schedule and for no other purposes whatsoever. |

Yield Up Premises
& Handover

3.24 To yield up the Premises with all fixtures fittings and additions therein and thereto (other than the Tenant's fixtures and fittings) at the expiration or sooner determination of this Lease in good clean and tenantable repair and condition in accordance with the stipulations hereinbefore contained (excepted as in Clause 3.04 hereof is excepted) together with all keys giving access to all parts of the Premises Provided That the Tenant shall at the Tenant's sole cost and expense remove or do away with all or any alterations fixtures fittings or additions made or installed by the Tenant or any part or portion thereof and to make good and repair in a proper and workmanlike manner any damage to the Premises and the Landlord's fixtures and fittings therein as a result thereof and reinstate the Premises or any part thereof to the original condition thereof as at the date when possession was first handed over to the Tenant before delivering up the Premises to the Landlord PROVIDED FURTHER THAT without limitation to the generality of the foregoing it is hereby expressly agreed that:-

- (a) the Tenant shall remove all or any fixtures or fittings purchased by the Tenant from the Landlord;
- (b) if the Tenant removes any of the raised floor panels with or without the approval of the Landlord the Tenant shall at its own risk cost and expense store all panels so removed and shall upon the expiration or sooner determination of this Lease at its cost and expense reinstate the raised floor panels at the relevant part of the Premises; and

- (c) if the Tenant carries out any other work to the raised flooring system with or without the approval of the Landlord the Tenant shall upon the expiration or sooner determination of this Lease, at its own cost and expense reinstate the raised flooring system to the same condition as at the commencement of this Lease (excepted as in Clause 3.04 hereof is excepted) and to the extent to which such reinstatement cannot be effected the Tenant shall at its own cost and expense replace the relevant part of the raised flooring system.

Inform Landlord
change of
business name

3.25 To inform the Landlord forthwith in writing of any change of the Tenant's business name.

Insurance

3.26 To effect and during the currency of this tenancy and any period during which the Tenant is in occupation of the Premises or any part thereof insurance cover

- (a) in respect of third party and/or public liability for loss or damage to any person or property whatsoever caused through or by any act default or neglect of the Tenant which might give rise to a claim of indemnity pursuant to Clause 3.10 hereof;
- (b) in respect of the full replacement value of all glass now or hereafter on or in the Premises; and
- (c) against damage to fixtures and fittings for the full insurable value occurring in respect of the use or misuse of the fire sprinkler system installed within the Premises or the incursion of water herein.

The policy of insurance shall be endorsed to show the Landlord as the beneficiary and shall be effected with a reputable insurance company and in such amount as shall be approved by the Landlord and shall contain a clause to the effect that the insurance cover thereby effected and the terms and conditions thereof shall not be cancelled modified or restricted without notice in advance to the Landlord. The Tenant hereby further undertakes to produce to the Landlord as and when required by the Landlord such policy of insurance together with a receipt for the last payment of premium and a certificate from the insurance company that the policy is in all respects valid and subsisting.

SECTION IV

LANDLORD'S OBLIGATIONS AND RIGHTS

4. The Landlord agrees with the Tenant as follows:-

Quiet Enjoyment

4.01 To permit the Tenant (duly paying the rent, the Air-conditioning Charges the Management Charges and rates and other payments hereby agreed to be paid on the days and in manner herein provided for payment of the same and observing and performing the agreements stipulations terms conditions and obligations herein contained) to have quiet possession and enjoyment of the Premises during the Term without any interruption by the Landlord or any person lawfully claiming under or through or in trust for the Landlord.

Government Rent

4.02 To pay the Government Rent, Property Tax and all payments of a capital nature necessary for the proper discharge of the Landlord's obligations and duties hereunder attributable to or payable in respect of the Premises and to pay all taxes, assessments, duties, impositions and charges now or hereafter imposed or levied on the Landlord or owner of the Premises by the Government of Hong Kong.

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Roof and Main
Structure

4.03 To use its reasonable endeavours to maintain or cause the Manager to maintain and keep the main structure roofs main electricity supply cables main drains water pipes main walls and exterior window frames of the Building (except in so far as the same are within the responsibility of the Tenant hereunder) in a proper and substantial state of repair and condition Provided that the Landlord shall not be liable for breach of this Clause unless and until written notice of any defect or want of repair shall have been given to the Landlord by the Tenant and the Landlord shall have failed to take reasonable steps to repair or remedy the same within a reasonable period after the service on it of such notice.

Maintenance of
Common Areas

4.04 To carry out maintenance to the Common Areas of the Building as the Landlord shall in its absolute discretion decide necessary.

Maintenance of
Services

4.05 To use its reasonable endeavours to maintain or cause the Manager to maintain the escalators, lifts, fire services equipment, security installations and air-conditioning plant and water chilling apparatus and other services provided within the Building not within the Premises in proper working order and condition.

Air-
conditioning

4.06 (a) The Landlord shall subject to Sub-clause 4.08(c) of this Section and to Sub-clause 6.01(a) of Section VI of this Lease provide and maintain or cause the Manager to provide and maintain for the Premises during Normal Business Hours as hereinafter defined an air-conditioning service at a charge to the Tenant as set out in Part II of the Second Schedule;

(b) Subject to Sub-clause 4.08(c) of this Section and to Sub-clause 6.01(a) of Section VI of this Lease the Landlord shall supply or cause the Manager to supply the Tenant with an air-conditioning service outside Normal Business Hours as specified hereunder upon request being made by the Tenant to the Landlord. The cost of such additional hours of air-conditioning service, including the cost of running the necessary air-conditioning plant and equipment, is currently HK\$180.00 per hour for each floor comprised in the Premises (subject to reasonable change as determined by the Landlord and notified to the Tenant from time to time) and shall be paid on demand by the Tenant to the Landlord as additional rent.

Observance of the Head Lease

4.07 To observe and perform all the covenants and conditions of the Head Lease and on the lessee's part to be observed and performed, so far as they relate to the remaining parts of the Building other than the Premises, or so far as the Tenant is not liable for such performance under this Lease.

Rights Reserved to the Landlord and the Manager

4.08 It is hereby agreed and expressly confirmed that the following rights are excepted and reserved to the Head Landlord, the Landlord, the Manager and their respective successors and assigns and all persons having the like right throughout the Term:-

- (a) the right of free and uninterrupted passage and running of water, soil, gas, drainage, electricity and all other services or supplies through such sewers, watercourses, conduits, pipes, wires, cables and ducts as are now or may hereafter be in, on or

under the Premises and serving or capable of serving the Building or any adjoining or neighbouring property TOGETHER WITH the right to enter upon the Premises to inspect repair replace or maintain any such sewers, watercourses, conduits, pipes, wires, cables and ducts Provided That the exercise of this right shall be in a manner that is reasonable in all the circumstances;

- (b) the full and free right and liberty to enter upon the Premises in the circumstances in which the agreements by the Tenant contained in these presents permit such entry and in particular but without prejudice to the generality of the foregoing the right to enter into and upon the Premises at all times by prior reasonable notice to the Tenant for the purpose of obtaining access to and egress from any machinery or switch rooms or the like remaining under the control of the Head Landlord, the Landlord or the Manager and located on any of the floors of the Building on which any portion of the Premises is situated;
- (c) the right from time to time on giving prior reasonable notice to the Tenant (such notice not to be required in case of emergency or breakdown) and causing as little inconvenience to the Tenant as reasonably possible to suspend the air-conditioning system, lifts, escalators (if any), electric power, water supply and any other building services provided in or serving the Building for the purpose of servicing, maintaining, repairing, renewing, improving or replacing the same and any of them Provided however that (except in case of unavoidable breakdown or emergency which puts or requires all the lifts servicing the Premises to be put out of action simultaneously) at least one of the lifts serving the Premises shall be maintained in operation in all times.

SECTION V

RESTRICTIONS AND PROHIBITIONS

5. The Tenant agrees with the Landlord and undertakes:-

Installation
and
Alterations

- 5.01 (a) Not to make or permit or suffer to be made any alterations in or additions to the Premises or to the sprinkler system, electrical wiring installations, air-conditioning ducting lighting fixtures or other Landlord's fixtures or to install any plant apparatus or machinery (other than normal office machinery) therein without first having obtained the written consent of the Landlord (such consent shall not be unreasonably withheld or delayed);
- (b) Not to place on any part of the Premises any object of any kind including any safe of a weight in excess of the maximum floor loading capacity of the Premises;
- (c) Not to install any air-conditioning plant or equipment of any kind on or within or at any part of the Premises without the prior consent of the Landlord in writing (such consent shall not be unreasonably withheld or delayed) AND the Tenant shall comply with the reasonable directions and instructions of the Landlord regarding installation and shall at its own expense be responsible for their periodic inspection maintenance and repair and for the replacement of defective wiring and the Tenant shall be strictly liable for any damage caused by the installation operation defect or removal of such units;

- (d) Not to make or permit or suffer to be made any alterations in or additions to the mechanical or electrical installations in the Building nor to install or permit or suffer to be installed any equipment, apparatus or machinery which exceeds the loading of the electrical installations in the Building nor to install or permit or suffer to be installed any equipment, apparatus or machinery which exceeds the loading of the electrical main or wiring or which consumes electricity not metered through the Tenant's separate meter;
- (e) Not to make or permit or suffer to be made any alterations to any installation or fixture so as to affect or be likely to affect the supply of water, electricity or other utility or service to or in the Building.

Injury to Walls
or Floors

5.02 Not to cut maim or injure or permit or suffer to be cut maimed or injured any doors windows window frames walls beams slabs structural members raised floors or other part of the fabric of the Premises or any of the plumbing or sanitary or air conditioning apparatus or installations included therein or lay or use any floor covering or do anything which may damage or penetrate the raised flooring or slab without the prior written consent of the Landlord (such consent shall not be unreasonably withheld or delayed where the structure of the Premises is not affected).

No Alterations
To Exterior

5.03 Not to affix anything or paint or make any alteration whatsoever to the exterior of the Premises.

Obstructions to
Outside Windows

5.04 Not to block up, darken or obstruct or obscure any of the windows or lights belonging to the Premises.

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Not Erect Gates or Grilles 5.05 Not without the prior written consent of the Landlord to erect or install doors, gates, grilles, shutters or other similar installation whatsoever whether temporary or permanent at the doorway or entrance to the Premises or at any of the fire exits therefrom or erect any such door or grille or shutter or gate that might in any way contravene the regulations from time to time in force of the Fire Services Department or other competent authority concerned, nor in any other respect to contravene the said regulations.

Noise 5.06 Not to cause or produce or suffer or permit to be produced on or in the Premises any sound or noise (including sound produced by broadcasting from Television, Radio and any apparatus or instrument capable of producing or reproducing music and sound) or any vibration or resonance or other form of disturbance or other acts or things in or on the Premises which is or are or may be or become a nuisance or annoyance to the tenants or occupiers of adjacent or neighbouring premises within the Building or in any other part of Taikoo Place or elsewhere.

Signs 5.07 Not without the prior written approval of the Landlord to exhibit and display within or on the exterior of the Premises any writing sign signboard or other device whether illuminated or not which may be visible from outside the Premises nor without the Landlord's prior written consent to affix any writing sign signboard or other device in at or above any Common Area, lobby, landings or corridors of the Building provided that notwithstanding any provision to the contrary herein, the Tenant shall have the right to display (a) two signs within the interior of each floor of the Premises and (b) signs (one strip per floor of the Premises) showing the name(s) of the occupant(s) of the Premises at the Directory Board at the main lobby of the Building.

Auction Sales 5.08 Not to conduct or permit any auction fire bankruptcy close out or similar sale of things or properties of any kind to take place on the Premises.

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Illegal or
Immoral Use

5.09 Not to use or cause permit or suffer to be used any part of the Premises for gambling or for any illegal immoral or improper purposes or in any way so as to cause nuisance annoyance inconvenience or damage or danger to the Landlord or the tenants or occupiers of adjacent or neighbouring premises.

Sleeping or
Domestic Use

5.10 Not to use or permit the Premises or any part thereof to be used as sleeping quarters or as domestic premises within the meaning of any ordinance for the time being in force or allow any person to remain on the Premises overnight without first obtaining the Landlord's permission in writing for so doing.

Storage of
Merchandise and
Hazardous Goods

5.11 Not to use the Premises for the manufacture of goods or merchandise or for the storage of goods or merchandise other than in small quantities consistent with the nature of the Tenant's trade or business by way of samples and exhibits nor to keep or store or cause or permit or suffer to be kept or stored thereat any arms or ammunition, gun-powder, salt-petre, petroleum, liquified petroleum gas, butane gas, kerosene or other explosive or dangerous hazardous or prohibited goods within the meaning of the Dangerous Goods Ordinance (Cap. 295) and the regulations made thereunder or any Statutory modification or re-enactment thereof from time to time in force.

User

5.12 Not to use the Premises for any purpose other than the purpose specified in the Third Schedule and in particular but without prejudice to the generality of the foregoing not to use the Premises for the purpose of a Buddhist hall or temple or for the performance of the ceremony known as Ta Chai or for any similar ceremony or for any other religious purpose or the performance of any religious ceremony.

Obstructions in
Passages

5.13 Not to place or leave or suffer or permit to be placed or left by any contractor employee invitee or licensee of the Tenant any boxes furniture articles or rubbish in the entrance or any of the staircases passages or landings of the Building used in common with other tenants or the Landlord or otherwise encumber the same and the Landlord shall be entitled without notice and at the Tenant's expense to remove and dispose of as it sees fit any such material aforesaid and the Landlord shall not thereby incur any liability to the Tenant or to any person whomsoever and the Tenant shall indemnify the Landlord against all losses claims damages or expenses of and against the Landlord in respect thereof.

Parking &
Loading

5.14 Not to park any vehicle in or obstruct or otherwise use or permit any vehicle to be parked in or be obstructed or otherwise used by any employee agent or licensee of the Tenant any of those areas of the Building allocated to parking or for the movement of or access for vehicles or designated as loading/unloading areas other than in accordance with the Building Rules and the Carpark Rules made from time to time by the Manager under the Head Lease and the Regulations made from time to time by the Landlord.

Deliveries
and use of
Passenger Lifts

5.15 Not without the prior written consent of the Landlord to take delivery to the Premises of furniture or other large objects during Normal Business Hours as hereinafter defined (except by the service lifts in the Building) and not to cause or suffer or permit passenger lifts to be used for delivery purposes at any time or load or permit or suffer to be loaded into any service lift or passenger lift in the Building a weight greater than such lift is designed or permitted to carry.

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Preparation of food and prevention of Odours

5.16 Not to cook or prepare or permit or suffer to be cooked or prepared any food (except for small quantities that may be for consumption or testing by the Tenant's employees or customers Provided that the Tenant shall first apply for appropriate licenses for such purposes from the relevant government authorities as may be required by law) or permit any offensive or unusual odours to be produced upon or emanate from the Premises.

Not to Misuse Lavatories

5.17 Not to use or permit or suffer to be used any lavatory facilities whether shared with other tenants or occupiers of the Building or reserved exclusively for the use of the Tenant for any purpose other than that for which they are intended and not to throw or permit or suffer to be thrown into any W.C. pan, urinal, basin sink or other lavatory fitting any foreign or deleterious substance of any kind and to pay to the Landlord on demand the cost of any breakage, blockage or damage resulting from a breach of this provision.

Animals, pets and infestation

5.18 Not to keep or permit or suffer to be kept any animals or pets inside the Premises and to take all such steps and precautions to the reasonable satisfaction of the Landlord as shall be necessary to prevent the Premises or any part thereof from becoming infested by termites rats mice roaches or any other pests or vermin and for the better observance hereof the Landlord may require the Tenant to employ at the Tenant's cost such pest extermination contractors as the Landlord may approve (which approval shall not be unreasonably withheld or delayed).

No Touting

5.19 Not to tout or solicit or procure or permit any touting or soliciting for business or the distribution of any pamphlets notices or advertising matter outside the Premises or anywhere within the Building by any of the Tenant's servants agents licensees or permitted sub-tenants.

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Breach of
Government
Lease or
Conditions or
Deed of Mutual
Covenants

5.20 Not to commit any breach of the provisions of the Government Lease or Conditions under which the Development is held from the Government or of the Head Lease or of the Deed of Mutual Covenant (if any) or any Sub-Deed of Mutual Covenants affecting the Building and/or the Development and to indemnify the Landlord against the consequences of any such breach.

Breach of
Insurance
Policy

5.21 Not to cause suffer or permit to be done any act or thing whereby the policy or policies of insurance on the Premises against damage by fire or liability to third parties for the time being subsisting may become void or voidable or whereby the rate of premium or premia thereon may be increased and to repay to the Landlord on demand all sums paid by the Landlord by way of increased premium or premia thereon and all expenses incurred by the Landlord in and about any renewal of such policy or policies arising from or rendered necessary by such breach.

Alienation

5.22 The Tenant shall not assign underlet or otherwise part with the possession of the Premises or any part thereof in any way whether by way of sub-letting lending sharing or other means whereby any person or persons not a party to this Lease obtains the use or possession of the Premises or any part thereof irrespective of whether any rental or other consideration is given for such use or possession and in the event of any such transfer sub-letting sharing assignment or parting with the possession of the Premises (whether for monetary consideration or not) this Lease shall absolutely determine and the Tenant shall forthwith vacate the Premises on notice to that effect from the Landlord. The Tenancy shall be personal to the Tenant named in the First Schedule to this Lease and without in any way limiting the generality of the foregoing the following acts and events shall unless approved in writing by the Landlord be deemed to be breaches of this Clause:-

- (a) In the case of a tenant which is a partnership the taking in of one or more new partners whether on the death or retirement of an existing partner or otherwise;
- (b) In the case of a tenant who is an individual (including a sole surviving partner of a partnership tenant) the death insanity or disability of that individual to the intent that no right to use possess occupy or enjoy the Premises or any part thereof shall vest in the executors administrators personal representative next of kin trustee or committee of any such individual;
- (c) In the case of a tenant which is a corporation any takeover, amalgamation or voluntary liquidation thereof:
- (d) The giving by the Tenant of a Power of Attorney or similar authority whereby the donee of the Power obtains the right to use possess occupy or enjoy the Premises or any part thereof or does in fact use possess occupy or enjoy the same;
- (e) The change of the Tenant's business name

PROVIDED that the sharing of the Premises or any part (s) thereof as Licensee(s) only with any one or more company or companies which is/are and remain(s) at all times a Related Company of the Tenant (as hereinafter defined) shall not be a breach of this clause provided that the Tenant provides full particulars beforehand to the Landlord of such sharing and of the Related Company of the Tenant concerned and provided that such sharing of occupation is terminated forthwith in the event that such company ceases to be a Related Company of the Tenant as so defined.

Advertising of
Premises

5.23 Not to erect upon the Premises, the Building or any part thereof any sign or display advertising the Premises or any part thereof as being available for letting or sub-letting or issue any pamphlet publicity or advertisement in any form whatsoever with regard to any proposed letting or sub-letting of the Premises.

Not to commit
breach of Head
Lease

5.24 Not to do omit suffer or permit in relation to the Premises anything in contravention of any of the lessee's covenants and other provisions in the Head Lease contained or any act or thing which would or might cause the Landlord to be in breach of the Head Lease.

SECTION VI
EXCLUSIONS

6.01 IT IS HEREBY FURTHER EXPRESSLY AGREED AND DECLARED that the Landlord shall not in any circumstances (other than those arising from its own gross negligence or wilful default or that of its servants contractors agents or licensees) be liable to the Tenant or any other person whomsoever:-

Lifts, Air-
conditioning,
Utilities

- (a) In respect of any loss of profit or of business or loss of life or loss, injury or damage to person or property or for any disruption or inconvenience caused to or suffered or sustained by the Tenant or any other person caused by or through or in any way owing to or arising out of or connected with any defect in or breakdown or suspension of service of the lifts air-conditioning system, electric power or water supplies, or any other building service provided in or serving the Building,
or

Fire and
overflow of
water

(b) In respect of any loss of profit or of business or loss of life or loss injury or damage to person or property or for any disruption or inconvenience caused to or suffered or sustained by the Tenant or any other person caused by or through or in any way owing to or arising out of or connected with any escape of fumes smoke fire or any other substance or thing or the overflow of water from anywhere within the Building or any part of the Development or in any way attributable to fire storm tempest flood Act of God or other inevitable accident, or

Security

(c) For the security or safekeeping of the Premises or any contents therein and in particular but without prejudice to the generality of the foregoing the provision by the Landlord or the Manager or watchmen and caretakers shall not create any obligation on the part of the Landlord or the Manager as to the security of the Premises or any contents therein and the responsibility for the safety of the Premises and the contents thereof shall at all times rest with the Tenant.

SECTION VII
SUSPENSION OF RENT

Suspension of
Rent in case of
fire etc.

7.01 If the Premises or the Building or any part thereof shall at any time during the Term be destroyed or damaged or become inaccessible owing to fire water storm typhoon defective construction white ants earthquake subsidence of the ground or any calamity beyond the control of the Landlord or the Tenant so as to render the Premises or any part thereof unfit for commercial use or inaccessible and the policy or policies of insurance for such risk effected by the Landlord shall not have been vitiated or payment of the policy moneys refused in whole or in part in consequence of any act or default of the Tenant or if at any time during the continuance of this tenancy the Premises shall be condemned as a dangerous

structure or a demolition order or closing order shall become operative in respect of the Premises or any part thereof then the rent and other charges hereby reserved or a fair proportion thereof according to the nature and extent of the damage sustained or order made shall be suspended, rent and other charges paid in advance in respect of the current month being refunded, until the Premises shall again be rendered accessible and fit for commercial use PROVIDED THAT in circumstances when the whole or substantially the whole of the Premises have been rendered inaccessible or unfit for commercial use and should the Premises not have been reinstated in the meantime either the Landlord or the Tenant may at any time after two months from the occurrence of such damage or destruction or order give to the other of them notice in writing to determine this Lease and thereupon the same and everything herein contained shall cease and be void as from the date of the occurrence of such destruction or damage or order or of the Premises or any part thereof becoming inaccessible or unfit for commercial use but without prejudice to the rights and remedies of either party against the other in respect of any antecedent claim or breach of the agreements stipulations terms and conditions herein contained or of the Landlord in respect of the rent payable hereunder prior to the coming into effect of the suspension.

SECTION VIII
DEFAULT

8. It is hereby expressly agreed and declared as follows:-

Default

8.01 If the rent and/or the Air-conditioning Charges or Management Charges or any other moneys payable hereunder or any part thereof shall be in arrears for fifteen (15) days after the same shall have become payable (whether formally demanded or not) or if there shall be

any breach or non-performance of any of the stipulations conditions or agreements herein contained and on the part of the Tenant to be observed or performed or if the Tenant shall stop or suspend payment of its debts or be unable to or admit inability to pay its debts as they fall due or enter into any scheme of arrangement with its creditors or have an encumbrancer take possession of any of its assets or have a receiving order made against it or in such circumstances as aforesaid fail to satisfy any judgement that may be given in any action against it after final appeal or go into liquidation (save for the purposes of amalgamation or reconstruction) or if the Tenant shall suffer execution to be levied upon the Premises (except upon such part thereof which has been sublet with the Landlord's consent) or otherwise on the Tenant's goods or if in such circumstances as aforesaid the Tenant shall suspend or cease or threaten to suspend or cease to carry out its business or should any event occur or proceeding be taken with respect to the Tenant in any jurisdiction to which the tenant is subject which has an effect equivalent or similar to any of the events or circumstances described above then and in any such case it shall be lawful for the Landlord at any time thereafter to re-enter on and upon the Premises or any part thereof in the name of the whole and thereupon this Lease shall absolutely determine but without prejudice to any right of action or non-observance or non-performance by the Tenant of any of the terms of this Lease. A written notice served by the Landlord on the Tenant in manner hereinafter provided to the effect that the Landlord thereby exercises the power of determination and/or re-entry hereinbefore contained shall be a full and sufficient exercise of such power without physical entry on the part of the Landlord notwithstanding any statutory or common law provision to the contrary. All costs and expenses including legal costs incurred by the Landlord in demanding and enforcing payment of the rent and other charges payable hereunder (if the Landlord elects to demand) and in exercising its rights and/or remedies or in attempting to do so shall be paid by the Tenant and shall be recoverable from the Tenant as a debt.

Interest

8.02 Notwithstanding anything herein contained in the event of default in payment of rent or other monies payable by the Tenant hereunder (whether formally demanded or not) the Tenant shall pay to the Landlord on demand daily interest on all such sums outstanding at the rate of 3% above the prime lending rate of the Hongkong and Shanghai Banking Corporation Limited from time to time calculated from the date on which the same shall be due for payment. (in accordance with the provisions contained in that behalf herein) until the date of payment provided that the demand and/or receipt by the Landlord of interest pursuant to this Clause shall be without prejudice to and shall not affect the right of the Landlord to exercise any other right or remedy hereof (including but without prejudice to the generality of the foregoing the right of re-entry) exercisable under the terms of this Lease.

Acceptance of Rent

8.03 The acceptance of any rent by the Landlord shall not be deemed to operate as a waiver by the Landlord of any right to proceed against the Tenant in respect of any breach non-observance or non-performance by the Tenant of any of the agreements stipulations terms and conditions herein contained and on the part of the Tenant to be observed and performed.

Without prejudice to the other rights of the Landlord, if the Tenant shall during the Term default in payment of any of the Rent or other sums payable by the Tenant hereunder for more than three (3) times, the Tenant shall be deemed to have persistently failed to pay the Rent on its due date causing administrative inconvenience or nuisance to the Landlord and the Landlord shall be entitled to terminate the Agreement forthwith. On the exercise of the Landlord's right of termination under this Agreement, the Landlord shall have the right, if this Agreement shall have been registered in the Land Registry, to register at the Land Registry an instrument signed by the Landlord alone to terminate this Agreement and this sub-clause shall not prevent the Landlord from recovering

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in addition to interest, other amounts or loss suffered by the Landlord by reason of the Tenant's breach. Time for payment by the Tenant of any money payable hereunder shall be of the essence of this Agreement in every respect.

Acts of Employees
Invitees and
Licenses

8.04 For the purpose of these presents any act default neglect or omission of any guest visitor servant contractor employee agent invitee or licensee of the Tenant shall be deemed to be the act default neglect or omission of the Tenant.

Distrain

8.05 For the purposes of Part III of the Landlord and Tenant (Consolidation) Ordinance (Chapter 7) and of these presents, the rent payable in respect of the Premises shall be and be deemed to be in arrears if not paid in advance at the times and in the manner hereinbefore provided for payment thereof.

Exercise of
Right of Re-
Entry

8.06 A written notice served by the Landlord on the Tenant in manner hereinafter mentioned to the effect that the Landlord thereby exercises the power of re-entry herein contained shall be a full and sufficient exercise of such power without actual entry on the part of the Landlord.

[For Cash deposit only]

SECTION IX

DEPOSIT

Deposit

9.01 The Tenant shall on the signing hereof deposit with the Landlord in cash the sum or sums specified in paragraph (1) of Part IV of the Second Schedule ("the Deposit") to secure the due observance and performance by the Tenant of the agreements stipulations terms and conditions herein contained and on the part of the Tenant to be observed and performed which Deposit shall be held by the Landlord throughout the currency of this Lease free of any interest to the Tenant with the right for the

Landlord (without prejudice to any other right or remedy hereunder) to deduct therefrom the amount of any rent rates and other charges payable hereunder and any costs expenses loss or damage sustained by the Landlord as the result of any non-observance or non-performance by the Tenant of any of the agreements, stipulations, obligations or conditions. In the event of any deduction being made by the Landlord from the Deposit in accordance herewith during the currency of this Lease the Tenant shall forthwith on demand by the Landlord make a further deposit equal to the amount so deducted and failure by the Tenant so to do shall entitle the Landlord forthwith to re-enter upon the Premises and to determine this Lease as hereinbefore provided.

Increase of
Deposit

9.02 The amount of the cash deposit stipulated in Clause 9.01 shall be increased, following each and any review in rent to market rent or increase in Air-Conditioning Charges and/or Management Charges, so that the total amount of the Deposit shall be for a sum equal to (i) [] months' rent at the rent payable after the review in question. (iii) [] months' Air-conditioning Charges at the rate at that time payable by the Tenant hereunder and (iii) [] months' Management Charges at the rate at that time payable by the Tenant hereunder.

Repayment of
Deposit

9.03 Subject as aforesaid the Deposit and any further deposits paid shall be refunded to the Tenant by the Landlord without interest within thirty days after the expiration or sooner determination of this Lease and delivery of vacant possession to the Landlord and after settlement of the last outstanding claim by the Landlord against the Tenant for any arrears of rent rates and other charges and for any breach non-observance or non-performance of any of the agreements stipulations terms and conditions herein contained and on the part of the Tenant to be observed or performed whichever shall be the later

Transfer of
Deposit

9.04 The parties hereto agree that in the event of the Landlord assigning or transferring the ownership of the Premises or the Building of which the Premises forms part to any person ("the New Owner") prior to the termination of the Term of this Lease subject to and with the benefit of this Lease, the Landlord shall be at liberty to transfer the Deposit paid by the Tenant under the Lease (less any deduction which the Landlord may make according to the terms of this Lease and the said rental deposit or the balance thereof after the said deduction shall hereinafter be referred to as "the Rental Deposit") to the New Owner and in that event the Tenant shall waive all claims against the Landlord for the refund of the Rental Deposit but nothing herein provided shall prejudice or affect the right of the Tenant to claim against the New Owner for refund of the same AND a written notice sent by the Landlord or the Landlord's solicitors by ordinary post to the Tenant to the address stated herein notifying the change of ownership of the Premises shall be conclusive evidence that the Rental Deposit has been transferred to the New Owner unless the contrary intention is expressed in the said notice.

[Bank Guarantee]

SECTION IX

DEPOSIT

Deposit

9.01 The Tenant shall on the signing hereof provide the Landlord with a bank guarantee for the sum specified in paragraph (1) of Part IV of the Second Schedule ("the Bank Guarantee") to secure the due observance and performance by the Tenant of the agreements stipulations terms and conditions herein contained and on the part of the Tenant to be observed and performed which Bank Guarantee shall be held by the Landlord throughout the currency of this Lease free of any interest to the Tenant

with the right for the Landlord (without prejudice to any other right or remedy hereunder) to enforce the Bank Guarantee for payment of the amount of any rent rates and other charges payable hereunder and any costs expenses loss or damage sustained by the Landlord as the result of any non-observance or non-performance by the Tenant of any of the agreements, stipulations, obligations or conditions. In the event the Bank Guarantee being enforced by the Landlord in accordance herewith during the currency of this Lease the Tenant shall forthwith on demand by the Landlord provide a further bank guarantee equal to the amount so enforced and failure by the Tenant so to do shall entitle the Landlord forthwith to re-enter upon the Premises and to determine this Lease as hereinbefore provided.

Increase of
Deposit

9.02 The extent of the amount of the Bank Guarantee stipulated in Clause 9.01 shall be increased, following each and any review in rent to market rent or increase in Air-conditioning Charges and/or Management Charges, so that the total extent of the Bank Guarantee shall be for a sum equal to (i) [] months' rent at the rent payable after the review in question. (ii) [] months' Air-conditioning Charges at the rate at that time payable by the Tenant hereunder and (iii) [] months' Management Charges at the rate at that time payable by the Tenant hereunder.

Cancellation of
guarantee

9.03 Subject as aforesaid the Bank Guarantee and any further bank guarantees or supplements provided shall be returned to the Tenant for cancellation by the Landlord without interest within sixty days after the expiration or sooner determination of this Lease and delivery of vacant possession to the Landlord and after settlement of the last outstanding claim by the Landlord against the Tenant for any arrears of rent rates and other charges and for any breach non-observance or non-performance of any of the agreements stipulations terms and conditions herein contained and on the part of the Tenant to be observed or performed whichever shall be the later.

Issue of
replacement
guarantee

9.04 The parties hereto agree that in the event of the Landlord assigning or transferring the ownership of the Premises or the Building of which the Premises forms part to any person ("the New Owner") prior to the termination of the Term of this Lease subject to and with the benefit of this Lease, the Landlord shall be at liberty to transfer/assign the benefits of the Bank Guarantee provided by the Tenant to the New Owner but in the event the Bank Guarantee is not transferrable nor assignable, the Tenant shall provide a new bank guarantee to the New Owner in replacement of the Bank Guarantee if so requested by the Landlord. The aforesaid transfer shall be subject to the right of the Landlord to enforce the Bank Guarantee under the terms of this Lease and in the event of transfer or assignment as aforesaid, the Tenant shall waive all claims against the Landlord for the return of the Bank Guarantee if it has been transferred or assigned as aforesaid but nothing herein provided shall prejudice or affect the right of the Tenant to claim against the New Owner for return of the same AND a written notice sent by the Landlord or the Landlord's solicitors by ordinary post to the Tenant to the address stated herein notifying the change of ownership of the Premises shall be conclusive evidence that the Bank Guarantee has been transferred (if it has not been replaced) to the New Owner unless the contrary intention is expressed in the said notice.

[Cash Deposit and Bank Guarantee]

SECTION IX

DEPOSIT

Cash Deposit

9.01 The Tenant shall on the signing hereof deposit with the Landlord in cash the sum or sums specified in paragraph (1) of Part IV of the Second Schedule ("the Cash Deposit") and provide to the Landlord a bank Guarantee for such amount specified in paragraph (2) of Part IV of the Second Schedule ("the Bank Guarantee") (the Cash deposit and the Bank Guarantee are collectively referred to as "the Deposit") to secure the due observance and performance by the Tenant of the agreements stipulations terms and conditions herein contained and on the part of the Tenant to be observed and performed which Deposit shall be held by the Landlord throughout the currency of this Lease free of any interest to the Tenant with the right for the Landlord (without prejudice to any other right or remedy hereunder) to deduct from the Cash Deposit the amount of and/or to enforce the Bank Guarantee for payment of any rent rates and other charges payable hereunder and any costs expenses loss or damage sustained by the Landlord as the result of any non-observance or non-performance by the Tenant of any of the agreements, stipulations, obligations or conditions. In the event of any deduction being made by the Landlord from the Cash Deposit and/or the Bank Guarantee being enforced by the Landlord in accordance herewith during the currency of this Lease the Tenant shall forthwith on demand by the Landlord make a further deposit equal to the amount so deducted and/or to provide a further bank guarantee equal to the amount so enforced and failure by the Tenant so to do shall entitle the Landlord forthwith to re-enter upon the Premises and to determine this Lease as hereinbefore provided.

Increase of
Deposit

9.02 The amount of the Cash Deposit and the extent of the Bank Guarantee stipulated in Clause 9.01 shall be increased, following each and any review in rent to market rent or increase in Air-conditioning Charges and/or Management Charges, so that the total amount of the Cash Deposit and the extent of the Bank Guarantee shall be for a sum equal to (i) [three months'] rent at the rent payable after the review in question. (ii) [three months'] Air-conditioning Charges at the rate at that time payable by the Tenant hereunder and (iii) [three months'] Management Charges at the rate at that time payable by the Tenant hereunder.

Repayment of
Deposit

9.03 Subject as aforesaid, (i) the Cash Deposit and any further cash deposits paid shall be refunded and the Bank Guarantee and any further bank guarantees and supplements provided shall be returned to the Tenant by the Landlord without interest within thirty days for Cash Deposits and within sixty days for Bank Guarantee after the expiration or sooner determination of this Lease and delivery of vacant possession to the Landlord and after settlement of the last outstanding claim by the Landlord against the Tenant for any arrears of rent rates and other charges and for any breach non-observance or non-performance of any of the agreements stipulations terms and conditions herein contained and on the part of the Tenant to be observed or performed whichever shall be the later.

Transfer of
Deposit

9.04 The parties hereto agree that in the event of the Landlord assigning or transferring the ownership of the Premises or the Building of which the Premises forms part to any person ("the New Owner") prior to the termination of the Term of this Lease subject to and with the benefit of this Lease, the Landlord shall be at liberty to transfer the Cash Deposit paid and transfer/assign the

benefits of the Bank Guarantee provided by the Tenant to the New Owner but in the event the Bank Guarantee is not transferrable nor assignable, the Tenant shall provide a new bank guarantee to the New Owner in replacement of the Bank Guarantee if so requested by the Landlord. The aforesaid transfer or assignment shall be subject to (i) any deduction which the Landlord may make according to the terms of this Lease and the said rental deposit or the balance thereof after the said deduction shall hereinafter be referred to as "the Rental Deposit" and/or (ii) the Landlord's right to enforce the Bank Guarantee in accordance with the terms of this Lease and in the event of transfer or assignment as aforesaid, the Tenant shall waive all claims against the Landlord for the refund of the Rental Deposit and the return of the Bank Guarantee if the Bank Guarantee has been transferred or assigned as aforesaid but nothing herein provided shall prejudice or affect the right of the Tenant to claim against the New Owner for refund or return of the same AND a written notice sent by the Landlord or the Landlord's solicitors by ordinary post to the Tenant to the address stated herein notifying the change of ownership of the Premises shall be conclusive evidence that the Rental Deposit has been transferred and the Bank Guarantee has been assigned (if it has not been replaced) to the New Owner unless the contrary intention is expressed in the said notice.

SECTION X

REGULATIONS

Introduction of
Regulations

10.01 The Landlord shall be entitled from time to time and by notice in writing to the Tenant to make introduce and subsequently amend adopt or abolish if necessary such Regulations as it may reasonably consider necessary for the proper operation and maintenance of the Building.

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Conflict 10.02 Such Regulations shall be supplementary to the terms and conditions contained in this Lease and shall not in any way derogate from such terms and conditions. In the event of conflict between such Regulations and the terms and conditions of this Lease the terms and conditions of this Lease shall prevail.

Exclusion of Liability 10.03 The Landlord shall not be liable for any loss or damage howsoever caused or arising from any non-enforcement of the Regulations or non-observance thereof by any person.

SECTION XI

INTERPRETATION AND MISCELLANEOUS

Marginal Notes, Headings and Index 11.01 The Marginal Notes, Headings and Index are intended for guidance only and do not form a part of this Lease nor shall any of the provisions of this Lease be construed or interpreted by reference thereto or in any way affected or limited thereby.

Definitions 11.02 In this Lease the following expressions whenever used shall (save where the context otherwise requires) have the following meanings:-

"the Building" means that part of the two commercial/office towers constructed as part of the Development known as PCCW Tower of which particulars are contained in Part II of the First Schedule hereto.

"the Development" means the development comprising two office/commercial towers with car-parking and other facilities erected on some part or parts of the piece or parcel of land at Taikoo Place, Quarry Bay, Hong Kong know and registered at the Land Registry as SECTION S AND THE REMAINING PORTION OF QUARRY BAY MARINE LOT NO. 1 comprising both the tower block now know as "Dorset House" and the Building and the podium on which the same are constructed.

"the Manager" means the Manager from time to time of the Development appointed pursuant to the provisions of the Head Lease.

"Normal Business Hours" means the hours other than on Sundays and Public Holidays, between 8.00 a.m. and 7.00 p.m. on each Monday to Friday and between 8.00 a.m. and 2.00 p.m. on each Saturday which is not a Public Holiday.

"Related Company" means and any other entity:

- (a) not less than 10% of whose voting shares or securities;
or
 - (b) not less than 10% of the composition of whose broad of directors; or
 - (c) not less than 10% of whose issued share capital or ownership interest;
- are now or hereafter owned or controlled directly or indirectly by.

Gender

11.03 In this Lease unless the context otherwise requires words importing the singular number shall include the plural number and vice versa and words importing a gender shall include every gender and references to persons include bodies corporate or unincorporate.

Lettable Floor Area

11.04 For the purposes of Special Conditions set out in the Fourth Schedule hereto, the lettable floor area of the Premises shall be deemed to be square feet.

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Name of Building 11.05 The Landlord reserves the right to name the Building with any such name or style as it in its sole discretion may determine and at any time and from time to time to change, alter, substitute or abandon any such name without thereby becoming liable to compensate the Tenant for any loss expense or inconvenience caused to the Tenant as a consequence thereof provided that the Landlord shall give the Tenant and the Postal and other relevant Government Authorities not less than three months' notice of its intention so to do.

Alterations to the Building 11.06 The Landlord reserves the right from time to time to improve extend or add to or reduce the Building or in any manner whatsoever to alter or deal with the Building (other than the Premises) without being liable to the Tenant in respect thereof Provided always that such improvements and alterations shall not affect the area of the Premises and in exercising such right the Landlord will endeavour to cause as little inconvenience to the Tenant as is practicable in the circumstances and the Tenant shall not make any claim against the Landlord for any inconvenience caused.

Condonation not a Waiver 11.07 No condoning, excusing or overlooking by the Landlord of any default, breach or non-observance or non-performance by the Tenant at any time or times of any of the agreements stipulations terms and conditions herein contained shall operate as a waiver of the Landlord's rights hereunder in respect of any continuing or subsequent default, breach or non-observance or non-performance or so as to defeat or affect in any way the rights and remedies of the Landlord hereunder in respect of any such continuing or subsequent default or breach and no waiver by the Landlord shall be inferred from or implied by anything done or omitted by the Landlord, unless expressed in writing and signed by the Landlord. Any consent given by the Landlord shall operate as a consent only for the particular matter to which it relates

and shall in no way be considered as a waiver or release of any of the provisions hereof nor shall it be construed as dispensing with the necessity of obtaining the specific written consent of the Landlord in the future, unless expressly so provided.

Letting Notices
and Entry

11.08 During the three months immediately before the expiration or sooner determination of the Term the Landlord shall be at liberty to affix and maintain without interference upon any external part of the Premises a notice stating that the Premises are to be let and such other information in connection therewith as the Landlord shall reasonably require.

Service of
Notices

11.09 Any notice required to be served on the Tenant shall be sufficiently served if delivered or despatched by registered post to or left at the Premises. Any notice required to be served on the Landlord shall be sufficiently served if delivered or despatched by registered post to its principal place of business from time to time. A notice sent by registered post shall be deemed to be given at the time and date of posting.

Stamp Duty and
Costs

11.10 Each of the parties hereto shall bear its own legal costs in relation to the preparation approval and execution of this Lease. The stamp duty hereon and Land Registry fees (if any) shall be borne by the Landlord and the Tenant in equal shares.

Deed of Mutual
Covenant

11.11 The Tenant shall observe and comply with and perform all covenants terms and provisions in any Deed of Mutual Covenant and Management Agreement now or at any future time in force relating to the Building so far as they relate to the premises and shall indemnify the Landlord against the breach non-observance or non-performance thereof provided however that such documents shall not contain any covenants or conditions expressed to be binding upon the owner or occupier or any tenant of any

portion of the Building which shall be incompatible with or place any unreasonable restriction upon the proper use of the Premises by the Tenant for the purposes of its legitimate business as described in the Third Schedule and shall not derogate from any of the rights and privileges granted to the Tenant by virtue of the provisions of this Lease.

No Key Money

11.12 The Tenant hereby expressly declares that for the grant of the Term no key money or premium or construction money or other consideration otherwise than the rent and other payments herein expressly reserved and expressed to be payable has been paid or will be payable to the Landlord or to any person whomsoever.

Entire Agreement

11.13 This Lease sets out the full agreement between the parties. No warranties or representatives express or implied of any kind other than those set out herein (if any) are or have been made or given by the Landlord or by anybody on his behalf and if any such warranties or representations express or implied have been made, the same are withdrawn or deemed to have been withdrawn immediately before the execution of this Lease.

SECTION XII

SPECIAL CONDITIONS

Special Conditions

12. The parties hereto further agree that they shall respectively be bound by and entitled to the benefit of the Special Conditions set forth in the Fourth Schedule. All the schedules to this Lease shall form part of this Lease. Should there be any conflicts or inconsistencies between the terms and conditions in the Fourth Schedule hereto and that of and in other parts of this Lease, the terms and conditions in the Fourth Schedule shall prevail.

IN WITNESS whereof the parties have caused this document to be executed the day and year first above written.

THE FIRST SCHEDULE ABOVE REFERRED TO

PART I

LANDLORD : PARTNER LINK INVESTMENTS LIMITED
PRINCIPAL PLACE OF BUSINESS : 39th Floor, PCCW Tower, Taikoo Place,
979 King's Road, Quarry Bay, Hong Kong
TENANT :
PLACE OF INCORPORATION:
REGISTERED OFFICE :

PART II

THE BUILDING : The multi-storeyed commercial/office building
erected as part of the Development erected on
Section S and The Remaining Portion of Quarry
Bay Marine Lot No. 1 and known as:
PCCW TOWER
Taikoo Place,
979 King's Road,
Quarry Bay,
Hong Kong.
THE PREMISES : All Those th Floor of the Building which for
the purposes of identification only are shown
and coloured Pink on the th Floor Plan
hereto annexed.

PART III

TERM : A term of Years commencing on the day of
200 and expiring on the day of
200 .

PART IV

RENT FREE PERIOD : Notwithstanding anything to the contrary herein, a rent free period of () months from the commencement of the Term shall be given during which rent free period the Tenant

(a) shall not be required to pay rent;

(b) but shall be obliged to pay rates, Air-Conditioning Charges and Management Charges and other outgoings payable by the Tenant in manner hereinafter mentioned.

THE SECOND SCHEDULE ABOVE REFERRED TO

PART I

RENT

For the period of the Term the rent shall be Hong Kong Dollars Only (HKS) per calendar month.

PART II

PARTICULARS OF AIR-CONDITIONING CHARGES

The Air-conditioning Charge that will be payable with effect from the commencement of the Term for air-conditioning supplied to the Premises during Normal Business Hours will be HK\$ per month (subject to review).

PART III

MANAGEMENT CHARGES

The Management Charge that will be payable with effect from the commencement of the Term as a due proportion of the cost to the Landlord of providing the management services to the Common Areas and services of the Development will be HK\$ per month (subject to review).

PART IV

DEPOSIT

[For Cash Deposit only]

- (1) The amount of the deposit that shall be paid to the Landlord in cash on the signing hereof in accordance with Clause 9.01 of Section IX shall be in the sum of HK\$, equivalent to months' rent, air-conditioning charge and management charge.

[For Bank Guarantee only]

- (1) A bank guarantee for the sum of HONG KONG DOLLARS ONLY (HKS) equivalent to [() months'] rent and air-conditioning charge and management charge shall be by way of a bank guarantee issued by a licensed bank in Hong Kong to secure the due performance observance and compliance of the terms and conditions of this Lease. The bank issuing the bank guarantee shall be approved by the Landlord (which approval shall not be unreasonably withheld or delayed). The Bank Guarantee shall be issued and produced to the Landlord upon the signing of this Lease or the delivery of vacant possession of the Premises to the Tenant by the Landlord, whichever date shall be the earlier.

[For Cash Deposit and Bank Guarantee]

Total Deposit payable under this Lease shall be an amount equivalent to [] months' rent, air-conditioning charge and management charge payable in the following manner:-

- (a) A cash rental deposit for the sum of HONG KONG DOLLARS ONLY (HK\$) equivalent to [()] months' rent, air- conditioning charge and management charge; and
- (b) A bank guarantee for the sum of HONG KONG DOLLARS ONLY (HKS) equivalent to [()] months' rent, air- conditioning charge and management charge shall be by way of a bank guarantee issued by a licensed bank in Hong Kong to secure the due performance observance and compliance of the terms and conditions of this Lease. The bank issuing the bank guarantee shall be approved by the Landlord (which approval shall not be unreasonably withheld or delayed). The Bank Guarantee shall be issued and produced to the Landlord upon the signing of this Lease or the delivery of vacant possession of the

Premises to the Tenant by the Landlord, whichever date shall be the earlier.

THE THIRD SCHEDULE ABOVE REFERRED TO

USER

The Tenant will use the Premises for commercial purposes only and for no other purpose whatsoever.

THE FOURTH SCHEDULE ABOVE REFERRED TO

SPECIAL CONDITIONS

1. HANDING OVER OF POSSESSION

Vacant possession of the Premises shall be given by the Landlord to the Tenant on the date of commencement of the Term.

Possession of the Premises shall be handed over by the Landlord to the Tenant in the "as is" condition with the following fixtures and fittings:

- (a) Fully fitted suspended ceilings light boxes, air conditioning grills, diffusers, ducting, sprinkler system, grid and tiles.
- (b) A raised floor system incorporating floor tiles and the underfloor power grid.
- (c) The voice/data cable, subject to the Tenant and Landlord agreeing a fair purchase price. If no agreement can be reached, the voice/data cable shall be left in situ at no cost to the Tenant. However, the Tenant is allowed to install their own structuring cabling system, but will be required to remove all its installation at the end or sooner determination of the tenancy, if so required by Landlord.
- (d) All pantries in an "as is" condition with the exception of the moveable fittings. The Tenant is not required to reinstate the pantries fixture except the plumbing installations, water boiler and drinking water system at the end or sooner determination of the tenancy.

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- (e) Blinds around the windows.
- (f) The power cable up to the MCB box in the room of the tenancy area shall be set up at tenant's cost.

2. OPTION TO RENEW

2.1 If the Tenant shall be desirous of renewing this Lease for a renewed term of three 3 years ["the Renewed Term") from the date of expiration of the original Term created by this Lease ("the Expiry Date") and shall not later than 6 months before the Expiry Date give to the Landlord notice in writing of its desire and provided that there shall at that time and at the time of the Expiry Date be no outstanding or existing breach or non-observance or non-performance of any of the agreements, stipulations, terms or conditions herein contained and on the part of the Tenant to be observed and performed, the Landlord shall at the expense of the Tenant grant to the Tenant a renewal of this Lease for the Renewed Term from the Expiry Date at the current market rental for the Premises as at the Expiry Date to be determined in accordance with the provisions of Clause 2.2 of this Fourth Schedule, but otherwise subject to the same terms, covenants, conditions and provisions as are herein contained with the exception of the amount of the Air-conditioning Charges and Management Charges payable, the amount of the [Deposit/Cash Deposit and Bank Guarantee/Bank Guarantee], the rent free period and this Fourth Schedule, but incorporating in place of this Fourth Schedule a new Fourth Schedule containing an option for renewal for one further term of three (3) years in the terms same as the provisions of Clause 2.2 of this Fourth Schedule.

2.2 The following provisions shall apply in relation to the determination of the current market rental for the Premises at the Expiry Date:-

- (a) Current market rental shall subject to the provisions of sub-clause (d) of this Clause 2.2 mean the current market rental for the Premises without making any allowance to reflect or compensate the Tenant for the absence of any rent free period or contribution to fitting out works or other allowance which might then be the practice in open market lettings for a Landlord to make. Such a current market rental shall be that which would be payable after the expiry of any such rent free or concessionary rent period and after receipt of any such contribution or other allowances all of which shall be entirely disregarded in any calculation of current market rental.
- (b) If agreement is reached between the Landlord and the Tenant as to the rent to be payable throughout the Renewed Term ("the New Rent") such agreement shall be in writing signed by both parties and in such case the rent payable during the Renewed Term shall be the New Rent as so agreed.
- (c) If such an agreement has not been made two (2) months before the commencement of the Renewed Term either the Landlord or the Tenant may serve a notice upon the other calling for an independent surveyor and valuer ("the Surveyor") to be appointed to determine the New Rent. The Surveyor may be appointed by agreement between the Landlord and the Tenant or In default of such agreement within one month before the commencement of the Renewed Term the Surveyor may be appointed at the request of either of the parties by the President for the time being of the Hong Kong Institute of Surveyors. The Surveyor so appointed shall give a written decision with reasons and such decision as to what shall be the New Rent

shall (subject to sub-clause (a) of this Clause 2.2) be conclusive and binding on the parties hereto.

- (d) In determining the New Rent the Surveyor shall act as an expert and not as an arbitrator and shall take into account the open market rent for other whole floor office accommodation elsewhere in the Development and/or in similar office buildings in Hong Kong having attributes comparable to those of the Building obtainable at the time of commencement of the Renewed Term on the following assumptions that at that date :-
- (i) the Premises are fitted out and equipped and fit for immediate occupation and use complete with floor and wall coverings, false ceilings, raised floors, air-conditioning throughout and electrical reticulation and other landlord's finishes fixtures and equipment all of a standard commensurate with a high class modern office building in Hong Kong and that no work which has been carried out thereon by the Tenant or its predecessors in title has diminished the rental value of the Premises and that in case the Premises have been destroyed or damaged, they have been fully reinstated and restored;
 - (ii) the Premises are available for letting by a willing landlord to a willing tenant without a premium but with vacant possession;
 - (iii) that the covenants herein contained on the part of the Tenant have been fully performed and observed;

but disregarding :-

- (iv) any effect on rent of the fact that the Tenant has been in occupation of the Premises;
- (v) any goodwill attached to the Premises by reason of the carrying on thereof of the business of the Tenant;
- (vi) any effect on rental value of the Premises attributable to any special improvement to the Premises or any part thereof carried out by the Tenant with the Landlord's consent where required (otherwise than in pursuance of an obligation of the Tenant) including any special improvements made by the Landlord at the expense of the Tenant prior to the commencement or during the continuance of the Term;
- (vii) any suspension of rent under Clause 7.01 of this Lease;
- (e) The Surveyor shall afford to each of the parties an opportunity to make representations to him.
- (f) If the Surveyor shall die delay or become unwilling or incapable of acting the President for the time being of the Hong Kong Institute of Surveyors or the person acting on his behalf may by writing discharge the Surveyor and appoint another in his place.
- (g) If the New Rent shall not have been determined before the commencement of the Renewed Term, then pending determination of the New Rent that shall be payable in respect of the Renewed Term, the Tenant shall continue to pay on account of the New Rent the rent was payable immediately before the beginning of

the Renewed Term and within fourteen (14) days of the determination of the New Rent, the Tenant shall pay to the Landlord the difference between the rent actually paid by the Tenant during the period pending determination as aforesaid and the New Rent payable for the period pending determination plus interest on the difference between the old rent and the New Rent at the prime lending rate from time to time of the Hongkong and Shanghai Banking Corporation Limited from the commencement of the Renewed Term until the date of payment and in the event of the New Rent being less than the rent actually paid the Landlord shall refund to Tenant the difference between the New Rent and the rental actually paid by the Tenant during the period pending determination plus an interest as aforesaid.

- (h) The costs and expenses of the Surveyor including the cost of his appointment shall be borne by the Landlord and the Tenant in equal shares. All other costs and expenses incurred by the Landlord or the Tenant in respect of or in connection with any rent review shall be borne by themselves separately.
- 2.3 The Air-conditioning Charges and Management Charges payable by the Tenant in respect of the Renewed Term shall initially be those payable under this Lease immediately at the Expiry Date, but shall be subject to the same provisions for revisions as contained in Clause 2.1 of this Lease.
- 2.4 The amount of the deposit to be maintained during the Renewed Term, pursuant to Clause 9.01 of this Lease shall be a sum equal to (i) one month's revised rent payable in respect of the Premises during the Renewed Term; (ii) one month's Air-conditioning Charges at the rate from time to time payable by the Tenant during the Renewed Term and

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(iii) one month's Management Charges at the rate from time to time payable by the Tenant during the Renewed Term.

2.5 The Landlord and the Tenant shall enter into a new Lease in respect of a Renewed Term, the revised rent, the revised [deposit/cash deposit and bank guarantee/bank guarantee] and the other terms and conditions determined pursuant to this Clause 2. The Stamp Duty and the Land Registry registration fee payable on such new Lease shall be borne by the Landlord and the Tenant in equal share. Each of the Landlord and the Tenant shall pay its own legal costs of and incidental to the Lease and its counterpart.

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The Landlord)
)
 SEALED with the Common Seal of)
)
 PARTNER LINK INVESTMENTS LIMITED)
)
 and SIGNED by)
)
)
)
 in the presence of:-)

SEALED with the Common Seal of)
)
 and SIGNED by)
)
 in the presence of:-)
)

RECEIVED the day and year first above written)
)
)
 the sum of HONG KONG DOLLARS) HK\$
) ===
 ONLY)
)
 being the [Deposit/Cash Deposit] payable by the)
)
 Tenant hereunder on signing hereof in accordance with)
)
 Section IX Clause 9.01 hereof and Part IV of the)
)
 Second Schedule hereto.)

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IN WITNESS the parties hereto have caused these presents to be duly executed the day and year first above written.

SEALED with the Common Seal of)
Richly Leader Limited and)
SIGNED by)
)
director(s)/person(s) duly authorized by its)
board of directors whose signature(s) is/are)
verified by/in the presence of: 1

SEALED with the Common Seal of)
Pacific Century Paramount Real Estate)
Limited and SIGNED by)
)
director(s)/person(s) duly authorized by its)
board of directors whose signature(s) is/are)
verified by/in the presence of:)

Dated the day of 200

RICHLY LEADER LIMITED

and

PACIFIC CENTURY PARAMOUNT

REAL ESTATE COMPANY LIMITED

DEED OF APPOINTMENT
OF LEASING AGENT
AND MANAGER

WOO, KWAN, LEE & LO
Solicitors & Notaries
Room 2801, Sun Hung Kai Centre,
30 Harbour Road,
Wanchai, Hong Kong.

(19-11-2004) (final)
Our Ref: SHK/HFM/LYF/CH/R4R305021

Dated the 21st day of December 2004

PARTNER LINK INVESTMENTS LIMITED

And

RICHLY LEADER LIMITED

Agreement for Sale and Purchase

WOO, KWAN, LEE & LO,
Solicitors & Notaries
Room 2801, Sun Hung Kai Centre,
30 Harbour Road,
Wanchai, Hong Kong.

Ref.: SHK/HFM/LYF/CH/R4R305021
19.11.04 (final)

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"Guaranteed Monthly Rental" shall mean HK\$13,338,000 per month.

"Hong Kong" shall mean the Hong Kong Special Administrative Region of the People's Republic of China.

"Letting Agreements" shall mean licences, agreements for lease/tenancy and leases/tenancy agreements or renewal licences, tenancy agreements and leases in respect of the Property or any part(s) thereof.

"Rents/Fees" shall mean rents licence fees and all sums of money payable under the Letting Agreements.

"Tenants/Licensees" shall mean tenants or licensees of the Property or any part(s) thereof.

Words importing the singular number only shall, unless the context otherwise requires, be deemed to include the plural and vice versa and words importing the masculine gender only shall, unless the context otherwise requires, be deemed to include the feminine and neuter genders and vice versa. Words importing persons shall include firms and corporations.

2. (1) Subject to the provisions of Clause 6, the Vendor hereby undertakes and covenants with the Purchaser that, on the date of completion and thereafter on the first business day of every month during the Guaranteed Period, the Vendor shall pay the Guaranteed Monthly Rental for that month (apportioned if the period is less than a month) to the Purchaser by way of a cheque drawn in favour of the Purchaser or by telegraphic transfer to a bank account in Hong Kong specified in writing by the Purchaser.

(2) In consideration of the Vendor's undertakings and covenants under paragraph (1) above, the Purchaser hereby undertakes and covenants with the Vendor that all Rents/Fees payable during the Guaranteed Period will be paid to the Vendor.

3. For the avoidance of doubt, (a) the Guaranteed Monthly Rental is payable irrespective of the actual amount of Rents/Fees and other income received by the Agent and/or the Vendor from the Tenants/Licensees and the cost and expenses required to be expended by the Agent and/or the Vendor in respect of the Property; and (b) if the actual amount of net income referred to in paragraph (a) above shall be greater than the Guaranteed Monthly Rental, the Vendor shall be entitled to retain the excess and the Purchaser shall have no claim against the Vendor whatsoever in respect of such excess.

4. (1) Except as provided in Clause 4(2), all the expenses payable incurred or to be incurred for or in respect of the Property during the Guaranteed Period will be borne by the Vendor and/or the Agent, including without limitation the following (irrespective of whether the same should be payable by the Tenants/Licensees under the Letting Agreements) :-

- (a) all management expenses to be incurred for the management of the Property, air-conditioning charges and other outgoings in respect of the

Property including management fees and other sums payable to the Manager under the Lease and including goods and services tax and other similar turnover tax levied or chargeable on the Rents/Fees payable by the Tenants/Licensees under the Letting Agreements; and

- (b) all expenses, costs, outgoings and disbursements incurred by the Agent in performance of its obligations and in exercise of its powers under the Deed of Appointment, which include but are not limited to all advertising and promotion fees, professional fees, commissions payable to estate agents, costs and expenses for repairing and maintaining the Property in tenable repair and condition, reinstatement costs for the disabled toilets (save and except those costs and expenses of a capital or non-recurring nature, expenditure of works required by any order or notice issued on or after the date of the Agreement from any government department or other competent authority, property tax, profit tax, goods and services tax and other similar tax (levied or chargeable on the Guaranteed Monthly Rental, if any), premium payable on the insurance policy (if any) which shall be borne by the Purchaser), legal costs and stamp duty payable for the negotiation, preparation, execution and enforcement of all Letting Agreements.

(2) The Purchaser shall be responsible for payment of any expenditure of a capital or non-recurring nature, any expenditure of works required by any order or notice issued on or after the date of the Agreement from any government department or other competent authority, property tax, profit tax, goods and services tax and other similar tax (levied or chargeable on the Guaranteed Monthly Rental, if any), premium payable on the insurance policy (if any).

5. It is an essential condition of this Deed that the Deed of Appointment shall be executed by the Purchaser in favour of the Agent upon the execution of this Deed thereby empowering the Agent inter alia, to do such acts and things in relation to the leasing of the Property on the terms therein contained including but not limited to demand, collect, receive and recover from all present and future Tenants/Licensees of the Property the Rents/Fees from time to time and to account to the Vendor all such Rents/Fees actually received by the Agent in accordance with the terms of this Deed.

6.1 The Purchaser shall take out business interruption or loss of income insurance in respect of the Property ("BI Policy") with a reputable insurance company acceptable to the Guarantor (the "Insurer") effective from the date of this Deed for the Insured Amount for a disruption period of at least 12 months and on such other terms and conditions approved by the Guarantor, including but not limited to a condition that the policy may not be cancelled, modified or restricted without the prior written consent of the Guarantor. In this Clause, "Insured Amount" means the product of the Market Rent and 544,146; and "Market Rent" means, for each 12 month period commencing on the date of this Deed, the aggregate of the average open market rent and management fee, air-conditioning charges and other sums payable by tenants per square foot per month for the Property prevailing on the first day of that period as determined by an independent firm of qualified surveyors in Hong Kong. The surveyors shall be jointly instructed by the Vendor and the Purchaser who shall bear the costs of the surveyors in

equal shares. Provided that the Insured Amount for the first 12 month period commencing on the date of this Deed is agreed to be HK\$13,168,333.

6.2 The Purchaser shall duly pay all premiums and other sums payable and take all necessary steps to keep the BI Policy in full force and effect and shall promptly deliver to the Vendor copies of all premium payment receipts and other notices or information relating to the BI Policy. The Purchaser shall not, without the prior written consent of the Vendor, waive, release, settle, compromise or abandon any claim under the BI Policy.

6.3 On the occurrence of any of the following events or circumstances, namely:

- (a) the Property or any part thereof at any time during the Guaranteed Period being damaged or destroyed by Force Majeure so as to be unfit for occupation and use such that under the terms of the Letting Agreements the Rent/Fees thereby reserved or a fair proportion thereof according to the nature and extent of the damage sustained is suspended; or
 - (b) the Property or any part thereof at any time during the Guaranteed Period being damaged or destroyed by Force Majeure so as to be incapable of being let out
- (i) the Purchaser shall forthwith make a claim under the BI Policy and instruct the Insurer to pay the insurance proceeds to the Vendor in full or, if the proceeds were paid to the Purchaser, the Purchaser shall hold the same on trust for the Vendor and promptly pay the same over to the Vendor in full;
 - (ii) if for any reason the Vendor does not receive the insurance proceeds for the loss of income for a particular month within the next 4 months, the Purchaser shall pay to the Vendor an amount equal to such insurance proceeds within 14 days and, for this purpose, the Purchaser hereby irrevocably authorize the Vendor to deduct such sum from the Guaranteed Monthly Rental next due and payable to the Purchaser provided that the Purchaser shall not be under any obligation to pay over insurance proceeds or to pay to the Vendor an amount equal to such insurance proceeds if the BI Policy is vitiated or rendered invalid or if payment of the policy moneys thereunder is refused as a result of any act or default of the Agent; and
 - (iii) the Vendor shall continue to pay the Guaranteed Monthly Rental to the Purchaser in full notwithstanding the occurrence of the events or circumstances stated above for so long as the BI Policy remains in full force and effect (unless the BI Policy is vitiated or rendered invalid or if payment of the policy moneys thereunder is refused as a result of any act or default of the Agent) and subject only to the deduction (if applicable) referred to in paragraph (ii) above.

6.4 Any substantial building and/or renovation works to the Property or any part thereof ("Substantial Works") shall require the joint approval of the Vendor and the Purchaser. If Substantial Works are required (whether initiated by the Purchaser or required by applicable law or relevant governmental authorities), the Vendor and the Purchaser shall jointly appoint an independent firm of qualified surveyors in Hong Kong to assess the loss of rental as a result of such Substantial Works (the "Rental Loss") and the Vendor shall be entitled to deduct the Rental Loss from the Guaranteed Monthly Rental next due and payable following the assessment. The assessment of the surveyors shall be final and binding on the parties and the costs of the surveyor shall be borne by the Vendor and the Purchaser in equal shares.

7. Save with the prior written consent of the Vendor and the Purchaser (such consents not to be unreasonably withheld or delayed), the Vendor shall procure that the Agent shall not carry out any substantial building or renovation works to the Property or any part thereof.

8. This Deed shall be a continuing undertaking for the Guaranteed Period unless earlier terminated in any of the following events:- (i) on the termination by the Purchaser (as the Owner under the Deed of Appointment) of the appointment of the Agent under Clause 15 (a) of the Deed of Appointment or (ii) upon TMW Asia Property Fund I GmbH & Co., KG. ceasing to be the ultimate beneficial owner of at least 50% of the entire issued share capital of the Purchaser, or (iii) the Purchaser ceasing to be the legal and/or beneficial owner of the Property, and calculation of the amount payable by the Vendor to the Purchaser under Clause 2 shall be pro-rated to the date of expiry of the Guaranteed Period or the date of termination, whichever is the earlier.

9. The last installment of the Guaranteed Monthly Rental shall be payable on the last day of the Guaranteed Period or on the date on which this Deed is terminated, whichever is the earlier, after deducting any sum provided in Clause 6 (if applicable). The Vendor shall provide an apportionment account to the Purchaser on or before the date of payment of the last instalment of the Guaranteed Monthly Rental.

10. (1) In consideration of the Purchaser entering into the Agreement and this Deed with the Vendor, the Guarantor hereby :-

- (a) guarantees to the Purchaser the due and punctual performance and observance by the Vendor of its obligations, commitments and undertakings under and/or pursuant to this Deed;
- (b) indemnifies the Purchaser against all and any actions, proceedings, claims, liabilities, losses, damages, costs and expenses which the Purchaser may suffer or incur as a result of or in relation to any breach or default by the Vendor of its obligations, commitments or undertakings under or pursuant to this Deed.

(2) If and whenever the Vendor defaults for any reason whatsoever in the performance of any of its obligation or liability undertaken or expressed to be undertaken by it under or pursuant to this Deed, the Guarantor shall forthwith upon written demand from the Purchaser perform (or procure performance of) and satisfy (or procure the satisfaction of) the obligation or liability in regard to which such default has been made in the manner prescribed by this Deed and so that the same benefits shall be

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conferred on the Purchaser as it would have received if such obligation or liability had been duly performed and satisfied by the Vendor.

(3) As a separate and independent stipulation, the Guarantor agrees that any obligation expressed to be undertaken by the Vendor (including, without limitation, any moneys expressed to be payable under this Deed) which may not be enforceable against or recoverable from the Vendor by reason of any legal limitation, disability or incapacity on or of the Vendor or any other fact or circumstance shall nevertheless be enforceable against and recoverable from the Guarantor as though the same had been incurred by the Guarantor and the Guarantor was the sole or principal obligor in respect thereof and shall be performed or paid or procured to be performed and paid by the Guarantor on written demand from Purchaser.

(4) The obligations of the Guarantor under this Deed are and will remain in full force and effect by way of continuing security until all obligations, commitments, undertakings, warranties and indemnities under this Deed shall have been performed or satisfied and no sum remains payable by the Vendor under or pursuant to this Deed.

(5) The Guarantor shall not be discharged, nor shall its liabilities be affected, by anything, which would not discharge it or affect its liability if it were the sole principal debtor including, any time, indulgence, waiver or consent at any time given to the Vendor or any other person; any written amendment to any provision of this Deed (unless without consent of the Guarantor), the making or absence of any demand on the Vendor or any other person for payment, the enforcement or absence of enforcement of this Deed against the Vendor, the insolvency, winding-up, amalgamation, reconstruction or reorganisation of the Vendor (or the commencement of any of the foregoing), the illegality, invalidity or unenforceability of or any defect in any provision of this Deed or any of the obligations of the Vendor, or by reason of any other dealing, matter or thing which, but for the provisions of this Clause 10(5), could or might operate to affect or discharge all or any part of the obligations and liabilities of the Guarantor hereunder.

11. No failure or delay on the part of the Vendor or the Purchaser to exercise any power, right or remedy under this Deed shall operate as a waiver thereof, nor shall any single or partial exercise by the Vendor or the Purchaser of any power, right or remedy preclude any other or further exercise thereof or the exercise of any other power, right or remedy. The remedies provided in this Deed are cumulative and are not exclusive of any remedies provided by law.

12. No assurance, security or payment which may be avoided under any enactment relating to bankruptcy or winding up and no release, settlement or discharge which may have been given or made on the faith of any such assurance, security or payment shall prejudice or affect the rights of the Vendor or the Purchaser to recover from the other party or from the Guarantor to the full extent of this Deed.

13. This document is to be returnable to the Vendor for cancellation when all obligations, commitments, undertakings, warranties and indemnities under this Deed shall have been performed or satisfied and no sum remains payable by the Vendor under or pursuant to this Deed.

14. This Deed is personal to the Purchaser and neither the benefit nor the

obligations hereof shall be assigned by the Purchaser provided that the Purchaser may assign its rights and benefits under this Deed in favour of the mortgagees from time to time of the Property and the mortgagees of the Purchaser may also assign the rights and benefits of this Deed when it exercises the power of sale to the subsequent purchaser but not further or otherwise.

15. If the Purchaser terminates the appointment of the Agent pursuant to Clause 15(c) of the Deed of Appointment, the Guarantor shall nominate three companies (which may be subsidiaries of the Guarantor) to act as the agent of the Purchaser for the remainder of the Guaranteed Period on the same terms and conditions as the Deed of Appointment. The Purchaser may in its discretion appoint one of the companies nominated by the Guarantor or such other company as the Purchaser may consider appropriate to be the replacement agent provided that if the Purchaser elects to appoint a company not nominated by the Guarantor then the Vendor and the Guarantor shall forthwith cease to have any further obligations under this Deed.

16. This Deed shall be governed by and construed in accordance with the laws of Hong Kong and the parties hereto agree to submit to the non-exclusive jurisdiction of the courts of Hong Kong.

17. The Vendor hereby expressly excepts and reserves unto itself the right, after the Guaranteed Period, at its own costs and expense to claim from the Tenants/Licensees of the Property any arrears of rent and other monies due and owing under the Letting Agreements up to and inclusive of the date of expiry of the Guaranteed Period and all damages in respect of any breach of the Letting Agreements before expiry of the Guaranteed Period. The Purchaser shall give all reasonable assistance to the Vendor to recover such arrears of rent and other monies from the Tenants/Licensees on condition that the Vendor pays all costs and expenses in connection with such recovery. The obligations of the Purchaser contained in this Clause shall remain effective notwithstanding the expiry of the Guaranteed Period. In the event the Tenants/Licensees shall settle and pay to the Purchaser any arrears of rent (which accrued on or before the date of expiry of the Guaranteed Period) the Purchaser shall account and refund to the Vendor such arrears of rent collected by the Purchaser within days of receipt.

SCHEDULE

The Land

ALL THAT Portion of the Remaining Portion of Quarry Bay Marine Lot No.1 as shown coloured Red on Plan 1 annexed to the Lease (as defined in the Agreement)

The Premises

ALL THOSE the following portions of the building known as Dorset House (which comprises a 4 level basement car park, a podium and 2 contiguous tower blocks above the podium) (the "Building") erected on Portions of Section S and the Remaining Portion of Quarry Bay Marine Lot No. 1:

- (1) All Those portions of the Building now known as PCCW Tower (formerly known at the date of the Lease as Hongkong Telecom Tower (Tower A)) as shown coloured Yellow on Plans 2 to 51 annexed to an Agreement for Lease dated 21st May 1992 and registered in the Land Registry by Memorial No.5342490 as supplemented by a Supplemental Agreement dated 13th December 2000 and registered in the Land Registry by Memorial No.8276621 and the Lease dated 13th December 2000 and registered in the Land Registry by Memorial No.8276622 as rectified by a Deed of Rectification and Confirmation dated 12th March 2001 and registered in the Land Registry by Memorial No8340656 issued pursuant thereto (the Lease Memorial No8340656 as so rectified "the Lease"); and
- 2) All Those loading and unloading bays on the Ground Floor of the Building as shown coloured Yellow hatched Black on Plan 6 annexed to the Lease; and
- (3) All Those car parking spaces on Basement Levels 1 to 4 of the Building as shown coloured Yellow hatched Black on Plans 2 to 5 annexed to the Lease

HELD for the residue of the term created under the Lease.

<PAGE>

IN WITNESS the parties hereto have caused these presents to be duly executed the day and year first above written.

SEALED with the Common Seal of)
PARTNER LINK INVESTMENTS)
LIMITED and SIGNED by)
)
director(s)/person(s) duly authorized by its)
board of directors whose signature(s) is/are)
verified by/in the presence of:)

SEALED with the Common Seal of)
RICHLY LEADER LIMITED and)
SIGNED by)
)
director(s)/person(s) duly authorized by its)
board of directors whose signature(s) is/are)
verified by/in the presence of:)

SEALED with the Common Seal of)
IPSWICH HOLDINGS LIMITED Pad)
SIGNED by)
)
director(s)/person(s) duly authorized by its)
board of directors whose signature(s) is/are)
verified by/in the presence of:)

Dated the 21st day of December 2004

PARTNER LINK INVESTMENTS LIMITED

And

RICHLY LEADER LIMITED

Agreement for Sale and Purchase

WOO, KWAN, LEE & LO,
Solicitors & Notaries
Room 2801, Sun Hung Kai Centre,
30 Harbour Road,
Wanchai, Hong Kong.

Ref.: SHK/HFM/LYF/CH/R4R305021
19.11.04 (final)

Dated: 19 January 2005

EXECUTION COPY

Subscription Agreement

between
PCCW Limited
as Company

China Netcom Group Corporation (BVI) Limited

as Subscriber

and

China Network Communications Group Corporation
(GRAPHIC OMITTED)

as China Netcom

relating to

shares in the capital of PCCW Limited

Simmons&Simmons

35th Floor Cheung Kong Center 2 Queen's Road Central Hong Kong
T (852) 2868 1131 F (852) 2810 5040 DX 009121 Central 1

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THIS AGREEMENT is dated 19 January 2005 and made

BETWEEN:

- (1) PCCW LIMITED, (the "Company"), a company incorporated in Hong Kong with limited liability and whose registered office is at 39th Floor, PCCW Tower, TaiKoo Place, 979 King's Road, Quarry Bay, Hong Kong;
- (2) CHINA NETCOM GROUP CORPORATION (BVI) LIMITED, (the "Subscriber"), a company incorporated in the British Virgin Islands and whose registered office is at P.O. Box 3140, Wickhams Cay 1, Road Town, Tortola, British Virgin Islands (Business registration number 341457); and
- (3) CHINA NETWORK COMMUNICATIONS GROUP CORPORATION (GRAPHIC OMITTED), ("China Netcom"), a state-owned enterprise established under the laws of the People's Republic of China and whose registered office is at No.1 Beihuan Donglu, Beijing Development Area, Beijing 100176, PRC.

Background:

- (A) At the date of this Agreement, the Company has an authorised share capital of HK\$1,600,000,000 divided into 6,400,000,000 Shares, of which 5,374,287,061 Shares have been issued and are fully paid up.
- (B) All of the issued Shares are currently listed on the Stock Exchange.
- (C) The Company has agreed to issue and the Subscriber has agreed to subscribe for the Subscription Shares on the terms and subject to the conditions set out in this Agreement.
- (D) China Netcom has agreed to guarantee the obligations of the Subscriber under this Agreement.

THE PARTIES AGREE THAT:

1. Definitions and Interpretation

1.1 Definitions

In this Agreement (including the recitals above), the following expressions shall, unless the context requires otherwise, have the following meanings:

"Articles" means the Articles of Association of the Company;

"associate" has the meaning ascribed to it in the Listing Rules;

"Authority" means any competent governmental, administrative, supervisory, regulatory, judicial, determinative, disciplinary, enforcement or tax raising body, authority, agency, board, department, court or tribunal of any jurisdiction and whether supranational, national, regional or local;

"Board" means the board of directors of the Company;

"Broadcasting Ordinance" means the Broadcasting Ordinance (Chapter 562 of the Laws of Hong Kong);

"Business Day" means any day (excluding a Saturday) on which banks generally are open for business in Hong Kong;

"CNC Group" means China Netcom and its Subsidiaries and "member of the CNC Group" shall be construed accordingly;

"CNC HK" means China Netcom Group Corporation (Hong Kong) Limited, a Subsidiary of China Netcom, the shares of which are listed on the Stock Exchange;

"Completion Date" means the second Business Day after the date upon which the last of the Conditions (except such Conditions which are expressed to be satisfied on or as at the Completion Date) has been satisfied or, where applicable, waived provided that it shall be a date no later than 15 June 2005, or such other time and/or date as the Parties may agree in writing;

"Companies Ordinance" means the Companies Ordinance (Chapter 32 of the Laws of Hong Kong);

"Company Warranties" means the representations and warranties to be given by the Company set out in Schedule 1;

"Conditions" means the conditions to completion of the Subscription set out in Clause 3.1;

"Data Room" means the copy documents relating to the affairs of the Group to which the Subscriber has been afforded access and which are listed in the index to the Data Room provided to the Subscriber;

"Disclosure Letter" means the letter dated the date hereof written and delivered by or on behalf of the Company to the Subscriber;

"Disqualified Person" means a person who is, or who is considered by the Broadcasting Authority of Hong Kong to constitute, a "disqualified person" within the meaning of the Broadcasting Ordinance;

"Encumbrances" means liens, charges and encumbrances, claims, options and third party rights;

"Group" means the Company and its Subsidiaries and the expression "member of the Group" shall be construed accordingly;

"Hong Kong" means the Hong Kong Special Administrative Region of the People's Republic of China;

"HK\$" means Hong Kong dollars, the lawful currency of Hong Kong;

"Listing Rules" means the Rules Governing the Listing of Securities on the Stock Exchange and the expression "Listing Rule" shall be construed accordingly;

"Parties" means the named parties to this Agreement and their respective successors and permitted assigns and the expression "Party" shall be construed accordingly;

"PRC" means the People's Republic of China excluding Hong Kong, the Macau Special Administrative Region of the People's Republic of China and Taiwan;

"PRC Business Development Committee" shall have the meaning ascribed thereto in clause 7.1;

"PRC Operations" shall have the meaning ascribed thereto in clause 7.1;

"Principal Officer" means a person who is, or is considered by the Broadcasting Authority of Hong Kong to constitute, a "principal officer" within the meaning of the Broadcasting Ordinance;

"Proceedings" means any legal action or proceedings, including arbitration, in connection with this Agreement;

"SFC" means the Securities and Futures Commission of Hong Kong;

"SFO" means the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);

"Shares" means shares of HK\$0.25 each in the capital of the Company;

"Stock Exchange" means The Stock Exchange of Hong Kong Limited;

"Subscription" means the subscription by the Subscriber for the Subscription Shares on the terms and subject to the conditions set out in this Agreement;

"Subscription Announcement" means the press announcement in agreed form to be issued jointly by the Company and China Netcom in substantially such form immediately following the execution of this Agreement (or with such amendments as agreed by the Parties or as may be required by the SFC and/or the Stock Exchange);

"Subscription Price" means HK\$5.90 per Subscription Share;

"Subscription Shares" means 1,343,571,766 new Shares;

"Subsidiary" has the same meaning as in Section 2 of the Companies Ordinance as at the date hereof;

"Substantial Shareholders" means Pacific Century Regional Developments Limited, Pacific Century Group Holdings Limited and Pacific Century Diversified Limited and "Substantial Shareholder" means any one of them;

"Substantial Shareholders Anti-Dilution Agreements" means the agreements dated the date hereof entered into between the Company and each Substantial Shareholder and pursuant to which each Substantial Shareholder has been granted anti-dilution rights substantially similar to those rights to be granted to the Subscriber pursuant to clause 8.5 of this Agreement (subject in each case to approval by the shareholders of the Company as referred to in clause 3.1(A) below);

"Takeovers Code" means the Hong Kong Code on Takeovers and Mergers; and

"US\$" means United States dollars, the lawful currency of the United States of America.

1.2 Construction and Certain References

In this Agreement:

- (A) any reference to a document being "in agreed form" means in the form of the document or the draft thereof signed for identification on behalf of the Parties (and such other parties as may be relevant) with (in the case of a draft) such alterations (if any) as may be agreed between the Parties (and such other parties as may be relevant);
- (B) references to the singular shall include the plural and vice versa and references to the masculine, the feminine and the neuter shall include each other such gender;
- (C) "person" includes any individual, partnership, body corporate, corporation sole or aggregate, state or agency of a state, and any unincorporated association or organisation, in each case whether or not having separate legal personality;
- (D) "company" includes any body corporate, wherever incorporated or existing;
- (E) references to recitals, clauses, sub-clauses and schedules are references to the recitals, clauses and sub-clauses of, and schedules to, this Agreement;
- (F) (save as otherwise expressly stated herein), references to any statute, statutory provision, Listing Rule or rule of the Takeovers Code includes a reference to that statute, statutory provision, Listing Rule or rule of the Takeovers Code as from time to time, amended, extended or re-enacted;
- (G) all references in this Agreement in relation to any time, date or period shall mean Hong Kong time;
- (H) words introduced by the word "other" shall not be given a restrictive meaning because they are preceded by words referring to a particular class of acts, matters or things; and
- (I) general words shall not be given a restrictive meaning because they are followed by words which are particular examples of the acts, matters or things covered by the general words and the word "including" shall be construed without limitation.

1.3 Headings

Headings are inserted for convenience only and shall not affect the interpretation of this Agreement.

2. Agreement to Subscribe

2.1 Subscription

The Subscriber agrees to subscribe for, and the Company agrees to issue, the Subscription Shares at the Subscription Price, free from Encumbrances on the terms and subject to the conditions set out in this Agreement.

2.2 Subscription Shares

The Company agrees that the Subscription Shares will, when fully paid, rank pari passu in all respects with the other Shares in issue or to be issued by the Company on or prior to the Completion Date with the right to all dividends and other distributions declared or resolved to be paid at any time on or after the date of allotment.

3. Conditions of the Subscription

3.1 Conditions

Completion of the Subscription is conditional upon:

- (A) the passing by the shareholders of the Company (being such shareholders as are allowed to vote under the Listing Rules or permitted by the Stock Exchange to vote) at an extraordinary general meeting of the Company of a resolution in agreed form (or with such changes as are required by the Stock Exchange or the SFC) to:
- (1) increase the authorised share capital of the Company to HK\$2,500,000,000 comprising of 10,000,000,000 Shares;
 - (2) grant to the directors of the Company a specific mandate to allot, issue and deal with the Subscription Shares; and
 - (3) approve the anti-dilution rights granted in favour of China Netcom contained in clause 8.5 below and the anti-dilution rights granted in favour of each of the Substantial Shareholders pursuant to the Substantial Shareholders Anti- Dilution Agreements;
- (B) (1) listing of and permission to deal in all the Subscription Shares being granted by the Listing Committee of the Stock Exchange; and
- (2) the listing and permission referred to in Condition 3.1(B)(1) not subsequently being revoked prior to the Completion Date;
- (C) delivery by the Subscriber to the Company on the Completion Date of a legal opinion from British Virgin Islands counsel relating to, among other things, the capacity and authority of the Subscriber to enter into this Agreement and perform its obligations hereunder, such opinion to be in form and substance satisfactory to the Company;
- (D) delivery by China Netcom to the Company on the Completion Date of a legal opinion from PRC counsel relating to, among other things, the capacity and authority of China Netcom to enter into this Agreement and perform its obligations hereunder and the governmental, regulatory or similar consents required from any Authority of the PRC required by the Subscriber and/or China Netcom to enter into, and to perform their respective obligations under this Agreement, such opinion to be in form and substance satisfactory to the Company;
- (E) the obtaining by China Netcom of such consent or approval of a PRC governmental body or regulatory authority as is required for China Netcom and the Subscriber to enter into and perform their obligations under this Agreement; and

- (F) none of the Company Warranties being found to be, or no event occurring or matter arising which renders any of the Company Warranties, untrue or incorrect in any material respect on and as at the Completion Date (and, but without prejudice to any other rights of any of the Parties under this Agreement, for the purposes of this sub-clause, a Company Warranty will be deemed to be untrue or incorrect in a material respect if the liability of the Company from the resulting claim would be in excess of US\$100 million).

3.2 Fulfilment

- (A) The Subscriber and China Netcom shall use their reasonable endeavours to procure the fulfilment of the Conditions in clauses 3.1(C), 3.1(D) and 3.1(E), and in the case of the Condition in clause 3.1(E), shall notify the Company immediately upon the satisfaction thereof.
- (B) The Company shall use its reasonable endeavours to procure the fulfilment of the Condition in clauses 3.1(A) and 3.1(B).
- (C) The Company, China Netcom and the Subscriber shall each use its respective reasonable endeavours to procure the fulfilment of the Condition in clause 3.1(A) and in particular shall furnish such information, supply such documents, give such undertakings and do all such acts and things as may reasonably be required by each other, the SFC, the Stock Exchange and/or any Authority in connection with the fulfilment of such Conditions.
- (D) Should any Party become aware of anything which will or is reasonably likely to prevent any of the Conditions from being satisfied, it shall forthwith disclose the same to the others.

3.3 Non-Fulfilment

- (A) The Condition in clause 3.1(F) may be waived by the Subscriber. The Conditions in clauses 3.1(C) and 3.1(D) may be waived by the Company.
- (B) If the Conditions (except such Conditions which are expressed to be satisfied on or as at the Completion Date) are not each fulfilled or waived in writing by the relevant Party on or before 13 June 2005 or such later date as may be agreed between the Company and the Subscriber, this Agreement shall terminate and none of the Parties will have any claim against the other for costs, damages, compensation or otherwise save for any antecedent breach (including, for the avoidance of doubt, any breach of clauses 3.2 or 6).

4. Completion of the Subscription

4.1 Company's Obligations

Subject to the fulfilment of the Conditions and subject to the performance by the Subscriber of its obligations under clause 4.2, completion of the Subscription shall take place at the offices of the Company (or at such other place as may be agreed upon in writing by the Parties) on the Completion Date, at which time the Company shall:

- (A) allot and issue to the Subscriber the Subscription Shares and shall promptly thereafter register the Subscriber as a member of the Company and shall cause to

be delivered to the Subscriber definitive certificates of title in respect thereof in the name of the Subscriber in board lots (as nearly as practicable);

- (B) procure that the following appointments be made, effective on the Completion Date:
- (1) Mr. Zhang Chunjiang, Dr. Tian Suning and Dr. Fan Xingcha as members of the Board;
 - (2) Dr. Tian Suning as an additional deputy chairman of the Board; and
 - (3) each of the persons named in the left column below as a member of the committee referred to in the right column opposite his/her name:

| | |
|--|--------------------------------------|
| Dr. Tian Suning | The Executive Committee |
| Dr. Fan Xingcha | The Finance and Management Committee |
| Dr. Tian Suning | The Remuneration Committee |
| Mr. Zhang Chunjiang | The Nomination Committee |
| Mr. Zhang Chunjiang | The Regulatory Compliance Committee |
| Dr. Tian Suning and Dr. Fan Xingcha | PRC Business Development Committee |
- (C) procure a resolution of the Board to be passed confirming the Company's intention that it shall, during the 18 month period commencing on the Completion Date, explore opportunities for expanding the PRC Operations and that, subject to satisfaction of the Group's capital investment approval procedures and the identification of appropriate investment opportunities, it presently intends to seek to invest up to HK\$5 billion in expanding its PRC Operations;
- (D) deliver to the Subscriber certified copies of the resolution passed by the Shareholders of the Company pursuant to clause 3.1(A);
- (E) deliver to the Subscriber certified copies of the resolutions of the directors of the Company (or a committee) allotting the Subscription Shares pursuant to clause 4.1(A), making the appointments pursuant to clause 4.1(B) and confirming the Company's intentions in relation to the expansion of the PRC Operations pursuant to clause 4.1(C);
- (F) deliver to the Subscriber a certificate in agreed form confirming, amongst other things, that there has been no material adverse change since 30 September 2004 and a letter from the Company in agreed form confirming the intention to reduce the number of directors on the Board; and
- (G) deliver a certified true copy of the permission from the Listing Committee of the Stock Exchange referred to in clause 3.1(C).

4.2 Subscriber's Obligations

At completion of the Subscription the Subscriber shall make or procure the making of payment to the Company, in same day cleared funds, of the aggregate Subscription Price of the Subscription Shares, to the bank account nominated for that purpose by the Company not less than three Business Days prior to the Completion Date, or in such other manner as may be agreed in writing between the Parties.

4.3 Failure to Complete

If the provisions of clause 4.2 are not complied with by the Subscriber, the Company may defer completion of the Subscription to a date determined at the Company's sole discretion or terminate this Agreement without liability of any kind and without prejudice to any rights the Company has against any other Party in respect of any antecedent breach of this Agreement.

4.4 Alternate Subscriber

(A) Provided that the Subscriber gives written notice in accordance with clause 4.4(B), the Subscriber shall be entitled to assign all (but not part only) of its rights in and to this Agreement (including the right to subscribe for and be issued and allotted the Subscription Shares at completion of the Subscription and the rights and benefit of and to the Company Warranties) to a company which is wholly-owned by the Subscriber (the "Alternate Subscriber"), provided that:

- (1) at completion of the Subscription the Alternate Subscriber is a wholly-owned subsidiary of the Subscriber and an indirect wholly-owned subsidiary of China Netcom;
- (2) on or before the Completion Date, the Alternate Subscriber enters into and delivers to China Netcom and to the Company an agreement in a form satisfactory to the Company undertaking to comply with the obligations of the Subscriber under this Agreement (including giving representations and warranties relating to itself similar to those contained in clause 6 of their Agreement relating to the Subscriber);
- (3) the legal opinion referred to in clause 3.1(C) and (D) shall also relate to the Alternate Subscriber and the agreement referred to in paragraph (2) above; and
- (4) the Subscriber shall remain liable for any breach by it of this Agreement prior to such assignment, and shall remain bound to perform and comply with all its covenants, undertakings and obligations under this Agreement.

(B) If the Subscriber intends to assign its rights and interest in and to this Agreement pursuant to clause 4.4(A), the Subscriber shall notify the Company in writing of its intention to do so not less than five Business Days prior to the Completion Date. For the avoidance of doubt, the Subscriber shall not be entitled to assign, transfer or otherwise dispose of all or any of its obligations under this Agreement. If the Subscription Shares are issued and allotted to an Alternate Subscriber pursuant to this clause, the references to the "Subscriber" in clauses 4.1, 6.3(B), 8.5(M), 8.7(A) and 8.7(B) shall be deemed thereafter to refer to the "Alternate Subscriber", and references to "Subscriber" in clause 6.4 shall be deemed to refer to both the Subscriber and Alternate Subscriber.

5. Representations, Warranties and Undertakings of the Company

5.1 Representations and Warranties of the Company

- (A) The Company hereby warrants and represents, to and for the benefit of the Subscriber in the terms of the Company Warranties set out in Schedule 1, subject to the provisions of this Agreement and in particular the exclusions and limitations in Schedule 2.
- (B) The Company Warranties are given subject to facts and matters disclosed in or by this Agreement, the Disclosure Letter and every document contained in the Data Room and the Subscriber shall accordingly have no claim in respect of any of the Company Warranties in relation to any fact or matter so disclosed.
- (C) Any matter which would be or give rise to a breach of any of the Non-Accounts Warranties but for an express exclusion from, or qualification or limitation to, the terms of such Non-Accounts Warranty (whether such exclusion, qualification or limitation is in respect of the awareness of the Company, materiality, or any other matter) shall be deemed not to be or give rise to a breach of any of the Accounts Warranties. For this purpose, the "Accounts Warranties" are the Company Warranties set out in paragraphs 2, 3 and 13 of Schedule 1 and the "Non-Accounts Warranties" are all the Company Warranties other than the Accounts Warranties.
- (D) Each of China Netcom and the Subscriber acknowledges that it has not been induced to enter into this Agreement by, and that it does not in connection with this Agreement or its subject matter rely on, any representation, warranty, promise or assurance by the Company or any other person save for those contained in this Agreement. Each of China Netcom and the Subscriber agrees that it shall have no right or remedy in respect of, and shall not in connection with any claim arising in relation to this Agreement or its subject matter, plead or assert the making or existence of, any representation, warranty, promise or assurance by the Company or its directors, employees, advisers or any other person save for those herein contained. Neither China Netcom nor the Subscriber shall have any right to rescind or terminate this Agreement and the only remedy of China Netcom and the Subscriber shall be damages for breach of this Agreement.
- (E) The Subscriber shall be entitled to claim both before and after completion of the Subscription that any of the Company Warranties has or had been breached or is or was misleading and, without limitation, to claim under any covenant even if the Subscriber and/or China Netcom knew or could have discovered on or before Completion that the Company Warranty in question had been breached or was misleading and Completion shall not in any way constitute a waiver of any of the Subscriber's rights. Notwithstanding the preceding sentence, each of China Netcom and the Subscriber warrants and undertakes to the Company that, at the time of entering into this Agreement, neither China Netcom nor the Subscriber is aware of any facts or circumstances which will or may entitle the Subscriber to make a claim under any of the Company Warranties.
- (F) The Subscriber and China Netcom acknowledge that neither the Company nor any of its directors, shareholders, employees or advisers owes to the Subscriber or China Netcom any duty of care in relation to the subject matter of this Agreement or any matter connected with it. Nothing in this sub-clause shall restrict or impair the rights of the Subscriber and/or China Netcom under this Agreement, or in the

event of fraud by any of the Company or any of its directors, shareholders, employees or advisers.

- (G) The Company makes no representation or warranty to the Subscriber as to the completeness, truth or accuracy of the matters disclosed in the Disclosure Letter or in the Data Room other than the 2003 Accounts, the 30 September Accounts and the Previous Announcements (as such terms are defined in Schedule 1 and in respect of which the warranties in paragraphs 2, 3 and 4 of Schedule 1 apply) provided always that nothing in this sub-clause (G) shall exclude or limit any claim under or in respect of the Company Warranties.
- (H) Notwithstanding any provision in this Agreement to the contrary, nothing in this clause 5.1 shall exclude or affect any right or remedy available to the Subscriber (or, if relevant, China Netcom) in respect of fraud. China Netcom and the Subscriber acknowledges that their legal advisers have explained to each of them the effect of this clause 5.1 and Schedule 2.
- (I) The Company undertakes to disclose in writing to the Subscriber anything which will be or is reasonably likely to be a breach of any of the Company Warranties on and as at the Completion Date promptly after such thing comes to its notice both prior to and on the Completion Date. The Company agrees to promptly provide such information as may be reasonably requested by the Subscriber, from the date hereof until the Completion Date, in order to enable the Subscriber to assess whether a breach of the Company Warranty will occur on the Completion Date.
- (J) Each of the Company Warranties shall be construed as a separate and independent warranty and shall not be limited or restricted by reference to or inference from the terms of any other Company Warranty or any other term of this Agreement.
- (K) The Subscriber agrees and acknowledges that the Company will not be liable for any claim for any breach of the Company Warranties if and to the extent that the claim results from any act or circumstance which is carried out or arises as a result of the entering into of, or the performance by the Company of its obligations under, this Agreement.

5.2 Period

Save as expressly provided otherwise, the representations and warranties set out in Schedule 1 are given as at the date hereof and shall be deemed to be repeated by the Company on the Completion Date as if given or made on such date, with reference in each case to the facts and circumstances then subsisting.

5.3 Claims against parties other than the Company

Each of China Netcom and the Subscriber agrees and undertakes that (save in respect of fraud) it has no rights against and shall not make any claim against any Subsidiary of the Company or any present or former employee, director, shareholder, agent, officer or adviser of any member of the Group in connection with this Agreement or its subject matter.

6. Representations, Warranties and Undertakings of the Subscriber and China Netcom

6.1 Subscriber/China Netcom Warranties

The Subscriber (in relation to itself only) and China Netcom each hereby undertakes, represents and warrants to the Company as follows:

- (A) As at the date of this Agreement it has (subject to the obtaining by China Netcom of the approval of the PRC State Council), and on the Completion Date it will have, the full right, power and authority to enter into, and to perform its obligations under, this Agreement and this Agreement constitutes its legal, valid and binding obligations enforceable in accordance with its terms.
- (B) As at the date of this Agreement it has (subject to the obtaining by China Netcom of the approval of the PRC State Council), and on the Completion Date it will have, obtained all governmental, regulatory or similar consents required from any Authority, authorities, approvals and permissions required to enter into, and to perform its obligations under, this Agreement and there are no regulatory or administrative obstacles to the remittance of the Subscription monies to the Company in Hong Kong in accordance with the terms of this Agreement.
- (C) China Netcom is the legal and beneficial owner of the whole of the issued share capital of the Subscriber, and the Subscriber is the legal and beneficial owner of all the issued shares in CNC HK held by the CNC Group.
- (D) The execution, delivery and performance by it of this Agreement does not and will not result in a material breach of any provision in its memorandum or articles of association or other constitutional documents.
- (E) No order has been made and no resolution has been passed for the winding up of the Subscriber or China Netcom (as the case may be) or for a provisional liquidator to be appointed in respect of it and no petition has been presented and no meeting has been convened for the purposes of winding up the Subscriber or China Netcom (as the case may be).
- (F) No administration order has been made and no petition for such an order has been presented in respect of the Subscriber or China Netcom (as the case may be).
- (G) No receiver (which expression shall include an administrative receiver) has been appointed in respect of the Subscriber or China Netcom (as the case may be).
- (H) It is not insolvent or unable to pay its debts and has not stopped paying its debts as they fall due.
- (I) No event analogous to any described in paragraphs (E) to (H) has occurred in or outside the PRC with respect to the Subscriber or China Netcom (as the case may be).
- (J) All statements of fact relating to the CNC Group contained in the Subscription Announcement are true and accurate in all material respects and not misleading in any material respect in the form and context in which they appear, all expressions of opinion, intention or expectation contained therein (which are stated to be held or expressed by any member of the CNC Group) are made on reasonable grounds and are truly and honestly held by the directors of the relevant member of CNC

Group and are fairly based, and there are no other facts relating to the CNC Group omitted the omission of which makes any such statement or expression in the Subscription Announcement misleading in any material respect or which are or can reasonably be expected to be material in the context of the Subscription.

- (K) Under the laws of the PRC, neither China Netcom nor any of its properties, assets or revenues are entitled to any right of immunity on the grounds of sovereignty from any legal action, suit or proceedings, from set-off or counter claim, from the jurisdiction of any court or arbitral tribunal, from service of process, from attachment prior to or in aid of execution of judgment or arbitral award, or from other legal process or proceedings for the giving of any relief or for the enforcement of any judgment or arbitral award.
- (L) None of China Netcom, the Subscriber, and none of their respective directors (or equivalent) or Principal Officers, is a Disqualified Person.

6.2 Repetition of Subscriber/China Netcom Warranties, etc

- (A) The representations and warranties set out in clause 6.1 are given as at the date hereof and shall be deemed to be repeated by the Subscriber and China Netcom on the Completion Date as if given or made on such date, with reference in each case to the facts and circumstances then subsisting.
- (B) Each of China Netcom and the Subscriber undertakes to disclose in writing to the Company anything which will be or is reasonably likely to be a breach of any of the representations and warranties set out in clause 6.1 on and as at the Completion Date promptly after such thing comes to its notice both prior to and on the Completion Date. Each of China Netcom and the Subscriber agrees promptly to provide such information as may be reasonably requested by the Company, from the date hereof until the Completion Date, in order to enable the Company to assess whether a breach of any representations and warranties set out in clause 6.1 will occur on the Completion Date.

6.3 Other Undertakings of Subscriber and China Netcom

- (A) Each of the Subscriber and China Netcom undertakes that it will, both prior to and following the Completion Date, furnish such information, supply such documents, give such undertakings and do all such acts and things as may reasonably be required by the Company to:
 - (1) facilitate the satisfaction of the Conditions;
 - (2) facilitate the obtaining by the Group of all consents, approvals and confirmations that may be required from any Authority in connection with this Agreement; and/or
 - (3) enable the Company to perform its obligations under this Agreement.
- (B) China Netcom undertakes that it will remain at all times the direct or indirect holder of the entire issued share capital of the Subscriber provided that China Netcom may dispose to one or more third parties of not more than an aggregate of 25 per cent. (25%) of its direct or indirect interest in the issued share capital of the Subscriber provided that:

- (1) any relevant third party which acquires an interest in the Subscriber ("Subscriber Investor") is not a Disqualified Person; and
- (2) China Netcom will, after such disposal, retain voting control of the Subscriber and will also retain the direct or indirect right to appoint a majority of the board of directors of the Subscriber; and
- (3) none of the Subscriber Investors shall have any right or understanding or arrangement (whether formal or informal) to nominate any person as a director of the Company.

6.4 Matters relating to the Broadcasting Ordinance

General obligation - directors and Principal Officers of the Company/ Subscriber

- (A) China Netcom undertakes that it will not nominate any person who is a Disqualified Person as a director or Principal Officer of the Company. Each of China Netcom and the Subscriber undertakes that it will not nominate or appoint any person who is a Disqualified Person as a director or Principal Officer of the Subscriber.

Certain proposed changes

(B) If:

- (1) China Netcom proposes to nominate any person to replace any of the appointments made under clause 4.1(B); or
- (2) China Netcom or the Subscriber proposes any change to the directors or Principal Officers of the Subscriber; or
- (3) China Netcom or the Subscriber proposes to introduce a Subscriber Investor or if either of them proposes any change, or is aware of any proposed change, in the shareholders of the Subscriber and their respective interests in the Subscriber,

China Netcom and the Subscriber shall promptly provide such information as the Company may reasonably request to enable the Company to deal with such issues (if any) as may arise in connection with the Broadcasting Ordinance and/or the Group's licences issued under the Broadcasting Ordinance.

- (C) If the Company reasonably considers that a "disqualified person" issue will arise under the Broadcasting Ordinance as a result of any of the proposals referred to in clause 6.4(B)(1) to (3), the Company is not obliged to procure that China Netcom's proposed replacement Board nominee(s) is/are appointed (notwithstanding clause 8.6, but without prejudice to China Netcom's rights under clause 8.6 to nominate another person as a replacement Board nominee and to the Company's obligations thereunder in respect of such other nominee), and China Netcom and the Subscriber shall not make or permit to occur any of the changes referred to in clause 6.4(B)(2) and/or (3), until all information concerning such nominee(s) or Subscriber Investor(s) (as applicable) as is required by the Broadcasting Authority and the Chief Executive in Council has been provided to them, and the Broadcasting Authority and the Chief Executive in Council have confirmed in writing that the relevant person(s) (or, if applicable, the Subscriber Investor(s)) is/are not Disqualified Person(s).

Changes in circumstances resulting in Disqualified Person issues

(D) If at any time any of:

- (1) China Netcom;
- (2) the Subscriber;
- (3) the directors (or equivalent) or Principal Officers of China Netcom or of the Subscriber;
- (4) the persons nominated by China Netcom as directors of the Company;
- (5) a Subscriber Investor; or
- (6) the persons nominated by a Subscriber Investor as directors of the Subscriber,

is or becomes a Disqualified Person, or is reasonably considered by the Company, China Netcom or the Subscriber to be a "disqualified person" within the meaning of the Broadcasting Ordinance, the Company, China Netcom or the Subscriber (as applicable) shall immediately notify the others in writing of such issue (which notice shall set out reasonable details of the reasons why such person is or is reasonably considered to be a "disqualified person"). China Netcom shall assist and facilitate the Company in seeking such consents, approvals and confirmations as may be required from the Broadcasting Authority, the Chief Executive in Council or otherwise in connection with the Broadcasting Ordinance. China Netcom shall promptly provide such information as the Company may reasonably request to enable the Company to deal with such issues (if any) as may arise in connection with the Broadcasting Ordinance and/or the Group's licences issued under the Broadcasting Ordinance.

(E) Notwithstanding any provision in this Agreement to the contrary:

- (1) if any person nominated by China Netcom as director of the Company is or becomes a Disqualified Person, and if requested by the Company so to do, China Netcom shall immediately procure his removal from office as a director of the Company;
- (2) if a Subscriber Investor is or becomes a Disqualified Person, and if requested by the Company so to do, China Netcom shall immediately use all reasonable endeavours to procure that such third party ceases to be so interested; and
- (3) if a person nominated by a Subscriber Investor as a director of the Subscriber is or becomes a Disqualified Person, China Netcom shall immediately procure that such person ceases to hold such office.

(F) China Netcom shall provide such information as the Company may from time to time reasonably request to ascertain whether (1) any director (or equivalent) or Principal Officer of any member of the CNC Group or (2) any person nominated by China Netcom as a director of the Company is or may be a "disqualified person" within the meaning of the Broadcasting Ordinance.

7. The Group's operations in the PRC

7.1 PRC Business Development Committee

- (A) On the Completion Date, a committee, to be called the "PRC Business Development Committee", shall be formed. The terms of reference of the PRC Business Development Committee shall include, as a principal function of such committee, advising on possible opportunities for the expansion of the Group's operations in the PRC ("PRC Operations") (including the potential investment of up to HK\$5 billion and the investment fund of US\$50-100 million referred to in clause 7.1(B)) and monitoring the use of funds allocated and approved by the Board or relevant committee in relation to opportunities approved by the Board or relevant committee in connection with the expansion of the Group's PRC Operations. The PRC Business Development Committee shall have four members, two of whom shall be members of the Board nominated by China Netcom. Except as determined by the Board from time to time, all decisions of the PRC Business Development Committee shall require the unanimous vote and approval of all members of such committee.
- (B) The Company undertakes that, as soon as practicable after the Completion Date (and in any event within three months of the Completion Date), it will establish a separate investment fund with an initial capital investment by the Company as the founder of the fund of US\$100 million, or such lesser amount above US\$50 million as the Company may determine (and such investment shall be part of the HK\$5 billion referred to in clause 4.1(C)) and seek third party investors to contribute additional capital with a view to increasing the size of the fund to up to US\$300 million. The investment objectives of the fund will be value added telecommunications services and operations in the PRC. The investment fund shall have its own investment guidelines and approval procedures (determined by the Board or relevant committee at the time of establishing the fund). Two members of the PRC Business Development Committee (of which only one shall be a member of the Board nominated by China Netcom) will be given responsibility for establishing the investment fund and managing it thereafter in accordance with the applicable investment guidelines and approval procedures, together with such other managers as they shall recommend to the Board or relevant committee for approval.

7.2 Co-Group Managing Director

- (A) If at any time after the Completion Date the Group's PRC Operations constitute a substantial part of the Group's operations, and for as long as such PRC Operations remain a substantial part of the Group's operations, China Netcom shall have the right to nominate a person who is for the time being a director of the Company and has the requisite qualifications and experience, as "Co-Group Managing Director", whose appointment shall be subject to the approval of the Board. In the event that the Board declines to appoint a director of the Company nominated by China Netcom on the grounds that such director does not have the requisite qualifications and experience, China Netcom may nominate another director of the Company as Co-Group Managing Director, whose appointment shall also be subject to the approval of the Board. The Co-Group Managing Director shall be in addition to such other managing director(s) of the Group as may be in office at the time and from time to time.

- (B) For the purpose of clause 7.2(A), the PRC Operations shall be deemed to constitute a substantial part of the Group's Operations if:
- (1) at any time during the twelve months commencing from the Completion Date, the PRC Business Development Committee (referred to in clause 7.1) resolves that the PRC Operations have become a substantial part of the Group's Operations; or
 - (2) the PRC Business Development Committee does not so resolve within the twelve months commencing from the Completion Date, and if at any time after such period China Netcom determines that the PRC Operations have become a substantial part of the Group's Operations.

7.3 Cessation

The provisions of clauses 7.1 and 7.2 shall cease to be of any effect upon the earlier of:

- (A) the Subscriber at any time ceasing to hold at least ten per cent. (10%) of the total issued share capital of the Company; and
- (B) China Netcom ceasing to hold, directly or indirectly, at least 75% of the issued share capital of the Subscriber or China Netcom otherwise being in material breach of clause 6.3(B).

8. Certain Company Undertakings

8.1 China Netcom's Obligations to CNC HK

- (A) For so long as the CNC HK Non-Competition Agreement remains in effect, if the Company or any member of the Group proposes to establish, engage or be directly or indirectly interested in carrying on a Proposed Business, the Company shall, before doing so or agreeing to do so, inform China Netcom by notice in writing (a "Notice"), setting out the principal details of the Proposed Business. Upon receipt of such Notice (and any other relevant details which China Netcom may reasonably request), China Netcom and the Company shall discuss the Proposed Business. China Netcom shall, within 15 days of the giving of the Notice ("15 Day Period"), inform the Company in writing of its views as to whether or not the Proposed Business will or is reasonably likely to be considered to constitute a CNC HK Competing Business.
- (B) If, within the 15 Day Period, China Netcom notifies the Company in writing that the Proposed Business will or is reasonably likely to be considered to constitute a CNC HK Competing Business, China Netcom and the Company shall immediately consult in good faith with a view to (1) determining to what extent and in what manner the Proposed Business constitutes or might constitute a CNC HK Competing Business, (2) determining to what extent it would be possible for the Proposed Business to be structured so that it or part of it does not constitute a CNC HK Competing Business, and (3) assisting China Netcom to seek the consent of CNC HK to the extent required under the CNC HK Non-Competition Agreement or to the extent such consent has not already been given in writing. The parties acknowledge that the purpose of this clause is to enable due and careful consideration to be given to the nature and extent of the obligations of China Netcom under the CNC HK Non-Competition Agreement, and to afford China Netcom an opportunity to comply fully with its obligations thereunder.

(C) For the purpose of this clause 8.1:

- (1) "CNC HK Competing Business" means a business that falls within the meaning of paragraphs 3 and 4 of clause 1 of the CNC HK Non-Competition Agreement;
- (2) "CNC HK Non-Competition Agreement" means the non-competition agreement dated 6 September 2004 made between, amongst others, China Netcom and CNC HK; and
- (3) "Proposed Business" means a business which the PRC Business Development Committee considers will or may be in direct or indirect competition with the business of CNC HK or any of its Subsidiaries.

(D) Notwithstanding clause 8.1 (A), the Company and any member of the Group may hold or be interested in securities in another body corporate if such securities are listed on a recognised stock exchange and confer not more than ten per cent. (10%) of the votes which could normally be cast at a general meeting of the body corporate.

(E) For the avoidance of doubt, this clause 8.1 shall not:-

- (1) prevent or delay the Company or any member of the Group from commencing or continuing any negotiations in relation to any business opportunity (whether or not such business opportunity constitutes or may constitute a CNC HK Competing Business); or
- (2) prevent the Company or any member of the Group from entering into any contract or other arrangement in relation to any business opportunity (whether or not such business opportunity constitutes or may constitute a CNC HK Competing Business), provided that:
 - (a) if China Netcom gives notice in writing within the 15 Day Period that the Proposed Business will or is reasonably likely to be considered to constitute a CNC HK Competing Business, the Company or the relevant member of the Group does not do so within 30 days of the giving by China Netcom of such notice; and
 - (b) if China Netcom gives notice in writing within the 15 Day Period of its view that Proposed Business will not be considered to constitute a CNC HK Competing Business, or if China Netcom does not give a response to the Notice, the Company or the relevant member of the Group does not do so within the 15 Day Period.

8.2 Arrangements with CNC HK Competitor

(A) If the Company or any member of the Group either (i) intends to pursue or develop a business opportunity, or (ii) is offered an opportunity to participate in a business opportunity, in each case with any entity which is the holder of a licence currently required for the provision of basic fixed-line telecommunications services in the PRC (or a member of a group of which another member is the holder of such a licence) relating to (a) the establishment of a new joint venture (whether equity, co-operative or other profit sharing arrangement in the nature of a joint venture) to exploit a business opportunity within the PRC or (b) the sale by the Group of any

business or assets constituting a business in the PRC (in each case, a "Relevant Opportunity"), the Company shall, before doing so or agreeing to do so, inform China Netcom by notice in writing (a "JV Notice") provided that:

- (1) in the case of the establishment of a new joint venture, this clause 8.2 shall only apply if such joint venture (whether equity, co-operative or other profit sharing arrangement in the nature of a joint venture) (i) relates to basic fixed line telecommunications services as currently provided in the PRC and is considered in good faith by China Netcom (after having considered the details of the Relevant Opportunity submitted to it) to be of a strategic nature to the Group and/or involves an initial capital investment or commitment by the Group in excess of US\$100 million; or (ii) relates to any non-regulated services which involves an initial capital investment or commitment by the Group in excess of US\$100 million;
 - (2) in the case of a sale by the Group of any business or assets constituting a business in the PRC, this clause 8.2 shall only apply if such business or assets constituting a business is considered in good faith by China Netcom (after having considered the details of the Relevant Opportunity submitted to it) to be of a strategic business or a strategic business opportunity in the PRC;
 - (3) the provisions of clause 8.2 shall be subject to and limited by any pre-emption or other contractually binding obligations of the Company or the relevant member of the Group; and
 - (4) nothing in this clause 8.2 is intended to relate to contracts or arrangements in the ordinary course of business.
- (B) The JV Notice shall outline the principal details of the Relevant Opportunity (whether contemplated by a member of the Group, or offered by the relevant third party) and invite China Netcom to notify the Company in writing within 30 days after the date on which the JV Notice is given (the "Exercise Period") whether (i) it (or a Subsidiary of China Netcom) wishes to be involved in the Relevant Opportunity or, (ii) where the Relevant Opportunity arises as a result of an offer or invitation from a third party of an opportunity to participate in a business opportunity, whether it (or a Subsidiary of China Netcom) wishes and is able to offer a similar business opportunity to the Group.
- (C) If, within the Exercise Period, China Netcom notifies the Company in writing that it (or a Subsidiary of China Netcom) wishes to be involved in the Relevant Opportunity (or, as applicable, wishes and is able to offer a similar business opportunity to the Group), the Company will, or will procure that the relevant member of the Group (as the case may be) will, in good faith on an expeditious basis, enter into discussions and negotiations with China Netcom in relation to the Relevant Opportunity with a view to entering into a joint venture agreement or other binding arrangement, or (in the case of a sale referred to in clause 8.2(A)(2)) a sale and purchase agreement for the sale of the relevant business to China Netcom (or a Subsidiary of China Netcom), as soon as practicable.
- (D) If:
- (1) within the Exercise Period China Netcom notifies the Company in writing that neither it nor any of its Subsidiaries wishes to be involved in the Relevant

Opportunity (or, as applicable, does not wish and/or is unable to offer a similar business opportunity to the Group), or

- (2) China Netcom otherwise fails to notify the Company in writing within the Exercise Period as to whether or not it (or a Subsidiary of China Netcom) wishes to be involved in the Relevant Opportunity (or, as applicable, whether or not it (or a Subsidiary of China Netcom) wishes and is able to offer a similar business opportunity to the Group); or
- (3) China Netcom having served notice pursuant to sub-clause (C), no heads of terms, letter of intent or similar outline of principal commercial terms (in each case whether binding or non-binding) is entered into between any member of the Group and China Netcom (or a Subsidiary of China Netcom) within 30 days from the date on which it served such notice,

any member of the Group may enter into a joint venture agreement and/or other binding arrangement (including agreements relating to the sale of the relevant business) with a third party in relation to the Relevant Opportunity provided that such arrangement is on substantially the same terms as those set out in the JV Notice.

8.3 Existing Businesses

Notwithstanding clause 8.2 and any other provision of this Agreement, the Group may continue to be interested and involved in its existing businesses, and may continue to make such further investments in, and to further develop and expand, its existing businesses, in each case as the Board may consider appropriate from time to time.

8.4 Non-disposal of certain assets

- (A) The Company shall not without the written consent of China Netcom (such consent not to be unreasonably withheld or delayed) sell or dispose of more than ten per cent. (10%) of the Group's voting interest in PCCW-HKT Telephone Limited and 25 per cent. (25%) of the Group's voting interest in PCCW VOD Limited (other than in connection with a bona fide reorganisation, amalgamation or scheme of arrangement relating to the Group).
- (B) The Company shall not, prior to the date falling 60 days after the Completion Date and without the written consent of China Netcom (such consent not to be unreasonably withheld or delayed), sell or dispose of any of its shareholding in Pacific Century Premium Developments Limited (other than in connection with a bona fide reorganisation, amalgamation or scheme of arrangement relating to the Group). Notwithstanding the foregoing, China Netcom shall not withhold or delay its consent if any such proposed sale or disposal has in good faith been determined by the Board to be in the best interests of the Company and the reasons for such determination have been provided to China Netcom in reasonable detail.
- (C) Where the Group is considering any disposal of assets which does not fall under clause 8.4(A) or 8.4(B) but such disposal will require a circular to be issued by the Company to its shareholders under the Listing Rules, the members of the Board nominated by China Netcom shall be consulted in advance.

8.5 Anti-dilution

General Anti-dilution

- (A) Subject to clause 8.5(G), the Company will not without the prior written consent of China Netcom (such consent not to be unreasonably withheld or delayed) in the period from the date of this Agreement to the Completion Date issue any new Shares, any securities convertible into or exchangeable into Shares or any warrants or other rights to subscribe for Shares ("Relevant Securities").
- (B) Subject to clauses 8.5(G) to 8.5(J), if the Company proposes, following the Completion Date, to issue any Relevant Securities, the Company shall notify China Netcom in writing of such proposal (an "Issue Notice"). The Issue Notice shall specify the number and type of Relevant Securities to be offered by the Company and the material terms of the proposed offer (including the proposed price per security to be paid by the proposed third party purchaser(s)).
- (C) China Netcom shall have the right to purchase any number of the Relevant Securities which are the subject of the Issue Notice up to such number as shall represent the Pro Rata Share (as defined in clause 8.5(K)(2)) of the Relevant Securities, upon the same terms and conditions set forth in the Issue Notice, by giving written notice to the Company of the exercise of this right within ten Business Days of the giving of the Issue Notice. A notice given by China Netcom pursuant to this clause shall be irrevocable. If such notice is not given or deemed not to have been given by China Netcom within such ten Business Days, China Netcom shall be deemed to have elected not to exercise its rights under this clause 8.5(C).
- (D) [Intentionally left blank]
- (E) The completion of China Netcom's purchase of Relevant Securities pursuant to clause 8.5(C) shall occur either simultaneously with the completion of the offering of Relevant Securities or at such other time and place as shall be mutually agreed by the Company and China Netcom. At such completion, China Netcom shall deliver the aggregate purchase price for the Relevant Securities to be purchased by China Netcom pursuant to clause 8.5(C) against the Company's delivery of certificates representing the Relevant Securities to be issued to China Netcom pursuant to clause 8.5(C).
- (F) Any Shares issued to China Netcom pursuant to clauses 8.5(B) to (E) shall be issued on the same terms as Shares are issued to any proposed third party purchaser, such terms being set out in the Issue Notice.

Options, convertibles, etc

- (G) The provisions of clauses 8.5(A) to 8.5(F) shall not apply to:
 - (1) the grant of any options, or the issue of any Relevant Securities pursuant to the exercise of share options granted (whether prior to or after the date of this Agreement), pursuant to any share option scheme of the Company in effect from time to time; or
 - (2) the issue of any Relevant Securities pursuant to any share incentive scheme operated by the Group from time to time; or

- (3) the issue of any Relevant Securities pursuant to the terms of any bonds or other securities issued at any time by any member of the Group which are convertible or exchangeable into Shares, or the issue of any Relevant Securities as a result of the exercise of warrants or other rights to subscribe for Shares.

For the avoidance of doubt, the anti-dilution right in clauses 8.5(B) to 8.5(E) will apply in respect of issues of securities that are convertible or exchangeable into Shares and in respect of issues of warrants or other rights to subscribe for Shares at the time of issue of those convertible or exchangeable securities or warrants or other rights to subscribe (as the case may be) save in the case of a Pro-Rata Offering or a Non-Cash Issuance (as defined in clauses 8.5(H)(1) and 8.5(I)(1) respectively).

Rights issues, open offers, bonus/capitalisation issues etc

- (H) The provisions of clause 8.5(B) to 8.5(F) shall not apply to the issue of any Relevant Securities pursuant to:
 - (1) an offer of Relevant Securities open for a period fixed by the Board to holders of Shares on the register of members on a fixed record date in proportion to their then holdings of Shares (subject to such exclusions or other arrangements as the Board may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in any territory outside Hong Kong) ("Pro-Rata Offering"); or
 - (2) an issue of Shares credited as fully paid to holders of Shares (including, without limitation, Shares paid up out of distributable profits or reserves and/or share premium account issued in lieu of the whole or any part of a cash dividend and free distributions or bonus issue of Shares).

Consideration shares, top-up placings and subscriptions etc

- (I) If following the Completion Date, the Company proposes to issue any Relevant Securities ("Relevant New Issue"):
 - (1) for non-cash consideration, credited as fully paid (including, without limitation, an issue of Relevant Securities as consideration for the acquisition of any interest in a company, business or other asset but excluding any issue of Relevant Securities as contemplated in clauses 8.5(G) and 8.5(H)) ("Non-Cash Issuance"); or
 - (2) in connection with a placing and "top-up" subscription of Relevant Securities,clause 8.5(J) shall apply (and for the avoidance of doubt, clauses 8.5(B) to 8.5(F) shall not apply).
- (J) The following provisions shall apply in the event of a Relevant New Issue:
 - (1) If the Company proposes to effect a Relevant New Issue, the Company shall notify China Netcom in writing of such proposal ("Relevant New Issue Notice").

- (2) The Relevant New Issue Notice shall specify the number and (if relevant) the type of Relevant Securities to be issued or proposed to be issued by the Company and the material terms of the Relevant New Issue (including the proposed price per security ("Relevant Price")).
- (3) China Netcom shall have the right to purchase or subscribe for such proportion as it may wish of the Relevant Number of new Relevant Securities at the Relevant Price by giving written notice to the Company of the exercise of this right within three Business Days of the giving of the Relevant New Issue Notice. China Netcom and the Company acknowledge that the "Relevant Number" will only be ascertainable after the three Business Day period, and that the actual Relevant Number will be set out in the notice to be given by the Company to China Netcom pursuant to clause 8.5(J)(5). A notice given by China Netcom pursuant to this clause 8.5(J)(3) shall be irrevocable. If such notice has not been given or deemed to have been given by China Netcom within such three Business Days, China Netcom shall be deemed to have elected not to exercise its rights under this clause 8.5(J)(3).
- (4) [Intentionally left blank]
- (5) If China Netcom shall give notice to the Company pursuant to, and in accordance with, clause 8.5(J)(3), the Company shall not later than three Business Days after expiry of the three Business Day period referred to in clause 8.5(J)(3) notify China Netcom in writing of the Relevant Number of new Relevant Securities which it is to purchase and the total consideration due for such securities. The completion of China Netcom's purchase of Relevant Securities pursuant to this clause 8.5(J) shall occur either simultaneously with the completion of the Relevant New Issue or, in the case of a placing and top-up subscription referred to in clause 8.5(I)(2), at the time of completion of the top-up subscription, or at such other time and place as shall be mutually agreed by the Company and China Netcom. At such completion, China Netcom shall deliver the aggregate purchase price for the Relevant Securities to be purchased by China Netcom pursuant to this clause 8.5(J) against the Company's delivery of certificates representing the Relevant Securities to be issued to China Netcom pursuant to this clause 8.5(J).
- (6) In the case of a Non-cash Issuance, the Relevant Price shall be based on the value of the Relevant Securities or the consideration as stated in the agreements relating to Non-Cash Issuance. If such value or consideration is not stated, the Relevant Price shall be such amount as may be agreed between the Company and China Netcom or, in default of agreement, the average closing price of Shares on the Stock Exchange on the fifteen trading days prior to the date on which binding agreements relating to the Relevant New Issue were executed or, if earlier, the date on which the Relevant New Issue was announced by the Company in accordance with its obligations under the Listing Rules.
- (7) For the avoidance of doubt, nothing in clause 8.5(J)(1) to (6) shall delay, impede or obstruct the completion of a Relevant New Issue.

General Provisions

- (K) For the purposes of this clause 8.5:

- (1) "Other Anti-Dilution Issues" means the Relevant Securities to be issued as a result of the Relevant New Issue to other shareholders of the Company pursuant to anti-dilution rights substantially similar to those contained in this clause 8.5;
- (2) "Pro Rata Share" shall mean the following ratio (measured as at the date of the relevant Issue Notice):

$$\frac{A}{B}$$

where:

"A" is the number of Shares in which China Netcom is interested or deemed to be interested for the purposes of Part XV of the SFO, excluding Shares in which China Netcom has become interested other than pursuant to clause 2 or this clause 8.5 and excluding also any interests or deemed interests arising from Relevant Securities other than Shares; and

"B" is the total number of Shares then in issue;

- (3) "Relevant Number" shall mean:
 - (a) in the case of an issue of Shares, the number of Shares required to be issued to China Netcom such that the Relevant Ratio of China Netcom's interest or deemed interest under Part XV of the SFO (whether notified or not) in the issued Share capital of the Company will not be reduced as a result of the Relevant New Issue and the Other Anti-Dilution Issues; and
 - (b) in the case of an issue of Relevant Securities other than Shares, the number of Relevant Securities which represents the Relevant Ratio of the total number of such Relevant Securities to be issued pursuant to the Relevant New Issue and the Other Anti-Dilution Issues;

- (4) "Relevant Ratio" shall mean the following ratio (measured as at the date of the relative Relevant New Issue Notice):

$$\frac{X}{Y}$$

where:

"X" is the number of Shares in which China Netcom is interested or deemed to be interested for the purposes of Part XV of the SFO, excluding Shares in which China Netcom has become interested other than pursuant to clause 2 or this clause 8.5 and excluding also any interests or deemed interests arising from Relevant Securities other than Shares; and

"Y" is the total number of Shares then in issue (excluding, for the avoidance of doubt, Shares issued under the Relevant New Issue and the Other Anti-Dilution Issues);

(5) for the purposes of sub-clauses (2) and (4) above and to avoid doubt, where China Netcom is interested or deemed interested in the Same Shares (as defined below) pursuant to Part XV of the SFO, the number of such Same Shares shall not be aggregated with the number of Shares in which China Netcom is or would already be interested or deemed interested pursuant to Part XV of the SFO. "Same Shares" shall mean Shares in which "associated corporations" (as defined in Part XV of the SFO) (other than the Subscriber) of China Netcom are interested or deemed interested pursuant to Part XV of the SFO.

(L) [Intentionally left blank]

(M) China Netcom shall be entitled to purchase Relevant Securities under this clause 8.5 directly or through the Subscriber, and the provisions of this clause 8.5 shall be construed accordingly.

(N) China Netcom acknowledges and agrees that its exercise of the rights in this clause 8.5 shall in all cases be subject to all applicable laws and regulations including the Listing Rules and the Takeovers Code (including, where applicable, any requirement to obtain the approval of the shareholders of the Company).

(O) The provisions of clauses 8.5(B) to 8.5(N) are conditional on the satisfaction of the Condition in clause 3.1(A).

8.6 Replacement of Directors

China Netcom shall be entitled to nominate persons from time to time to replace any of the appointments made under clause 4.1(B) and the Company shall use its best endeavours to procure such new appointments to be made as soon as practicable. If any of the persons appointed as a member of the Board pursuant to clause 4.1(B)(1) or this clause 8.6, as the case may be, is employed by the Company as an executive or officer, such person shall be appointed as an executive director of the Company.

8.7 Cessation

(A) The provisions of this clause 8 (except clause 8.5 (Anti-dilution) and this clause 8.7) shall cease to be of any effect on the earlier of:

- (1) the Subscriber at any time ceasing to hold at least ten per cent. (10%) of the total issued share capital of the Company; and
- (2) China Netcom ceasing to hold, directly or indirectly, at least 75% of the issued share capital of the Subscriber or China Netcom otherwise being in material breach of clause 6.3(B).

(B) The provisions of clause 8.5 (Anti-dilution) shall cease to be of any effect on the earlier of:

- (1) the third anniversary of the Completion Date;
- (2) the Subscriber at any time ceasing to hold at least 15 per cent. (15%) of the total issued share capital of the Company; and

- (3) China Netcom ceasing to hold, directly or indirectly, at least 75% of the issued share capital of the Subscriber or China Netcom otherwise being in material breach of clause 6.3(B).

9. Guarantee

9.1 Guarantee Obligations

In consideration of the Company entering into this Agreement at the request of China Netcom (as China Netcom hereby acknowledges), China Netcom shall as primary obligations of it:

- (A) procure that the Subscriber shall duly observe and perform all its obligations owed to the Company under this Agreement or any other agreement entered pursuant or ancillary hereto;
- (B) if and whenever the Subscriber shall be in default in the payment when due of any amount payable to the Company under this Agreement or any other agreement entered into pursuant or ancillary hereto and within two Business Days after being given notice to that effect by the Company, pay to the Company all amounts then so payable by the Subscriber to the Company as though China Netcom instead of the Subscriber was expressed to be the principal debtor; and
- (C) indemnify the Company against all costs and expenses (including legal fees) which the Company may pay or incur in collecting any amount payable by the Subscriber or China Netcom and referred to in clause 9.1(B).

9.2 Indemnity

Any amount not paid by the Subscriber and not recoverable from China Netcom on the basis of a guarantee (whether because of any legal limitation, disability or incapacity on the part of the Subscriber or any other matter or thing whether known to the Company or not) shall nevertheless be recoverable from China Netcom on the basis of an indemnity.

9.3 Indulgence etc.

- (A) China Netcom acknowledges that its liability under this clause 9 shall not be discharged or affected in any way by time being given to the Subscriber or by any other indulgence or concession being granted to the Subscriber or by any other act, omission, dealing, matter or thing whatsoever (including without limitation any change in the constitution of the Subscriber or China Netcom, any amendment to this Agreement or any such other agreement entered pursuant or ancillary hereto or the liquidation, dissolution, reconstruction or amalgamation of the Subscriber or China Netcom or the illegality or unenforceability of this Agreement or such other agreement) which but for this provision might operate to release China Netcom from its obligations under this clause 9.
- (B) China Netcom agrees that its liability under this clause 9 shall not be discharged or affected in any way by the assignment (if any) by the Subscriber of its rights in this Agreement to the Alternate Subscriber under clause 4.4.

9.4 Continuing Guarantee

The guarantee contained in this clause 9 is a continuing guarantee and shall remain in full force and effect until all obligations of the Subscriber hereby guaranteed have been discharged in full. It is in addition to and shall not prejudice nor be prejudiced by any other guarantee, indemnity or other security or right against any third party which the Company may have for the due performance of the obligations concerned.

10. No "acting in concert"

10.1 Nothing in this Agreement nor any action taken or proposed to be taken by the Subscriber, China Netcom and/or the Company under or in connection with this Agreement is intended to result in the Subscriber and/or China Netcom "acting in concert" (as defined in the Takeovers Code) with the Substantial Shareholders (or vice versa).

10.2 The Company and China Netcom agree that if at any time any Substantial Shareholder, the Subscriber or China Netcom (collectively, "Relevant Shareholders") considers that anything in or in connection with this Agreement, or any of the actions or proposed actions of any of the Relevant Shareholders, mean that the Subscriber and/or China Netcom are or will be "acting in concert" (as defined in the Takeovers Code) with the Substantial Shareholders (or vice versa) ("Concert Party Issue"), it shall notify the other Relevant Shareholders of the Concert Party Issue (including reasonable details of the issue and reasons for its concern), and each of China Netcom, the Subscriber and the Company agrees that:

- (A) it will consult with each other and with the Substantial Shareholders on a timely basis and in good faith to discuss whether the proposed action or actions can be undertaken in a manner or to an extent that will not have such a result; and
- (B) no action will be taken by it until the Concert Party Issue, together with the proposed action(s) (if any), have been resolved to the satisfaction of each of the Relevant Shareholders PROVIDED THAT if the SFC confirms that any of China Netcom or any of the Substantial Shareholders shall not itself or themselves be under an obligation to make a mandatory general offer for the shares in the Company not held by them (or parties acting in concert with them) (regardless of whether any of the other Relevant Shareholders may be under such an obligation), then the relevant Concert Party Issue shall be deemed for the purposes of this provision to have been resolved to the satisfaction of that or those Relevant Shareholders.

11. Confidentiality

11.1 Confidentiality

Subject to clauses 11.2, 11.3 and 12, each Party:-

- (A) shall treat as strictly confidential the provisions of this Agreement and the process of their negotiation and all information about the other Parties obtained or received by it as a result of entering into or performing its obligations under this Agreement ("Confidential Information"); and
- (B) shall not, except with the prior written consent of the other Party (which shall not be unreasonably withheld or delayed and the Company shall only require the consent of one of China Netcom of the Subscriber), make use of (save for the purposes of

performing its obligations under this Agreement) or disclose to any person any Confidential Information.

11.2 Permitted disclosure or use

Clause 11.1 shall not apply if and to the extent that the Party using or disclosing Confidential Information can demonstrate that:

- (A) such disclosure is to a Substantial Shareholder or a company controlled by a Substantial Shareholder or under common control with a Substantial Shareholder (a "Related Party")
- (B) such disclosure is required by law or by any supervisory, regulatory or governmental body having jurisdiction over it or a Related Party (including the Stock Exchange, the SFC, the Singapore Stock Exchange and the PRC State Council) and whether or not the requirement has the force of law; or
- (C) such disclosure is to its professional advisers in relation to the negotiation, entry into or performance of this Agreement or any matter arising out of the same; or
- (D) such disclosure is required to facilitate the satisfaction of any of the Conditions; or
- (E) such disclosure is required in order to facilitate any assignment or proposed assignment of the whole or any part of the rights or benefits under this Agreement which is permitted by clause 17.7; or
- (F) in the case of disclosure or use, the Confidential Information concerned was lawfully in its possession (as evidenced by written records) prior to its being obtained or received as described in clause 11.1(A); or
- (G) in the case of disclosure or use, the Confidential Information concerned has come into the public domain other than through its fault or the fault of any person to whom such Confidential Information has been disclosed in accordance with clause 11.1(B).

11.3 Continuance of restrictions

The restrictions contained in this clause 11 shall continue without limit of time.

12. Announcements

12.1 Restrictions

Subject to clause 12.2, no Party to this Agreement shall make any announcement or issue any communication concerning the provisions or subject matter of this Agreement or containing any information about the other Parties without the prior written approval of the other (which shall not be unreasonably withheld or delayed and the Company shall only require the consent of one of China Netcom or the Subscriber).

12.2 Permitted announcements

Clause 12.1 shall not apply:

- (A) to the Subscription Announcement; and

- (B) if and to the extent that any announcement is required by law or by any supervisory, regulatory or governmental body having jurisdiction over it (including the Stock Exchange and the SFC), and whether or not the requirement has the force of law and provided that any such announcement shall be made only after consultation with the other Parties.

13. Notices

- (A) Any notice (which term shall in this clause include any other communication) required to be given under this Agreement or in connection with the matters contemplated by it shall, except where otherwise specifically provided, be in writing in the English language.
- (B) Any such notice shall be addressed as provided in sub-clause (C) and may be:
- (1) personally delivered, in which case it shall be deemed to have been given upon delivery at the relevant address; or
 - (2) if within Hong Kong, sent by pre-paid post, in which case it shall be deemed to have been given two Business Days after the date of posting; or
 - (3) if from or to any place outside Hong Kong, sent by pre-paid airmail, in which case it shall be deemed to have been given seven Business Days after the date of posting; or
 - (4) sent by facsimile, in which case it shall be deemed to have been given when despatched, subject to confirmation of uninterrupted transmission by a transmission report provided that any notice despatched by facsimile after 5:00 p.m. on any day shall be deemed to have been received at 9:00 a.m. on the next Business Day.
- (C) The addresses and other details of the Parties referred to in sub-clause (B) are, subject to sub-clause (C):

If to the Company, to:

PCCW Limited

39th Floor, PCCW Tower,
TaiKoo Place,
979 King's Road,
Quarry Bay,
Hong Kong

Facsimile: +852 2962 5725

Attention: The Company Secretary

If to the Subscriber, to:

China Netcom Group Corporation (BVI) Limited

59/F, Bank of China Tower,
1 Garden Road,
Hong Kong

Facsimile: +852 3108 3823

Attention: Wang Chuanbao

If to China Netcom, to:

China Network Communications Group Corporation (GRAPHIC OMITTED)

59/F, Bank of China Tower,
1 Garden Road,
Hong Kong

Facsimile: +852 3108 3823

Attention: Head of Business Development

- (D) Any Party may notify the other Parties of any change to the address or any of the other details specified in sub-clause (C), provided that such notification shall only be effective on the date specified in such notice or five Business Days after the notice is given, whichever is later.

14. Waiver of Immunity

14.1 Immunity

It is acknowledged that the status of China Netcom in the PRC may afford it certain protections and immunities not available to entities wholly independent of any state body in the PRC and China Netcom has therefore agreed to waive such protections and immunities as set out below.

14.2 Waiver

China Netcom irrevocably and unconditionally agrees with the Company that in respect of any Proceedings brought against China Netcom or its assets by the Company in relation to this Agreement or any other agreement entered into pursuant to or as a result of this Agreement:

- (A) no immunity from those proceedings (including, without limitation, suit, attachment prior to judgement, other attachment, the obtaining of any judgement, execution or other enforcement, or the enforcement and execution of any award rendered by an arbitral tribunal constituted pursuant to this Agreement) will be claimed by or on behalf of itself or with respect to its assets;
- (B) China Netcom shall (and hereby) waives any such right of immunity which it or its assets now has or may subsequently acquire; and
- (C) China Netcom consents generally in respect of any such proceedings to the giving of any relief or the issue of any process in connection with those proceedings, including, without limitation, the making, enforcement or execution against any assets whatsoever (irrespective of its use or intended use) of any order or judgement which may be made or given in those proceedings or of any award rendered by an arbitral tribunal constituted pursuant to this Agreement.

15. Law and Arbitration

15.1 Law

This Agreement shall be governed by and construed in accordance with the laws of England for the time being in force.

15.2 Arbitration

- (A) Any dispute, controversy or claim arising out of or in connection with this Agreement, including any question regarding its existence, validity or termination, shall be referred to and finally resolved by arbitration under the LCIA Rules, which Rules are deemed to be incorporated by reference into this clause. The arbitration commission shall be the LCIA.
- (B) The number of arbitrators shall be three.
- (C) The seat of the arbitration shall be London.
- (D) The language to be used in the arbitral proceedings shall be English.
- (E) By agreeing to arbitration pursuant to this clause, the Parties waive irrevocably their right to any form of appeal, review or recourse to any state court or other judicial authority, insofar as such waiver may validly be made. In particular, no Party may apply to the court to determine any question of law arising in the course of the arbitration pursuant to section 45 of the Arbitration Act 1996 or otherwise, and no Party may appeal to the court on a question of law arising out of an award made in the arbitration pursuant to section 69 of the Arbitration Act 1996 or otherwise.
- (F) The Parties shall have the right to seek interim injunctive relief from a court of competent jurisdiction, both before and after the arbitrators have been appointed, at any time up until the arbitrators have made the final award.

16. Contracts (Rights of Third Parties) Act 1999

16.1 Subject to clause 16.2, no person who is not for the time being a Party to this Agreement shall have any right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Agreement.

16.2 Each of the persons referred to in clauses 5.1(F) and 5.3 shall be entitled to enforce the benefits conferred on him by such clauses, provided that the consent of such persons shall not be required for the variation or termination of this Agreement.

17. Provisions Relating to this Agreement

17.1 Counterparts

This Agreement may be executed in any number of counterparts, which shall together constitute one Agreement. Any Party may enter into this Agreement by signing any such counterpart.

17.2 Whole agreement

- (A) This Agreement, together with any documents referred to in it, constitutes the whole agreement between the Parties relating to its subject matter and supersedes and extinguishes any prior drafts, agreements, and undertakings, whether in writing or oral, relating to such subject matter, except to the extent that the same are repeated in this Agreement.
- (B) Each of the Parties acknowledges that it has not been induced to enter into this Agreement by any representation, warranty, promise or assurance by any of the others or any other person save for those contained in this Agreement.

17.3 Variations

No variation of this Agreement shall be effective unless made in writing and signed by each of the Parties.

17.4 Further assurance

At any time after the Completion Date every Party hereto shall, at the request of any other Party and at such requesting Party's cost, execute or procure the execution of such documents and do or procure the doing of such acts and things as the requesting Party may reasonably require for the purpose of vesting in the requesting Party or its permitted assignees the full benefit of all its rights in this Agreement.

17.5 Costs

Each Party shall bear its own costs arising out of or in connection with the preparation, negotiation and implementation of this Agreement. Any capital duty or fees payable to the Stock Exchange in relation to the Subscription shall be borne by the Company.

17.6 Time Of The Essence

Any time, date or period mentioned in this Agreement may be extended by written agreement between the Parties but otherwise and except as expressly provided, as regards any time, date or period originally fixed or any date or period so extended as aforesaid, time shall be of the essence.

17.7 Agreement Binding and Assignment

This Agreement shall be binding on and enure for the benefit of each Party's respective successors and permitted assigns. No Party shall assign any of its rights under this Agreement (all of which shall be incapable of assignment) or purport to do so without the prior written consent of the other Parties.

17.8 Waiver

No failure or delay by any Party in exercising any right, power or remedy under this Agreement shall operate as a waiver thereof, nor shall any single or partial exercise of the same preclude any further exercise thereof or the exercise of any other right, power or remedy. Without limiting the foregoing, no waiver by any Party of any breach of any provision hereof shall be deemed to be a waiver of any subsequent breach of that or any other provision hereof.

17.9 Invalidity and Severance

If any provision of this Agreement shall be held to be illegal, void, invalid or unenforceable under the laws of any jurisdiction, the legality, validity and enforceability of the remainder of this Agreement in that jurisdiction shall not be affected, and the legality, validity and enforceability of the whole of this Agreement in any other jurisdiction shall not be affected.

AS WITNESS the hands of the duly authorised representatives of the Parties on the day and year first before written.

SIGNED by LI TZAR KAI, RICHARD)
for and on behalf of)
PCCW LIMITED)
in the presence of:)

SIGNED by ZHANG CHUNJIANG)
for and on behalf of)
CHINA NETCOM GROUP)
CORPORATION (BVI) LIMITED)
in the presence of:)

SIGNED by ZHANG CHUNJIANG)
for and on behalf of)
CHINA NETWORK COMMUNICATIONS)
GROUP CORPORATION)
in the presence of:)

SCHEDULE 1: THE COMPANY WARRANTIES

The Company hereby represents and warrants to the Subscriber that:

1. **Subscription Announcement:** All statements of fact contained in the Subscription Announcement (other than statements relating to the CNC Group or any member of the CNC Group) are true and accurate in all material respects and not misleading in any material respect in the form and context in which they appear, all expressions of opinion, intention or expectation contained therein (which are stated to be held or expressed by the Company) are made on reasonable grounds and are truly and honestly held by the directors of the Company and are fairly based and there are no other facts relating to the Company omitted the omission of which makes any such statement or expression in the Subscription Announcement misleading in any material respect or which are or can reasonably be expected to be material in the context of the Subscription.
2. **2003 Accounts:** The consolidated balance sheet of the Group as at 31 December 2003 and the consolidated income statement, the consolidated cash flow statement and the consolidated statement of changes in equity of the Group for the financial year ended on that date (including the notes thereto) as set out in the annual report and accounts of the Group for the year ended on 31 December 2003 (the "2003 Accounts") together gave a true and fair view of the state of affairs of the Group as at 31 December 2003 and of the profits or losses, cash flows and changes in equity of the Group for the financial year ended on that date and were prepared on the basis set out therein.
3. **30 September Accounts:** The unaudited consolidated results of the Group for the nine months ended 30 September 2004 published on 2 November 2004 (the "30 September Accounts") were carefully prepared in accordance with accounting policies consistent with those used in preparing the 2003 Accounts and fairly reflect the results of operations for such nine months.
4. **Previous Announcements:** All statements of fact contained in all announcements and circulars to shareholders made by or on behalf of the Company pursuant to the Listing Rules since 31 December 2003 to the date of this Agreement, except any announcement relating to the financial results of the Group (including without limitation any interim or financial results announcement), ("Previous Announcements") were true and accurate in all material respects as at the respective dates of such Previous Announcements and not misleading in any material respect. All expressions of opinion or intention contained in the Previous Announcements were made on reasonable grounds and were truly and honestly held by the directors of the Company and there were no other facts known to the directors of the Company the omission of which would make any such statement or expression in any of the Previous Announcements misleading in any material respect in the context in which the Previous Announcements were made and as at the respective dates of such Previous Announcements.
5. **Conduct of business:** Save as disclosed in the Subscription Announcement or any public disclosures made by the Company prior to the date of this Agreement ("Previous Disclosures"), since 30 September 2004, the business of the Group has been carried on in the ordinary and normal course; no contracts or commitments of an unusual or unduly onerous nature have been entered into by any member of the Group; and there has been no material depletion in the net assets of the Group taken as a whole.
6. **Licences:** The Group has obtained all material licences (including telecommunications and broadcasting licences) necessary to enable it to operate the material parts of its

business as at the date of this Agreement, and each of those licences are valid and subsisting and, so far as the Company is aware, there are no facts or circumstances existing by reason of any breach by the licencees why any of such licences will not be renewed on their expiry. So far as the Company is aware, there are no governmental or regulatory investigations or proceedings which have been initiated prior to the date of this Agreement and have been notified in writing to any member of the Group and which are reasonably likely to have a material adverse effect on the business, prospects, assets, financial condition, or results of operations of the Group taken as a whole.

7. No litigation: Save as disclosed in the Previous Disclosures, no member of the Group is a defendant in any litigation, arbitration or governmental proceeding which can reasonably be expected to have or have had during the twelve months preceding the date hereof a material adverse effect on the financial or trading position or prospects of the Group or which is material for disclosure in the context of the Subscription and no such litigation, arbitration or proceeding is threatened or pending; nor, to the best of the knowledge, information and belief of the directors of the Company, are there any circumstances which can reasonably be expected to give rise to any such litigation, arbitration or proceeding.
8. Indebtedness and obligations: No circumstances or events have arisen or occurred or so far as the Company is aware are likely to arise or occur such that any person is (or would, with the giving of notice and/or lapse of time and/or fulfilment of any condition and/or the making of any determination, become) entitled to repayment of any material indebtedness prior to its due date for payment by any member of the Group, or to take any step to enforce any security for any such indebtedness of any member of the Group and no person to whom any indebtedness for borrowed money of any member of the Group which is payable on demand is owed has demanded or threatened to demand repayment of the same; no member of the Group is party to or under any obligation which is material and is of an unusual or unduly onerous nature; neither this Agreement nor the Subscription will constitute or give rise to a breach of or default under any agreement or other arrangement to which the Company or any other member of the Group is party or give rise to any rights of any third party in respect of any assets of the Group.
9. Corporate power and consents: The Company has power under its constitutional documents to permit its entry into this Agreement and the Subscription in the manner set out herein and this Agreement (and its performance) has been duly authorised (such authorisation remaining in full force and effect), executed and delivered by, and constitutes legal, valid and binding obligations of the Company enforceable in accordance with its terms except as such enforceability may be limited under applicable bankruptcy, insolvency, fraudulent transfer, reorganisations or similar laws of general applicability relating to or affecting creditors rights and to general equitable principles; subject to satisfaction of the Conditions, there is no authorisation, consent, approval or notification required for the purposes of or as a consequence of the Subscription either from governmental, regulatory or other public bodies (including, without limitation, the Stock Exchange) or authorities or courts or from the respective shareholders of the Company or from any third party pursuant to any contractual or other arrangement to which the Company or any other member of the Group is party; the Subscription and the compliance by the Company with all of the provisions of this Agreement will not conflict with or result in a material breach or violation of any of the terms or provisions of, or constitute a material default under, any agreement or instrument to which it is a party or by which it is bound or to which any of its property or assets is subject and will not contravene any law or regulation applicable to, or any order of any court or governmental agency with jurisdiction over the Company or any member of the Group, or any of their respective assets or properties.

10. Subscription Shares: Upon completion of this Agreement, the Subscription Shares will be duly and validly authorised and issued and, when fully paid up, will rank pari passu in all respects with the other issued Shares.
11. Stock Exchange and general compliance: The Company is not in material breach of any rules, regulations or requirements of the Stock Exchange, and the Company has complied in all material respects with all other applicable rules, regulations and other requirements material or relevant to the transactions contemplated by this Agreement as are required to be complied with at the date hereof.
12. Incorporation and share capital: The Company has been duly incorporated and is validly existing under the laws of the jurisdiction of its incorporation with full corporate power and authority to conduct its business and the information contained in Recitals (A) and (B) to this Agreement is true and accurate; without limiting the foregoing, except for the Subscription or pursuant to the convertible securities listed below (the "Convertibles") or as specified in the Previous Disclosures, no person has any outstanding warrant, option, pre-emptive right or any other right of any description to require Shares to be allotted or issued by the Company. The Convertibles are: US\$54,000,000 5% Mandatory Convertible Notes due 2005 issued by the Company - 28 June 2002, the US\$450,000,000 1% Guaranteed Convertible Bonds due 2007 issued by PCCW Capital No.2 Limited and guaranteed by the Company and PCCW-HKT Telephone Limited and the US\$1,100,000,000 3.5% Guaranteed Convertible Bonds due 2005 issued by PCCW Capital Limited and guaranteed by the Company - 6 December 2000. The terms and conditions attached to each of the Convertibles at the time of their original issue have not been amended or adjusted in any material manner which would affect the number of Shares to be issued on conversion.
13. Certificate: The information and matters set out in the certificate referred to in clause 4.1(F), when issued, are true and accurate in all material respects.

SCHEDULE 2: LIMITATIONS ON THE COMPANY'S LIABILITY

1. Relevant Claims

In this schedule, "Relevant Claim" means any claim under this Agreement.

2. Financial Limits

2.1 Aggregate limit

The aggregate liability of the Company under this Agreement, including the Company Warranties, shall be limited to US\$350 million.

2.2 Thresholds

The Company shall not be liable in respect of a Relevant Claim unless:

- (A) the liability of the Company in respect of that Relevant Claim (and all other Relevant Claims arising out of or related to the same or similar subject matter) exceeds US\$5 million;
- (B) the aggregate liability of the Company in respect of all Relevant Claims in respect of the representations and warranties contained in paragraphs 2 (2003 Accounts), 3 (30 September Accounts) and 13 (Certificate) of Schedule 1 exceeds US\$20 million, in which case the Company shall be liable for the whole amount and not merely the excess over US\$20 million; and
- (C) the aggregate liability of the Company in respect of all Relevant Claims (other than in respect of the representations and warranties contained in paragraphs 2 (2003 Accounts), 3 (30 September Accounts) and 13 (Certificate) of Schedule 1) exceeds US\$50 million (when aggregated with all Relevant Claims in respect of the representations and warranties contained in paragraphs 2 (2003 Accounts), 3 (30 September Accounts) and 13 (Certificate) of Schedule 1, if applicable), in which case the Company shall be liable for the whole amount and not merely the excess over US\$50 million.

3. Time limits

The Company shall have no liability in respect of any Relevant Claim in respect of a breach of the Company Warranties unless the Subscriber shall have given notice in writing to the Company of such claim specifying (in reasonable detail) the matter which gives rise to the claim, the nature of the claim and the amount claimed in respect thereof not later than 18 months after the date of this Agreement (or, if later, 2 months after the date on which the audited consolidated financial statements of the Group covering the year ended 31 December, 2005 are published).

4. No duplication of recovery

The Subscriber shall not be entitled to recover damages or otherwise obtain reimbursement or restitution more than once in respect of the same loss.

5. Legislation

The Company will not be liable for any claim to the extent that the claim results from any act, matter, omission, transaction or circumstance which would not have occurred but for any legislation not in force at the date of this agreement, or any change of any law or administrative practice of any governmental agency including any legislation or change which takes place retrospectively.

6. Insurance

The Company will not be liable for any claim for breach of the Company Warranties unless the Subscriber has first made a claim under any insurance cover held by the Subscriber which may cover such claim and only then after that claim is denied whole or in part by the relevant insurer and if the Subscriber has still incurred some damage or loss will the Company be liable for any claims under the terms of this Agreement for that damage or loss. For the avoidance of doubt, the preceding sentence is not intended to impose any obligation on the Subscriber to take out any insurance cover in addition to that which it holds at the date of this Agreement.

7. Impact of Tax

In calculating the liability of the Company for a breach of Company Warranty, any tax benefit or reduction received by the Subscriber as a result of the loss or damage arising from that breach shall be taken into account.

8. Consequential and Indirect Loss

The Subscriber may not claim for any indirect or consequential loss.

Supplemental Agreement

between

PCCW Limited

as Company

China Netcom Group Corporation (BVI) Limited

as Subscriber

and

China Network Communications Group Corporation

(Company's Name in Chinese)

as China Netcom

relating to

the Subscription Agreement dated 19 January 2005

between the parties

Simmons & Simmons

35th Floor Cheung Kong Center 2 Queen's Road Central Hong Kong

T (852) 2868 1131 F (852) 2810 5040 DX 009121 Central 1

<PAGE>

THIS AGREEMENT is dated 7 February 2005 and made

BETWEEN:

- (1) PCCW LIMITED, (the "Company"), a company incorporated in Hong Kong with limited liability and whose registered office is at 39th Floor, PCCW Tower, TaiKoo Place, 979 King's Road, Quarry Bay, Hong Kong;
- (2) CHINA NETCOM GROUP CORPORATION (BVI) LIMITED, (the "Subscriber"), a company incorporated in the British Virgin Islands and whose registered office is at P.O. Box 3140, Wickhams Cay 1, Road Town, Tortola, British Virgin Islands (Business registration number 341457); and
- (3) CHINA NETWORK COMMUNICATIONS GROUP CORPORATION (Company's name in Chinese), ("China Netcom"), a state-owned enterprise established under the laws of the People's Republic of China and whose registered office is at No.1 Beihuan Donglu, Beijing Development Area, Beijing 100176, PRC.

Background:

- (A) Pursuant to an agreement dated 29 January 2005 between the Parties (the "Subscription Agreement"), the Company agreed to issue and the Subscriber agreed to subscribe for certain Shares in the Company.
- (B) The Parties now wish to amend certain terms of the Subscription Agreement.

IN CONSIDERATION OF THE MUTUAL COVENANTS CONTAINED IN THIS AGREEMENT, THE PARTIES AGREE THAT:

1. Definitions

Capitalized terms used in this Agreement (including the recitals above), shall, unless otherwise defined, have the meanings ascribed to them in the Subscription Agreement.

2. Amendment

2.1 The words "and the anti-dilution fights granted in favour of each of the Substantial Shareholders pursuant to the Substantial Shareholders Anti-Dilution Agreements" shall be deleted from clause 3.1(A)(3) of the Subscription Agreement.

2.2 For the avoidance of doubt, all other provisions of the Subscription Agreement shall remain in full force and effect.

3. Agreed form EGM resolution

The agreed form Ordinary Resolution for the Extraordinary General Meeting of PCCW Limited referred to in the Subscription Agreement shall be revised to accord with the form set out in Appendix 1 to this Supplemental Agreement (or with such further changes as are required by the Stock Exchange or the SFC or agreed between the Parties).

4. Law

This Supplemental Agreement shall be governed by and construed in accordance with the laws of England for the time being in force.

5. Contracts (Rights of Third Parties) Act 1999

No person who is not for the time being a Party to this Supplemental Agreement shall have any right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Supplemental Agreement.

6. Counterparts

This Supplemental Agreement may be executed in any number of counterparts, which shall together constitute one agreement. Any Party may enter into this Supplemental Agreement by signing any such counterpart.

AS WITNESS the hands of the duly authorised representatives of the Parties on the day and year first before written.

SIGNED by Peter A. Allen)
for and on behalf of)
PCCW LIMITED) /s/ PA
in the presence of:)

/s/ Shelly Chiang /s/ [illegible]

SIGNED by)
for and on behalf of)
CHINA NETCOM GROUP)
CORPORATION (BVI) LIMITED)
in the presence of:)

SIGNED by)
for and on behalf of)
CHINA NETWORK COMMUNICATIONS)
GROUP CORPORATION)
in the presence of:)

SCHEDULE 1

Agreed Form Ordinary Resolution for the Extraordinary
General Meeting of PCCW Limited

"THAT:

- (A) the authorised share capital of the Company be increased from HK\$1,600,000,000 to HK\$2,500,000,000 by the creation of 3,600,000,000 new ordinary shares of HK\$0.25 each, such shares to rank pari passu in all respects with the existing ordinary shares of HK\$0.25 each in the issued capital of the Company;
- (B) the allotment and issue by the Directors of 1,343,571,766 new shares of HK\$0.25 each in the capital of the Company (as increased pursuant to paragraph (A) above) at a price of HK\$5.90 per share pursuant to and on the terms set out in the subscription agreement dated 19 January 2005 entered into between the Company, China Netcom Group Corporation (BVI) Limited and China Network Communications Group Corporation (a copy of which has been produced to this Meeting marked "A" and initialled by the Chairman of this Meeting for the purpose of identification) be approved; and
- (C) the granting of the Anti-Dilution Rights (as defined and described in the circular to shareholders of the Company dated [14] February 2005) to China Network Communications Group Corporation and the issue of new shares of the Company, any securities convertible into or exchangeable into shares of the Company, and/or any warrants or other rights to subscribe for shares of the Company on exercise from time to time of the Anti-Dilution Rights by China Network Communications Group Corporation be approved, confirmed and ratified."

Dated the 7th day of February 2005

PARTNER LINK INVESTMENTS LIMITED

and

RICHLY LEADER LIMITED

and

IPSWICH HOLDINGS LIMITED

DEED
OF
RENTAL GUARANTEE

Koo and Partners
in association with
PAUL, HASTINGS, JANOFSKY & WALKER LLP
21st Floor, Bank of China Tower
1 Garden Road
Hong Kong
Tel. No. 2867-9582
Fax No. 2111-9693
(REP: CON/57843-00002/MC/CPS/CCS -- PCCW Tower)

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THIS DEED is made this 7th day of February 2005

BETWEEN PARTNER LINK INVESTMENTS LIMITED a company incorporated under the laws of the British Virgin Islands with its registered office situate at P.O. Box No. 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands (hereinafter called "the Vendor") of the first part; IPSWICH HOLDINGS LIMITED a company incorporated in the British Virgin Islands whose registered office is situate at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands (hereinafter called "the Guarantor") of the second part And RICHLI LEADER LIMITED a company incorporated in Hong Kong whose registered office is situate at Unit B, 22nd Floor, Bank of China Tower, No. 1 Garden Road, Hong Kong (hereinafter called "the Purchaser") of the third part.

WHEREAS:-

(A) By an Agreement for Sale and Purchase dated the 21st day of December 2004 and made between the Vendor as vendor and the Purchaser as purchaser ("the Agreement"), the Vendor agreed to sell and the Purchaser agreed to purchase the Land and the Premises more particularly described in the Schedule hereto ("the Property") at a consideration of HK\$2,808,000,000 and subject to the terms and conditions thereof.

(B) It is a term and condition of the Agreement that the parties hereto must enter into this Deed on completion of the sale and purchase of the Property.

NOW THIS DEED WITNESSETH as follows:-

1. In this Deed the following words and expressions shall have the following meanings ascribed to them whenever the context so permits:-

"Agent" shall mean Pacific Century Paramount Real Estate Company Limited which is a subsidiary of the Guarantor, appointed by the Purchaser at the request of the Vendor as the Purchaser's sole leasing agent and manager in relation to the leasing and management of the Property on the terms of the Deed of Appointment.

"Deed of Appointment" shall mean the Deed of Appointment of Leasing Agent and Manager (in the form set out in Appendix I of the Agreement) whereby the Purchaser appoints the Agent as the Purchaser's sole leasing agent in relation to the leasing of the Property and appoints the Agent as the manager in relation to the management of the Property.

"Force Majeure" shall mean the occurrence of fire water storm typhoon defective construction white ants earthquake subsidence of the ground or any calamity beyond the control of the Purchaser as Landlord or the Tenants/Licenses so as to render the Property or any part thereof unfit for commercial use or inaccessible or the Property or any part thereof shall be condemned as a dangerous structure or a demolition order or

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closing order has become operative in respect of the Property of any part thereof.

"Guaranteed Period" shall mean the period of 5 years commencing from the date immediately following the date of completion of the sale and purchase of the Property.

"Guaranteed Monthly Rental" shall mean HK\$13,338,000 per month.

"Hong Kong" shall mean the Hong Kong Special Administrative Region of the People's Republic of China.

"Letting Agreements" shall mean licences, agreements for lease/tenancy and leases/tenancy agreements or renewal licences, tenancy agreements and leases in respect of the Property or any part(s) thereof

"Rents/Fees" shall mean rents licence fees and all sums of money payable under the Letting Agreements.

"Tenants/Licensees" shall mean tenants or licensees of the Property or any part(s) thereof

Words importing the singular number only shall, unless the context otherwise requires, be deemed to include the plural and vice versa and words importing the masculine gender Only shall, unless the context otherwise requires, be deemed to include the feminine and neuter genders and vice versa. Words importing persons shall include firms and corporations.

2. (1) Subject to the provisions of Clause 6, the Vendor hereby undertakes and covenants with the Purchaser that, on the date of completion and thereafter on the first business day of every month during the Guaranteed Period, the Vendor shall pay the Guaranteed Monthly Rental for that month (apportioned if the period is less than a month) to the Purchaser by way of a cheque drawn in favour of the Purchaser or by telegraphic transfer to a bank account in Hong Kong specified in writing by the Purchaser.

(2) In consideration of the Vendor's undertakings and covenants under paragraph (1) above, the Purchaser hereby undertakes and covenants with the Vendor that all Rents/Fees payable during the Guaranteed Period will be paid to the Vendor.

3. For the avoidance of doubt, (a) the Guaranteed Monthly Rental is payable irrespective of the actual amount of Rents/Fees and other income received by the Agent and/or the Vendor from the Tenants/Licensees and the cost and expenses required to be expended by the Agent and/or the Vendor in respect of the Property; and (b) if the actual amount of net income referred to in paragraph (a) above shall be greater than the Guaranteed Monthly Rental, the Vendor shall be entitled to retain the excess and the Purchaser shall have no claim against the Vendor whatsoever in respect of such excess.

4. (1) Except as provided in Clause 4(2), all the expenses payable incurred or to be incurred for or in respect of the Property during the Guaranteed Period will be borne by the Vendor and/or the Agent, including without limitation the following (irrespective

of whether the same should be payable by the Tenants/Licensees under the Letting Agreements):-

- (a) all management expenses to be incurred for the management of the Property, air-conditioning charges and other outgoings in respect of the Property including management fees and other sums payable to the Manager under the Lease and including goods and services tax and other similar turnover tax levied or chargeable on the Rents/Fees payable by the Tenants/Licensees under the Letting Agreements; and
- (b) all expenses, costs, outgoings and disbursements incurred by the Agent in performance of its obligations and in exercise of its powers wider the Deed of Appointment, which include but are not limited to all advertising and promotion fees, professional fees, commissions payable to estate agents, costs and expenses for repairing and maintaining the Property in tenatable repair and condition, reinstatement costs for the disabled toilets (save and except those costs and expenses of a capital or non-recurring nature, expenditure of works required by any order or notice issued on or after the date of the Agreement from any government department or other competent authority, property tax, profit tax, goods and services tax and other similar tax (levied or chargeable on the Guaranteed Monthly Rental, if any), premium payable on the insurance policy (if any) which shall be borne by the Purchaser), legal costs and stamp duty payable for the negotiation, preparation, execution and enforcement of all Letting Agreements.

(2) The Purchaser shall be responsible for payment of any expenditure of a capital or non-recurring nature, any expenditure of works required by any order or notice issued on or after the date of the Agreement from any government department or other competent authority property tax, profit tax, goods and services tax and other similar tax (levied or chargeable on the Guaranteed Monthly Rental, if any), premium payable on the insurance policy (if any).

5. It is an essential condition of this Deed that the Deed of Appointment shall be executed by the Purchaser in favour of the Agent upon the execution of this Deed thereby empowering the Agent inter alia, to do such acts and things in relation to the leasing of the Property on the terms therein contained including but not limited to demand, collect, receive and recover from all present and future Tenants/Licensees of the Property the Rents/Fees from time to time and to account to the Vendor all such Rents/Fees actually received by the Agent in accordance with the terms of this Deed.

6.1 The Purchaser shall take out business interruption or loss of income insurance in respect of the Property ("BI Policy") with a reputable insurance company acceptable to the Guarantor (the "Insurer") effective from the date of this Deed for the Insured Amount for a disruption period of at least 12 months and on such other terms and conditions approved by the Guarantor, including but not limited to a condition that the policy may not be cancelled, modified or restricted without the prior written consent of the Guarantor. In this Clause, "Insured Amount" means the product of the Market Rent and 544,146; and "Market Rent" means, for each 12 month period commencing on the

date of this Deed, the aggregate of the average open market rent and management fee, aft-conditioning charges and other sums payable by tenants per square foot per month for the Property prevailing on the first day of that period as determined by an independent firm of qualified surveyors in Hong Kong. The surveyors shall be jointly instructed by the Vendor and the Purchaser who shall bear the costs of the surveyors in equal shares. Provided that the Insured Amount for the first 12 month period commencing on the date of this Deed is agreed to be HK\$13,168,333.

6.2 The Purchaser shall duly pay all premiums and other sums payable and take all necessary steps to keep the BI Policy in full force and effect and shall promptly deliver to the Vendor copies of all premium payment receipts and other notices or information relating to the BI Policy. The Purchaser shall not, without the prior written consent of the Vendor, waive, release, settle, compromise or abandon any claim under the BI Policy.

6.3 On the occurrence of any of the following events or circumstances, namely:

- (a) the Property or any part thereof at any time during the Guaranteed Period being damaged or destroyed by Force Majeure so as to be unfit for occupation and use such that under the terms of the Letting Agreements the Rent/Fees thereby reserved or a fair proportion thereof according to the nature and extent of the damage sustained is suspended; or
 - (b) the Property or any part thereof at any time during the Guaranteed Period being damaged or destroyed by Force Majeure so as to be incapable of being let out
- (i) the Purchaser shall forthwith make a claim under the BI Policy and instruct the Insurer to pay the insurance proceeds to the Vendor in full or, if the proceeds were paid to the Purchaser, the Purchaser shall hold the same on trust for the Vendor and promptly pay the same over to the Vendor in full;
 - (ii) if for any reason the Vendor does not receive the insurance proceeds for the loss of income for a particular month within the next 4 months, the Purchaser shall pay to the Vendor an amount equal to such insurance proceeds within 14 days and, for this purpose, the Purchaser hereby irrevocably authorize the Vendor to deduct such sum from the Guaranteed Monthly Rental next due and payable to the Purchaser provided that the Purchaser shall not be under any obligation to pay over insurance proceeds or to pay to the Vendor an amount equal to such insurance proceeds if the BI Policy is vitiated or rendered invalid or if payment of the policy moneys thereunder is refused as a result of any act or default of the Agent; and
 - (iii) the Vendor shall continue to pay the Guaranteed Monthly Rental to the Purchaser in full notwithstanding the occurrence of the events or circumstances stated above for so long as the BI Policy remains in full

force and effect (unless the BI Policy is vitiated or rendered invalid or if payment of the policy moneys thereunder is refused as a result of any act or default of the Agent) and subject only to the deduction (if applicable) referred to in paragraph (ii) above.

6.4 Any substantial building and/or renovation works to the Property or any part thereof ("Substantial Works") shall require the joint approval of the Vendor and the Purchaser. If Substantial Works are required (whether initiated by the Purchaser or required by applicable law or relevant governmental authorities), the Vendor and the Purchaser shall jointly appoint an independent firm of qualified surveyors in Hong Kong to assess the loss of rental as a result of such Substantial Works (the "Rental Loss") and the Vendor shall be entitled to deduct the Rental Loss from the Guaranteed Monthly Rental next due and payable following the assessment. The assessment of the surveyors shall be final and binding on the parties and the costs of the surveyor shall be borne by the Vendor and the Purchaser in equal shares.

7. Save with the prior written consent of the Vendor and the Purchaser (such consents not to be unreasonably withheld or delayed), the Vendor shall procure that the Agent shall not carry out any substantial building or renovation works to the Property or any part thereof.

8. This Deed shall be a continuing undertaking for the Guaranteed Period unless earlier terminated in any of the following events:- (i) on the termination by the Purchaser (as the Owner under the Deed of Appointment) of the appointment of the Agent under Clause 15 (a) of the Deed of Appointment or (ii) upon TMW Asia Property Fund I GmbH & Co., KG. ceasing to be the ultimate beneficial owner of at least 50% of the entire issued share capital of the Purchaser, or (iii) the Purchaser ceasing to be the legal and/or beneficial owner of the Property, and calculation of the amount payable by the Vendor to the Purchaser under Clause 2 shall be pro-rated to the date of expiry of the Guaranteed Period or the date of termination, whichever is the earlier.

9. The last installment of the Guaranteed Monthly Rental shall be payable on the last day of the Guaranteed Period or on the date on which this Deed is terminated, whichever is the earlier, after deducting any sum provided in Clause 6 (if applicable). The Vendor shall provide an apportionment account to the Purchaser on or before the date of payment of the last installment of the Guaranteed Monthly Rental.

10. (1) In consideration of the Purchaser entering into the Agreement and this Deed with the Vendor, the Guarantor hereby:-

- (a) guarantees to the Purchaser the due and punctual performance and observance by the Vendor of its obligations, commitments and undertakings under and/or pursuant to this Deed;
 - (b) indemnifies the Purchaser against all and any actions, proceedings, claims, liabilities, losses, damages, costs and expenses which the Purchaser may suffer or incur as a result of or in relation to any breach or default by the Vendor of its obligations, commitments or undertakings under or pursuant to this Deed.
- (2) If and whenever the Vendor defaults for any reason whatsoever in the

performance of any of its obligation or liability undertaken or expressed to be undertaken by it under or pursuant to this Deed, the Guarantor shall forthwith upon written demand from the Purchaser perform (or procure performance of) and satisfy (or procure the satisfaction of) the obligation or liability in regard to which such default has been made in the manner prescribed by this Deed and so that the same benefits shall be conferred on the Purchaser as it would have received if such obligation or liability had been duly performed and satisfied by the Vendor.

(3) As a separate and independent stipulation, the Guarantor agrees that any obligation expressed to be undertaken by the Vendor (including, without limitation, any moneys expressed, to be payable under this Deed) which may not be enforceable against or recoverable from the Vendor by reason of any legal limitation, disability or incapacity on or of the Vendor or any other fact or circumstance shall nevertheless be enforceable against and recoverable from the Guarantor as though the same had been incurred by the Guarantor and the Guarantor was the sole or principal obligor in respect thereof and shall be performed or paid or procured to be performed and paid by the Guarantor on written demand from Purchaser.

(4) The obligations of the Guarantor under this Deed are and will remain in full force and effect by way of continuing security until all obligations, commitments, undertakings, warranties and indemnities under this Deed shall have been performed or satisfied and no sum remains payable by the Vendor under or pursuant to this Deed.

(5) The Guarantor shall not be discharged, nor shall its liabilities be affected, by anything, which would not discharge it or affect its liability if it were the sole principal debtor including, any time, indulgence, waiver or consent at any time given to the Vendor or any other person; any written amendment to any provision of this Deed (unless without consent of the Guarantor), the making or absence of any demand on the Vendor or any other person for payment, the enforcement or absence of enforcement of this Deed against the Vendor, the insolvency, winding-up, amalgamation, reconstruction or reorganisation of the Vendor (or the commencement' of any of the foregoing), the illegality, invalidity or unenforceability of or any defect in any provision of this Deed or any of the obligations of the Vendor, or by reason of any other dealing, matter or thing which, but for the provisions of this Clause 10(5), could or might operate to affect or discharge all or any part of the obligations and liabilities of the Guarantor hereunder.

11. No failure or delay on the part of the Vendor or the Purchaser to exercise any power, right or remedy under this Deed shall operate as a waiver thereof, nor shall any single or partial exercise by the Vendor or the Purchaser of any power, right or remedy preclude any other or further exercise thereof or the exercise of any other power, right or remedy. The remedies provided in this Deed are cumulative and are not exclusive of any remedies provided by law.

12. No assurance, security or payment which may be avoided under any enactment relating to bankruptcy or winding up and no release, settlement or discharge which may have been given or made on the faith of any such assurance, security or payment shall prejudice or affect the rights of the Vendor or the Purchaser to recover from the other party or from the Guarantor to the full extent of this Deed.

13. This document is to be returnable to the Vendor for cancellation when all

obligations, commitments, undertakings, warranties and indemnities under this Deed shall have been performed or satisfied and no sum remains payable by the Vendor under or pursuant to this Deed.

14. This Deed is personal to the Purchaser and neither the benefit nor the obligations hereof shall be assigned by the Purchaser provided that the Purchaser may assign its rights and benefits under this Deed in favour of the mortgagees from time to time of the Property and the mortgagees of the Purchaser may also assign the rights and benefits of this Deed when it exercises the power of sale to the subsequent purchaser but not further or otherwise.

15. If the Purchaser terminates the appointment of the Agent pursuant to Clause 15(c) of the Deed of Appointment, the Guarantor shall nominate three companies (which may be subsidiaries of the Guarantor) to act as the agent of the Purchaser for the remainder of the Guaranteed Period on the same terms and conditions as the Deed of Appointment. The Purchaser may in its discretion appoint one of the companies nominated by the Guarantor or such other company as the Purchaser may consider appropriate to be the replacement agent provided that if the Purchaser elects to appoint a company not nominated by the Guarantor then the Vendor and the Guarantor shall forthwith cease to have any further obligations under this Deed.

16. This Deed shall be governed by and construed in accordance with the laws of Hong Kong and the parties hereto agree to submit to the non-exclusive jurisdiction of the courts of Hong Kong.

17. The Vendor hereby expressly excepts and reserves unto itself the right, after the Guaranteed Period, at its own costs and expense to claim from the Tenants/Licensees of the Property any arrears of rent and other monies due and owing under the Letting Agreements up to and inclusive of the date of expiry of the Guaranteed Period and all damages in respect of any breach of the Letting Agreements before expiry of the Guaranteed Period. The Purchaser shall give all reasonable assistance to the Vendor to recover such arrears of rent and other monies from the Tenants/Licensees on condition that the Vendor pays all costs and expenses in connection with such recovery. The obligations of the Purchaser contained in this Clause shall remain effective notwithstanding the expiry of the Guaranteed Period. In the event the Tenants/Licensees shall settle and pay to the Purchaser any arrears of rent (which accrued on or before the date of expiry of the Guaranteed Period) the Purchaser shall account and refund to the Vendor such arrears of rent collected by the Purchaser within 7 days of receipt.

SCHEDULE

The Land

ALL THAT Portion of the Remaining Portion of Quarry Bay Marine Lot No.1 as shown coloured Red on Plan 1 annexed to the Lease (as defined in the Agreement)

The Premises

ALL THOSE the following portions of the building known as Dorset House (which comprises a 4 level basement car park, a podium and 2 contiguous tower blocks above the podium) (the "Building") erected on Portions of Section S and the Remaining Portion of Quarry Bay Marine Lot No. 1:

- (1) All Those portions of the Building now known as PCCW Tower (formerly known at the date of the Lease as Hong Kong Telecom Tower (Tower A)) as shown coloured Yellow on Plans 2 to 51 annexed to an Agreement for Lease dated 21st May 1992 and registered in the Land Registry by Memorial No. 5342490 as supplemented by a Supplemental Agreement dated 13th December 2000 and registered in the Land Registry by Memorial No. 8276621 and the Lease dated 13th December 2000 and registered in the Land Registry by Memorial No. 8276622 as rectified by a Deed of Rectification and Confirmation dated 12th March 2001 and registered in the Land Registry by Memorial No. 8340656 issued pursuant thereto (the Lease Memorial No. 8276622 as so rectified "the Lease"); and
- (2) All Those loading and unloading bays on the Ground Floor of the Building as shown coloured Yellow hatched Black on Plan 6 annexed to the Lease; and
- (3) All Those car parking spaces on Basement Levels 1 to 4 of the Building as shown coloured Yellow hatched Black on Plans 2 to 5 annexed to the Lease

HELD for the residue of the term created under the Lease.

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IN WITNESS the parties hereto have caused these presents to be duly executed the day and year first above written.

SEALED with the Common Seal of)
PARTNER LINK INVESTMENTS)
LIMITED and SIGNED by)
ALEXANDER ANTHONY ARENA AND) /s/ ALEXANDER ANTHONY ARENA
LEE CHI HONG, ROBERT) /s/ LEE CHI HONG, ROBERT
director(s)) [SEAL]
whose signature(s) is/are)
verified by)

/s/ LUI YIU FAI

LUI YIU FAI
Solicitor, Hong Kong SAR
Woo, Kwan, Lee & Lo

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SEALED with the Common Seal of)
RICHLY LEADER LIMITED)
SIGNED by Miss Wong Ping) /s/ Miss Wong Ping
director(s)/person(s) duly authorized by its) [SEAL]
board of directors whose signature(s) is/are)
verified by)

/s/ Cheung Yun Kwan, Monica

Cheung Yun Kwan, Monica
Koo and Partners
in association with
Paul, Hastings, Janofsky & Walker LLP

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SEALED with the Common Seal of)
IPSWICH HOLDINGS LIMITED and)
SIGNED by ALEXANDER ANTHONY) /s/ ALEXANDER ANTHONY ARENA
ARENA and LEE CHI HONG, ROBERT) /s/ LEE CHI HONG, ROBERT
director(s)) [SEAL]
whose signature(s) is/are)
verified by)

/s/ LUI YIU FAI

LUI YIU FAI
Solicitor, Hong Kong SAR
Woo, Kwan, Lee & Lo

DATED 14th MARCH, 2005

- (1) CHINA NETCOM GROUP CORPORATION (BVI) LIMITED
AND
- (2) CHINA NETCOM CORPORATION (BVI) LIMITED
AND
- (3) CHINA NETWORK COMMUNICATIONS GROUP CORPORATION
AND
- (4) PCCW LIMITED

DEED OF ASSIGNMENT
in relation to the Subscription Agreement
dated 19th January, 2005

Slaughter and May
47th Floor, Jardine House
One Connaught Place
Central, Hong Kong
(ANH/LHYV/VPM)

HK050320155

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THIS DEED OF ASSIGNMENT is entered into on the day 14th of March, 2005

BETWEEN:-

(1) CHINA NETCOM GROUP CORPORATION (BVI) LIMITED, (the "Subscriber"), a company incorporated in the British Virgin Islands and whose registered office is at P.O. Box 3140, Wickhams Cay 1, Road Town, Tortola, British Virgin Islands (Business registration number 341457); AND

(2) CHINA NETCOM CORPORATION (BVI) LIMITED, (the "Alternate Subscriber"), a company incorporated in the British Virgin Islands and whose registered office is at P.O. Box 3140, Wickhams Cay 1, Road Town, Tortola, British Virgin Islands (Business registration number 637903);

AND

(3) CHINA NETWORK COMMUNICATIONS GROUP CORPORATION, ("China Netcom"), a state-owned enterprise established under the laws of the People's Republic of China and whose registered office is at Block C, No. 156 Fuxingmen Nei Da Jie, Xi Cheng District, Beijing, People's Republic of China;

AND

(4) PCCW LIMITED, (the "Company"), a company incorporated in Hong Kong with limited liability and whose registered office is at 39th Floor, PCCW Tower, TaiKoo Place, 979 King's Road, Quarry Bay, Hong Kong.

WHEREAS:-

(A) The Subscriber, the Company and China Netcom entered into a Subscription Agreement dated 19th January, 2005 pursuant to which the Subscriber conditionally agreed to subscribe for 1,343,571,766 new Shares in the Company at a price of HK\$5.90 per Share (the "Subscription Shares").

(B) Clause 4.4 of the Subscription Agreement entitles the Subscriber to assign all of its rights under the Subscription Agreement (including the right to subscribe for and be issued and allotted the Subscription Shares at completion of the Subscription and the rights and benefit of and to the Company Warranties) to a company which is wholly-owned by the Subscriber.

(C) The Subscriber wishes to assign its rights, title and interest in, to and under the Subscription Agreement to the Alternate Subscriber. The Alternate Subscriber is wholly-owned by the Subscriber, which in turn is wholly-owned by China Netcom.

NOW IT IS AGREED as follows:-

2. DEFINITIONS AND INTERPRETATION

2.1 In this Deed (including the Recitals):-

- (A) capitalised words used but not defined in this Deed shall bear the meanings given to them in the Subscription Agreement; and
- (B) rules of construction and interpretation set out in the Subscription Agreement shall apply to this Deed.

2.2 In this Deed, unless otherwise specified:-

- (A) references to clauses and sub-clauses are to clauses and sub-clauses of this Deed; and
- (B) headings to clauses and schedules are for convenience only and do not affect the interpretation of this Deed.

3. ASSIGNMENT

3.1 With effect from the date of this Deed and in consideration of the undertakings given by the Alternate Subscriber in clause 4 and the Company in clause 5, the Subscriber hereby assigns all of its rights, title and interest in, to and under the Subscription Agreement to the Alternate Subscriber including:-

- (A) the right to subscribe for the Subscription Shares at the Subscription Price, free from Encumbrances on the terms and subject to the conditions set out in the Subscription Agreement;
- (B) the benefit of the Company Warranties and all other undertakings given by the Company to the Subscriber under the Subscription Agreement.

3.2 Notwithstanding the provisions of sub-clause 3.1 and any other provision of this Deed, the Subscriber agrees that it shall remain liable for any breach by it of the Subscription Agreement, and shall remain bound to perform and comply with all its covenants, undertakings and obligations under the Subscription Agreement in the event of breach of the Subscription Agreement by the Alternate Subscriber (including, without limitation, the obligation to subscribe for and pay for the Subscription Shares).

4. ALTERNATE SUBSCRIBER'S UNDERTAKINGS

4.1 With effect from the date of this Deed and in consideration of the undertakings given by the Company in clause 5 and the Subscriber in clause 6, the Alternate Subscriber hereby undertakes to observe, perform, discharge and be bound by the Subscription Agreement as if it were a party to the Subscription Agreement in the place of the Subscriber (including, without limitation, the obligation to subscribe for and pay for the Subscription Shares).

4.2 Notwithstanding the provisions of sub-clause 4.1, nothing in this Deed shall:-

- (A) require the Alternate Subscriber to perform any obligation of the Subscriber created by or arising under the Subscription Agreement falling due for performance, or which should have been performed, before the date of this Deed; or
- (B) make the Alternate Subscriber liable for any act, neglect, default or omission in respect of the Subscription Agreement committed by the Subscriber or occurring before the date of this Deed.

5. THE COMPANY'S UNDERTAKINGS

5.1 With effect from the date of this Deed and in consideration of the undertakings given by the Alternate Subscriber in clause 4 and the Subscriber in clause 6, the Company hereby:-

- (A) confirms its consent to and approval of the assignment of the Subscriber's rights, title and interest in, to and under the Subscription Agreement to the Alternate Subscriber pursuant to clause 3 above;
- (B) accepts the Alternate Subscriber's undertaking to observe, perform, discharge and be bound by the Subscription Agreement pursuant to clause 4 above;
- (C) confirms that it has received the requisite written notice required pursuant to clause 4.4 (B) of the Subscription Agreement; and
- (D) agrees to observe, perform, discharge and be bound by the Subscription Agreement as if the Alternate Subscriber were a party to and executed the Subscription Agreement in the place of the Subscriber, including, without limitation, undertaking to issue the Subscription Shares to the Alternate Subscriber (rather than the Subscriber), but subject to the other terms and conditions of the Subscription Agreement.

5.2 Notwithstanding the provisions of sub-clause 5.1:-

- (A) nothing in this Deed shall affect or prejudice any claim or demand whatsoever which the Company may have against the Subscriber in relation to the Subscription Agreement; and
- (B) nothing in this Deed shall affect or prejudice any claim or demand whatsoever which the Company may have against the Subscriber under the Subscription Agreement in the event that the Alternate Subscriber is in breach of its obligations under this Deed and/or the Subscription Agreement (including, without limitation, the obligation to subscribe for and pay for the Subscription Shares).

6. REPRESENTATIONS, WARRANTIES AND UNDERTAKINGS OF THE SUBSCRIBER AND THE ALTERNATE SUBSCRIBER

6.1 Subscriber

The Subscriber hereby undertakes, represents and warrants to the Company as follows:-

- (A) It is the legal and beneficial owner of the whole of the issued share capital of the Alternate Subscriber.
- (B) China Netcom is the legal and beneficial owner of the whole of the issued share capital of the Subscriber, and the Subscriber is the legal and beneficial owner of all the issued shares in CNC HK held by the CNC Group.

6.2 Alternate Subscriber

The Alternate Subscriber hereby undertakes, represents and warrants to the Company:-

- (A) As at the date of this Deed it has (subject to the obtaining by China Netcom of the approval of the PRC State Council), and on the Completion Date it will have, the full right, power and authority to enter into, and to perform its obligations under, this Deed and this Deed constitutes its legal, valid and binding obligations enforceable in accordance with its terms.
- (B) As at the date of this Deed it has (subject to the obtaining by China Netcom of the approval of the PRC State Council), and on the Completion Date it will have, obtained all governmental, regulatory or similar consents required from any Authority, authorities, approvals and permissions required to enter into, and to perform its obligations under, this Deed and there are no regulatory or administrative obstacles to the remittance of the Subscription monies to the Company in Hong Kong in accordance with the terms of this Deed and the Subscription Agreement.
- (C) The Subscriber is the legal and beneficial owner of the whole of the issued share capital of the Alternate Subscriber, and no person has any outstanding warrant, option, pre-emptive right or any other right of any description to require shares to be allotted or issued by the Alternate Subscriber.
- (D) The execution, delivery and performance by it of this Deed does not and will not result in a material breach of any provision in its memorandum or articles of association or other constitutional documents.
- (E) No order has been made and no resolution has been passed for the winding up of the Alternate Subscriber or for a provisional liquidator to be appointed in respect of it and no petition has been presented and no meeting has been convened for the purposes of winding up the Alternate Subscriber.

- (F) No administration order has been made and no petition for such an order has been presented in respect of the Alternate Subscriber.
- (G) No receiver (which expression shall include an administrative receiver) has been appointed in respect of the Alternate Subscriber.
- (H) The Alternate Subscriber is not insolvent or unable to pay its debts and has not stopped paying its debts as they fall due.
- (I) No event analogous to any described in paragraphs (E) to (H) has occurred in or outside the British Virgin Islands with respect to the Alternate Subscriber.
- (J) Under the laws of the British Virgin Islands, neither the Alternate Subscriber nor any of its properties, assets or revenues are entitled to any right of immunity on the grounds of sovereignty from any legal action, suit or proceedings, from set-off or counter claim, from the jurisdiction of any court or arbitral tribunal, from service of process, from attachment prior to or in aid of execution of judgment or arbitral award, or from other legal process or proceedings for the giving of any relief or for the enforcement of any judgment or arbitral award.
- (K) Neither the Alternate Subscriber nor any of its directors or Principal Officers, is a Disqualified Person.

6.3 Repetition of Subscriber/Alternate Subscriber Warranties, etc

- (A) The representations and warranties set out in clauses 6.1 and 6.2 are given as at the date hereof and shall be deemed to be repeated by the Subscriber and the Alternate Subscriber respectively on the Completion Date as if given or made on such date, with reference in each case to the facts and circumstances then subsisting.
- (B) Each of the Subscriber and the Alternate Subscriber undertakes to disclose in writing to the Company anything which will be or is reasonably likely to be a breach of any of the representations and warranties set out in clauses 6.1 and 6.2 on and as at the Completion Date promptly after such thing comes to its notice both prior to and on the Completion Date. Each of the Subscriber and the Alternate Subscriber agrees promptly to provide such information as may be reasonably requested by the Company, from the date hereof until the Completion Date, in order to enable the Company to assess whether a breach of any representations and warranties set out in clauses 6.1 and 6.2 will occur on the Completion Date.

7. CHINA NETCOM GUARANTEE

7.1 Guarantee Obligations

In consideration of the Company entering into this Deed at the request of China Netcom (as China Netcom hereby acknowledges), China Netcom shall as primary obligations of it:

- (A) procure that the Alternate Subscriber shall duly observe and perform all its obligations owed to the Company under this Deed and the Subscription Agreement or any other agreement entered pursuant or ancillary to such documents;
- (B) if and whenever the Alternate Subscriber shall be in default in the payment when due of any amount payable to the Company under this Deed and/or the Subscription Agreement or any other agreement entered into pursuant or ancillary to such documents and within two Business Days after being given notice to that effect by the Company, pay to the Company all amounts then so payable by the Alternate Subscriber to the Company as though China Netcom instead of the Alternate Subscriber was expressed to be the principal debtor; and
- (C) indemnify the Company against all costs and expenses (including legal fees) which the Company may pay or incur in collecting any amount payable by the Alternate Subscriber or China Netcom and referred to in clause 7.1(B).

7.2 Indemnity

Any amount not paid by the Alternate Subscriber and not recoverable from China Netcom on the basis of a guarantee (whether because of any legal limitation, disability or incapacity on the part of the Alternate Subscriber or any other matter or thing whether known to the Company or not) shall nevertheless be recoverable from China Netcom on the basis of an indemnity.

7.3 Indulgence etc.

- (A) China Netcom acknowledges that its liability under this clause 7 shall not be discharged or affected in any way by time being given to the Alternate Subscriber or by any other indulgence or concession being granted to the Alternate Subscriber or by any other act, omission, dealing, matter or thing whatsoever (including without limitation any change in the constitution of the Alternate Subscriber or China Netcom, any amendment to this Deed and/or the Subscription Agreement or any such other agreement entered pursuant or ancillary hereto or the liquidation, dissolution, reconstruction or amalgamation of the Alternate Subscriber or China Netcom or the illegality or unenforceability of this Deed or such other agreement) which but for this provision might operate to release China Netcom from its obligations under this clause 7.
- (B) China Netcom acknowledges and agrees that its liability under clause 10 of the Subscription Agreement shall not be discharged or affected in any way by the assignment by the Subscriber of its rights, title and interest in, to and under the Subscription Agreement to the Alternate Subscriber pursuant to this Deed.

7.4 Continuing Guarantee

The guarantee contained in this clause 7 is a continuing guarantee and shall remain in full force and effect until all obligations of the Alternate Subscriber hereby guaranteed

have been discharged in full. It is in addition to and shall not prejudice nor be prejudiced by any other guarantee, indemnity or other security or right against any third party which the Company may have for the due performance of the obligations concerned.

8. WAIVER OF IMMUNITY

8.1 Immunity

It is acknowledged that the status of China Netcom in the PRC may afford it certain protections and immunities not available to entities wholly independent of any state body in the PRC and China Netcom has therefore agreed to waive such protections and immunities as set out below.

8.2 Waiver

China Netcom irrevocably and unconditionally agrees with the Company that in respect of any proceedings brought against China Netcom or its assets by the Company in relation to this Deed or any other agreement entered into pursuant to or as a result of this Deed:

- (A) no immunity from those proceedings (including, without limitation, suit, attachment prior to judgement, other attachment, the obtaining of any judgement, execution or other enforcement, or the enforcement and execution of any award rendered by an arbitral tribunal constituted pursuant to this Deed) will be claimed by or on behalf of itself or with respect to its assets;
- (B) China Netcom shall (and hereby) waives any such right of immunity which it or its assets now has or may subsequently acquire; and
- (C) China Netcom consents generally in respect of any such proceedings to the giving of any relief or the issue of any process in connection with those proceedings, including, without limitation, the making, enforcement or execution against any assets whatsoever (irrespective of its use or intended use) of any order or judgement which may be made or given in those proceedings or of any award rendered by an arbitral tribunal constituted pursuant to this Deed.

9. CHOICE OF GOVERNING LAW

- 9.1 This Deed shall be governed by and construed in accordance with the laws of England for the time being in force.

10. ARBITRATION

- 10.1 Any dispute, controversy or claim arising out of or in connection with this Deed, including any question regarding its existence, validity or termination, shall be referred to and finally resolved by arbitration under the LCIA Rules, which Rules are deemed to be incorporated by reference into this clause. The arbitration commission shall be the LCIA.
- 10.2 The number of arbitrators shall be three.

10.3 The seat of the arbitration shall be London.

10.4 The language to be used in the arbitral proceedings shall be English.

10.5 By agreeing to arbitration pursuant to this clause, the Parties waive irrevocably their right to any form of appeal, review or recourse to any state court or other judicial authority, insofar as such waiver may validly be made. In particular, no Party may apply to the court to determine any question of law arising in the course of the arbitration pursuant to section 45 of the Arbitration Act 1996 or otherwise, and no Party may appeal to the court on a question of law arising out of an award made in the arbitration pursuant to section 69 of the Arbitration Act 1996 or otherwise.

10.6 The Parties shall have the right to seek interim injunctive relief from a court of competent jurisdiction, both before and after the arbitrators have been appointed, at any time up until the arbitrators have made the final award.

11. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

11.1 No person who is not for the time being a Party to this Deed shall have any right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Deed.

12. COUNTERPARTS

12.1 This Deed may be executed in any number of counterparts, which shall together constitute one deed. Any Party may enter into this Deed by signing any such counterpart.

13. WHOLE AGREEMENT

13.1 This Deed, together with any documents referred to in it, constitutes the whole agreement between the Parties relating to its subject matter and supersedes and extinguishes any prior drafts, agreements, and undertakings, whether in writing or oral, relating to such subject matter, except to the extent that the same are repeated in this Deed.

13.2 Each of the Parties acknowledges that it has not been induced to enter into this Deed by any representation, warranty, promise or assurance by any of the others or any other person save for those contained in this Deed.

14. VARIATIONS

14.1 No variation of this Deed shall be effective unless made in writing and signed by each of the Parties to this Deed.

14.2 No variation of the Subscription Agreement after the execution of this Deed shall be effective unless made in writing and signed by each of the Parties to this Deed.

14.3 The Company, the Subscriber and China Netcom each undertake and confirm to each other and to the Alternate Subscriber that there has been no variation or amendment of the Subscription Agreement (whether oral, written or otherwise) prior to the execution

this Deed, and each of them agree and acknowledge that the Subscription Agreement in the form annexed to this Deed and marked "A" for the purposes of identification constitutes the whole and only agreement between them relating to the subscription of, and issue and allotment of the Subscription Shares.

15. FURTHER ASSURANCE

15.1 At any time after the Completion Date every Party hereto shall, at the request of any other Party and at such requesting Party's cost, execute or procure the execution of such documents and do or procure the doing of such acts and things as the requesting Party may reasonably require for the purpose of vesting in the requesting Party or its permitted assignees the full benefit of all its rights in this Deed.

16. COSTS

16.1 Each Party shall bear its own costs arising out of or in connection with the preparation, negotiation and implementation of this Deed.

17. DEED BINDING AND ASSIGNMENT

17.1 This Deed shall be binding on and enure for the benefit of each Party's respective successors and permitted assigns. No Party shall assign any of its rights under this Deed (all of which shall be incapable of assignment) or purport to do so without the prior written consent of the other Parties.

18. WAIVER

18.1 No failure or delay by any Party in exercising any right, power or remedy under this Deed shall operate as a waiver thereof, nor shall any single or partial exercise of the same preclude any further exercise thereof or the exercise of any other right, power or remedy. Without limiting the foregoing, no waiver by any Party of any breach of any provision hereof shall be deemed to be a waiver of any subsequent breach of that or any other provision hereof.

19. INVALIDITY AND SEVERANCE

19.1 If any provision of this Deed shall be held to be illegal, void, invalid or unenforceable under the laws of any jurisdiction, the legality, validity and enforceability of the remainder of this Deed in that jurisdiction shall not be affected, and the legality, validity and enforceability of the whole of this Deed in any other jurisdiction shall not be affected.

20. NOTICES

20.1 Any notice (which term shall in this clause include any other communication) required to be given under this Deed or in connection with the matters contemplated by it shall, except where otherwise specifically provided, be in writing in the English language.

20.2 Any such notice shall be addressed as provided in sub-clause 20.3 and may be:

- (A) personally delivered, in which case it shall be deemed to have been given upon delivery at the relevant address; or
- (B) if within Hong Kong, sent by pre-paid post, in which case it shall be deemed to have been given two Business Days after the date of posting; or
- (C) if from or to any place outside Hong Kong, sent by pre-paid airmail, in which case it shall be deemed to have been given seven Business Days after the date of posting; or
- (D) sent by facsimile, in which case it shall be deemed to have been given when despatched, subject to confirmation of uninterrupted transmission by a transmission report provided that any notice despatched by facsimile after 5:00 p.m. on any day shall be deemed to have been received at 9:00 a.m. on the next Business Day.

20.3 The addresses and other details of the Parties referred to in sub-clause 20.2 are, subject to sub-clause 20.4:

If to the Subscriber, the Alternate Subscriber or China Netcom, to:

China Netcom Group Corporation (BVI) Limited

59/F, Bank of China Tower,
1 Garden Road,
Hong Kong

Facsimile: +852 3108 3823

Attention: Wang Chuanbao

If to the Company, to:

PCCW Limited

39th Floor, PCCW Tower,
TaiKoo Place,
979 King's Road,
Quarry Bay,
Hong Kong

Facsimile: +852 2962 5725

Attention: The Company Secretary

20.4 Any Party may notify the other Parties of any change to the address or any of the other details specified in sub-clause 20.3, provided that such notification shall only be effective on the date specified in such notice or five Business Days after the notice is given, whichever is later.

IN WITNESS WHEREOF this Deed has been duly executed as a deed by the parties on the date first above written.

EXECUTED as a Deed by)
CHINA NETCOM GROUP CORPORATION)
(BVI) LIMITED)
was affixed in the presence of:-)

EXECUTED as a Deed by)
CHINA NETCOM CORPORATION)
(BVI) LIMITED)
in the presence of:-)

EXECUTED as a Deed by)
CHINA NETWORK COMMUNICATIONS)
GROUP CORPORATION)
in the presence of:-)

The Common Seal of)
PCCW LIMITED)
was affixed in the presence of:-)

HK050320155

Reach Network Services
Agreement

Dated 16 April 2005

Reach Ltd. ("Reach Parent")
Reach Global Services Limited. ("Reach")
Reach Networks Hong Kong Limited. ("RNHK")
Telstra Corporation Limited (ABN 33 051 775 556)
("Telstra")
Hong Kong CSL Limited ("CSL")
PCCW Limited ("PCCW")
PCCW Communications (Singapore) Pte Ltd ("PCCW
Capacity Holder")
PCCW-HKT Telephone Limited ("PCCW-HKT")

Mallesons Stephen Jaques
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152 St George's Terrace
Perth WA 6000
Australia
T +61 8 9269 7000
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DX 91049 Perth
www.mallesons.com

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Place of incorporation Commonwealth of Australia
Address 242 Exhibition Street, Melbourne Vic 3000, Australia
Telephone +61 3 9634 6400
Fax +61 3 9632 3215
Attention The Company Secretary

CSL Name Hong Kong CSL Limited
Place of incorporation Hong Kong Special Administrative Region, Peoples' Republic of China
Address Unit 501-8, 5th Floor, Cyberport 3, Cyberport Road, Hong Kong
Fax +852 2962 6111
Attention The Company Secretary

PCCW Name PCCW Limited
Place of incorporation Hong Kong Special Administrative Region, Peoples' Republic of China
Address 39th Floor, PCCW Tower, TaiKoo Place, 979 King's Road, Quarry Bay, Hong Kong
Fax +852-2962-5725
Attention The Company Secretary

PCCW Capacity Holder Name PCCW Communications (Singapore) Pte Limited
Place of incorporation Republic of Singapore
Address 152 Beach Road #26-06 Gateway East Singapore 189721
Fax +65 62 30 8777
Attention Lim Beng Jin

PCCW-HKT Name PCCW-HKT Telephone Limited
Place of incorporation Hong Kong Special Administrative Region,

<PAGE>

Peoples' Republic of China

Address 39th Floor, PCCW Tower, TaiKoo
Place, 979 King's Road, Quarry Bay,
Hong Kong

Fax +852-2962-5725

Attention The Company Secretary

- Recitals
- A RNHK and Reach currently provide the ISA Services to PCCW-HKT, Telstra and CSL and certain of their Related Body Corporates under the ISAs.
 - B Reach and RNHK, PCCW, Telstra and CSL have agreed to change the business model on which certain of the services are currently provided from that provided for by the ISAs to the outsourcing model provided by this agreement.
 - C Reach has agreed to provide each Parent's Group with the Outsourcing Services utilising for that purpose the Parent's Capacity on the terms and conditions of this agreement.
-

Date of agreement See Signing page

Reach Network Services Agreement

General terms

1 Scope

This agreement sets out the terms and conditions on which Reach will provide the Outsourcing Services to each Parent's Group.

2 Effective Date

2.1 Effective Date

This agreement takes effect on and from the Effective Date as if it commenced on the Commencement Date and continues for the remainder of the Term unless it is terminated earlier in accordance with this agreement.

2.2 Effect on other agreements

- (a) The ISAs are terminated with effect from the Commencement Date.
- (b) Termination of the agreements under clause 2.2(a) is without prejudice to any rights, liabilities or obligations of the parties which have accrued up to the Commencement Date and does not extinguish or otherwise affect the provisions of the agreements which by their nature survive termination.

2.3 Transitional provisions

- (a) From the Commencement Date, each ISA Service will be deemed to be a Telecommunications Service provided by Reach to the member of the relevant Parent's Group who acquired that ISA Service prior to the Commencement Date on the terms and conditions of this agreement (ISA Recipient).
- (b) For the avoidance of doubt, the parties acknowledge that, from the Commencement Date, with respect to an ISA Service which becomes a Telecommunications Service:
 - (i) the charges payable under the ISA will cease to apply to the provision of the Telecommunications Service as from the Commencement Date;
 - (ii) the ISA Recipient will remain liable to pay charges for ISA Services supplied by the Reach Group prior to the Commencement Date in accordance with the relevant ISA;
 - (iii) no rebates will apply in respect of that Telecommunications Service;
 - (iv) save as set out in clause 4.9, no cancellation charges will apply if a Telecommunications Service is terminated prior to

the expiration of any minimum term commitment which applied to the relevant ISA Service under the relevant ISA. Any such minimum term commitment will be deemed to be the minimum term for that Telecommunications Service for the purpose of clause 4.9.

- (c) Any invoiced charges for an ISA Service to the extent the service is provided after 1 March 2005 will be cancelled and any payment received from the Parent's Group in respect of such invoiced amounts will be applied against the Estimated Monthly Fee which is payable by the Parent under clause 9 ("Estimated Monthly Fee and Payment").
- (d) By 29 April 2005, each Parent will pay to Reach the Estimated Monthly Fees which would have fallen due for payment at the Effective Date if this agreement had been in effect at the Commencement Date after allowing for the application of any amount as provided for in clause 2.3(c) notwithstanding that invoices for the months of March and April 2005 have not been issued.
- (e) Each Parent will pay to Reach the Estimated Monthly Fees for May 2005 which is due on 1 May 2005 on that date notwithstanding that an invoice for the relevant amount has not issued in accordance with the requirements of Annexure E ("Billing and Settlement").
- (f) Reach must provide each Parent with invoices for the Estimated Monthly Fees for March, April and May 2005 within 5 Business Days of the Effective Date.

2.4 Good faith negotiations

- (a) The parties agree that amendments may be required to the Service Schedules and Performance Requirements and Cost Information Schedules for Telecommunications Services and the Service Schedules for Other Outsourcing Services following the Effective Date. Accordingly, the parties agree to enter into good faith negotiations as to whether any such amendments are required for a period of 20 Business Days after the Effective Date.
- (b) For the avoidance of doubt, the parties agree that this agreement including the schedules referred to in clause 2.4(a) are of full legal effect and that nothing in this clause 2.4(a) or the failure of the parties to reach agreement on any amendments to the schedules referred to in that clause will affect the legal effectiveness of this agreement or may be relied on by a party as an excuse for any failure to perform its obligations under this agreement.
- (c) The parties acknowledge that as a general principle, Reach must ensure that the Service Schedules for each Parent contain equivalent service levels.

3 Appointment of Reach

3.1 Appointment

Each Parent appoints Reach to provide the Outsourcing Services to the Parent's Group for the Term and Reach accepts such appointment on the terms of this agreement.

3.2 Non-exclusive

Reach's appointment is non-exclusive and any member of a Parent's Group may:

- (a) appoint another person to provide services which are in the nature of the Outsourcing Services; or
- (b) acquire services which are in the nature of the Telecommunications Services from another person,

and subject to this agreement, a Parent may vary or terminate the Outsourcing Services provided to the Parent's Group in accordance with this agreement.

3.3 No volume commitment

The parties each acknowledge that neither Parent's Group has given any representation or undertaking as to the level of the Outsourcing Services it will acquire from Reach.

3.4 Parent's Group

- (a) The Outsourcing Services are to be provided by Reach in accordance with this agreement to each Parent and any Related Body Corporate of the Parent whom the Parent notifies Reach is authorised to order Telecommunications Services in accordance with this agreement (each a Group).
- (b) Telstra notifies Reach that CSL is authorised to order Telecommunications Services.
- (c) PCCW notifies Reach that PCCW-HKT is authorised to order Telecommunications Services.
- (d) Where a member of a Parent's Group ceases to be a Related Body Corporate of the Parent, it ceases to be entitled to order or receive any further Outsourcing Services under this agreement.
- (e) Notwithstanding that Outsourcing Services may be ordered or provided to another member of the Parent's Group, the Parent will remain liable to Reach for compliance with the provisions of this agreement as if the relevant service were ordered and provided to that Parent.

4 Provision of Outsourcing Services to Parents' Groups

4.1 Provision of Outsourcing Services

Reach must provide the Outsourcing Services to each Parent's Group in accordance with the terms of this agreement and in the case of the Telecommunications Services in accordance with this agreement and the Service Manuals.

4.2 Provision of Telecommunications Services

For the purpose of providing the Telecommunications Services to each Parent's Group, Reach will utilise:

- (a) that Parent's Capacity except as otherwise provided by this agreement;
- (b) where the Telecommunications Service uses the Parent's Allocated Capacity on a cable system, any Reach Landing Segment Capacity required to enable the delivery of the Telecommunications Service to the Landing Station;
- (c) any backhaul Capacity acquired by a member of the Reach Group to enable the delivery of the Telecommunications Service from the Landing Station to the POI;
- (d) where the Telecommunications Service includes a local tail, a local tail acquired by a member of the Reach Group to enable the delivery of the Telecommunications Service from the POI to the End Customer;
- (e) Reach Systems and Reach Equipment;
- (f) the Parent's Systems and Equipment;
- (g) Third Party Network Interconnect Services; and
- (h) services acquired by the Reach Group under the DAAs.

4.3 Right to deal with Parent's Capacity

- (a) Each Parent and the PCCW Capacity Holder grants to Reach for the Term the right to deal with the Parent's Capacity and the Parent's Systems and Equipment for the purpose of providing the Telecommunications and Other Outsourcing Services to that Parent's Group under this agreement. Subject to clause 16 ("Restoration") and save as otherwise agreed between the Parents, Reach may only use a Parent's Capacity to provide the Telecommunications Services to that Parent's Group. However, Reach is not required to use any particular cable system route in providing the Telecommunications Services to a Parent's Group unless requested to do so at the time of ordering of the service and it is reasonably practical to do so.

- (b) Subject to clause 4.3(d), each Parent and the PCCW Capacity Holder grants to Reach for the Term, the right to deal with the Parent's Capacity for the purpose of providing:
 - (i) voice services to the Parents' Groups and third party customers;
 - (ii) satellite services to third party customers and satellite services which are not Telecommunications Services to the Groups; and
 - (iii) Committed Third Party Data Services to Committed Third Party Customers.
- (c) Save as set out in this agreement, no charge is payable by Reach to the Parent or the Capacity Holder for the use of the Parent's Capacity.
- (d) Without the agreement of the Parents, Reach must not increase the amount of Capacity used on any of the cable systems for the purpose of providing the services referred to in clause 4.3(b) beyond that which is reserved for the provision of such services as at the Commencement Date and will divide that use between each Parent's Capacity on a cable system in equal shares.

4.4 Provisioning, Operations and Maintenance for Telecommunications Services

The parties agree that, except where expressed otherwise in this agreement or otherwise agreed in writing, each party is responsible for the operation and maintenance of Network facilities on its side of a POI.

4.5 Prohibited Traffic for Telecommunications Services

- (a) A Parent's Group must not deliver Prohibited Traffic to Reach's Network.
- (b) A Parent's Group must make reasonable endeavours not to deliver traffic to Reach's Network that is:
 - (i) illegal;
 - (ii) immoral or fraudulent (in the reasonable opinion of Reach); or
 - (iii) declared by a competent government authority to be traffic prohibited by that authority,(collectively Unauthorised Traffic).
- (c) Reach may take such action as is reasonably necessary to prevent Prohibited Traffic and Unauthorised Traffic from entering its Network. Reach must give as much notice as is practical to the relevant Parent of any such action. Such action may include, but is not limited to, giving instructions to the Parent regarding how to prevent Prohibited Traffic and Unauthorised Traffic from entering Reach's Network and suspending the supply of the affected Telecommunications Service under clause 36.2 ("Suspension") if such instructions are not implemented..

4.6 End Customers

The parties acknowledge that unless otherwise agreed between Reach and a Parent, each Parent's Group will be responsible for billing its own customers for the services it provides to them.

4.7 Limited obligation

The parties acknowledge that Reach is not obliged to provide:

- (a) Telecommunications Services to a Parent's Group where the Parent's Capacity does not reasonably allow for the provision of that service (treating for this purpose any Capacity under any short term lease acquired for the Group as if it were part of the Parent's Capacity).
- (b) Outsourcing Services to a Parent's Group if the provision of those services would require Reach to acquire additional equipment unless the funds for that equipment are provided for in the AOP or the Parent concerned has agreed to fund the acquisition costs for that equipment and any incremental operational and maintenance charges in relation to that equipment or to otherwise provide the equipment as part of the Parent's System and Equipment.

4.8 Licences

Reach warrants that the Reach Group currently has and save as otherwise agreed with the Parents, agrees to maintain in full force and effect during the Term, all necessary consents, permits, licenses and other approvals from all governmental and other authorities which are required for the supply by it of the Outsourcing Services as contemplated by this agreement.

4.9 Early termination fees

- (a) Save as set out in clause 4.9 (b), no early termination fee will apply if a Telecommunications Service is terminated prior to the expiration of the minimum term for that service.
- (b) Where a Telecommunications Service which is a data service includes the provision of a local tail or customer premises equipment, if the service is terminated prior to the expiration of the minimum term for that service, Reach may incur an early termination fee to the person who provided the tail or customer premises equipment. Reach will recover any such early termination fee to the extent that it relates to the period prior to the expiration of the minimum term as a part of the Parent Specific Charges payable by the Parent whose Group was receiving the service.

5 Variation of Telecommunications Services

5.1 Additional Telecommunications Services

- (a) From time to time, Reach may agree with a Parent to provide a new telecommunications service to that Parent's Group in which case this agreement will be amended to incorporate the new service by:
- (i) the addition of the new service into the list in Annexure J ("List of Telecommunications Services"); and
 - (ii) the addition of a new Service Schedule for that telecommunications service.

Reach must act reasonably in considering any request to provide a new telecommunications service and in reaching agreement with a Parent on the terms and conditions which will apply to that new service.

- (b) Where Reach agrees to provide a new telecommunications service to a Parent's Group, Reach must:
- (i) provide a copy of the new Service Schedule to each Parent;
 - (ii) notify the Parents of the estimated incremental costs associated with providing that new telecommunications service.
- (c) Unless otherwise agreed between the Parents and Reach, the incremental costs associated with providing that new telecommunications service will be recovered from the Parent's Group utilising the new telecommunications service as part of the Outsourcing Fee for that Group until the other Parent's Group elects to use the service, and thereafter those costs will be recovered as part of the Recovery Fee.

5.2 Variation of a Telecommunications Service

Reach and a Parent may agree to vary a Telecommunications Service in which case the parties will vary the Service Schedule for that Telecommunications Service for that Parent's Group with effect from the date that the variation to the Telecommunications Service occurs.

5.3 Withdrawal of a Telecommunications Service

Reach and a Parent may agree to Reach withdrawing a Telecommunications Service in which case the parties will delete the Service Schedule for that Telecommunications Service for that Parent's Group with effect from the date that the withdrawal to the Telecommunications Service occurs.

5.4 Service Manuals

- (a) The parties must use reasonable endeavours to comply with the Service Manuals.

- (b) Reach may amend a Service Manual on 5 Business Days' notice where it reasonably believes that the amendment has no or only a minor effect on the relevant Parent's Group. All other changes to Service Manuals must be agreed between Reach and the relevant Parent.
- (c) If the relevant Parent objects to a change to a Service Manual proposed by Reach the resulting dispute may be dealt with in accordance with clause 38 ("Dispute Resolution") in which case the change will not come into effect unless the dispute is resolved in favour of that change in accordance with clause 38 ("Dispute Resolution").

6 Procedures

The parties will comply with:

- (a) the Costing Information Procedures;
- (b) the Forecasting, Ordering and Provisioning Procedures; and
- (c) the Operations and Maintenance Procedures,

relating to the provision of the Telecommunications Services.

7 Voice Services

7.1 Third party Voice Services

The parties acknowledge that Reach will continue to provide voice services to third party customers on commercial terms and this agreement will only apply to the Voice Services provided by Reach to each Group.

7.2 Parent Voice Services

- (a) Reach will provide Voice Services to each Parent's Group based on the following arrangements:
 - (i) net settlement arrangements (including traditional transit and one-way accounting rate arrangements);
 - (ii) send or pay arrangements;
(together, Bilateral Arrangements),
 - (iii) refile arrangements; and
 - (iv) other arrangements agreed between Reach and the Parents from time to time.
- (b) The following terms will apply to Voice Services provided on a net settlement basis:

- (i) the accounting and other settlement rates which apply under the relevant bilateral agreement between Reach and an international Correspondent Carrier for such Voice Services will also apply to the Voice Services delivered to Reach and taken from Reach by the Parent's Group;
 - (ii) the Parent's Group will not pay Reach for any Voice Service which the Parent delivers to Reach but will settle based on a net payment (determined on a net aggregate level for combined inbound and outbound traffic) which will be taken into account in determining the Voice Fee;
 - (iii) Reach will recover from the Parent as a cost which is attributable to that Parent any charges invoiced to Reach under the DAA entered into with a member of the Parent's Group for the termination of Voice calls save to the extent that an election is made under that DAA not to require Reach to pay those charges.
- (c) The following terms will apply to Voice Services provided under a send or pay arrangement:
- (i) Reach will enter into send or pay agreements with international Correspondent Carriers in respect of traffic from a Parent's Group in accordance with the Voice Management Principles, and, in respect of the Major Routes, after consulting with the Parent and Reach will agree with the Parent, either particularly or in the form of agreed parameters, the:
 - (A) originations and destinations;
 - (B) term;
 - (C) the Voice Services utilising the arrangement;
 - (D) rates; and
 - (E) volumes of minutes,to be covered in respect of the relevant send or pay agreement.
 - (ii) In the event of a forecast shortfall of the volume of minutes from a Parent or a member of its Group subject to a send or pay arrangement, Reach must notify that Parent or relevant member of the number of minutes of the relevant traffic which has been sent and the number of minutes required to make up the forecast shortfall against the committed amount, and Reach will work with the Parent or relevant member to fill such shortfall by sourcing and sending third party traffic.
 - (iii) In the event of an actual shortfall in the contracted volume which is filled by minutes from third party traffic, if the third party traffic sent via the send or pay arrangement results in:

- (A) higher net revenue than would have been reasonably expected to have been generated by Reach's third party wholesale voice business, that net revenue gain will be credited to the Parent as part of the Voice Fee payable by that Parent; and
 - (B) lower net revenue than would have been reasonably expected to have been generated by Reach's third party wholesale voice business, that net revenue loss will be included as part of the Voice Fee payable by that Parent.
- (iv) In the event of an actual shortfall of the volume of minutes sent by a Parent or the member of that Parent's Group at the end of the relevant send or pay arrangement, an amount equal to the number of minutes making up the shortfall in traffic multiplied by the send or pay agreed rate will be recoverable from the relevant Parent as part of the Voice Fee.
 - (v) Any net revenue gain from a send or pay arrangement, other than any gain arising under the circumstances contemplated by clause 7.2(c)(iii)(A) will be attributed to the Parent for the purpose of determining the Voice Fee payable by that Parent.
 - (vi) Reach will recover from the Parent as a cost which is attributable to that Parent any charges invoiced to Reach under the DAA entered into with a member of the Parent's Group for the termination of Voice calls save to the extent that an election is made under that DAA not to require Reach to pay those charges.
- (d) The following terms will apply to Voice Services provided under a refile arrangement:
 - (i) Reach will enter into refile arrangements with international Correspondent Carriers in accordance with the Voice Management Principles;
 - (ii) the rates which apply to a Parent's traffic will be the same rates as charged to Reach by the international Correspondent Carrier and will be recoverable from the Parent as part of the Voice Fee;
 - (e) Reach will work with each Parent (focusing on the Major Routes) to determine whether voice traffic is to be sent via a Bilateral Arrangement or a refile arrangement.
 - (f) For the avoidance of doubt the parties acknowledge that a member of a Parent's Group may enter into new bilateral or refile agreements with other carriers.
 - (g) Save in accordance with the Voice Management Principles, Reach will not vary the bilateral agreements with international Correspondent Carriers or agree to any change in the rate payable under such agreements without the approval of the Parent.

- (h) Reach notifies the Parents that it will not use any means of terminating traffic in any international destination which, in Reach's reasonable opinion, may be in breach of any applicable law or regulation.
- (i) The Parents agree to provide Reach with forecasts for Voice Services in accordance with paragraph 1.2(a)(ii) of Annexure F, and to assist Reach with its reporting of actual voice traffic in categories contemplated by that paragraph.
- (j) The terms applicable to any other arrangements Reach enters into with the agreement of Reach and the applicable Parent from time to time pursuant to clause 7.2(a)(iv) shall be at Reach's net cost or as otherwise agreed at the time.

8 Outsourcing Fee

8.1 Quarterly Outsourcing Fee

For so long as a Default Notice has not been issued, Reach will charge each Parent on a Quarterly basis an outsourcing fee for the Services provided to the Parent's Group under this agreement for that Quarter (Quarterly Outsourcing Fee).

8.2 Determination of Quarterly Outsourcing Fee

The Quarterly Outsourcing Fee will be determined in accordance with Annexure C ("Quarterly Outsourcing Fee").

9 Estimated Monthly Fee and Payment

9.1 Payment of monthly amount

- (a) For so long as a Default Notice has not been issued, each Parent must pay Reach in accordance with Annexure E ("Billing and Settlement") on account of the Quarterly Outsourcing Fee payable by that Parent's Group, the amount set out in the applicable AOP as the amount payable by that Parent for that month (Estimated Monthly Fee).
- (b) Where the applicable AOP has not been agreed by the start of a Year, the Estimated Monthly Fee which will apply to a Parent until the AOP has been agreed will be 92.5% of the Estimated Monthly Fee for that Parent for the equivalent month in the preceding Year or in the case there is no Estimated Monthly Fee for that month, 92.5% of the monthly average of the Estimated Monthly Fees payable by that Parent for the preceding Year.

9.2 Quarterly adjustment

An adjustment (Quarterly Adjustment) will be made in accordance with Annexure E ("Billing and Settlement") after the end of each Quarter to reflect any difference between:

- (a) the aggregate of the Estimated Monthly Fees for the Parent's Group for the preceding Quarter; and
- (b) the Quarterly Outsourcing Fee for the Parent's Group for that Quarter.

The parties acknowledge that certain of the costs and revenues which are to be taken into account in determining the Quarterly Adjustment may not be finally determined at the time the Quarterly Adjustment is made and that reasonable estimates of such unquantified amounts may be used for the purpose of determining the Quarterly Adjustment. Once such costs or revenues are finally determined an adjustment will be made and included in the Quarterly Adjustment for the Quarter in which they are finally determined.

9.3 Payment of Quarterly Adjustment

The Quarterly Adjustment will be made as follows:

- (a) if the aggregate of the Estimated Monthly Fees for the Parent for the preceding Quarter exceeds the Quarterly Outsourcing Fee for the Parent for that Quarter, the Quarterly Adjustment will be applied against the Estimated Monthly Fees for subsequent months;
- (b) if the Quarterly Outsourcing Fee for the Parent for that Quarter exceeds the aggregate of the Estimated Monthly Fees for the Parent for the Quarter, the Parent will pay Reach the Quarterly Adjustment in accordance with Annexure E ("Billing and Settlement"); and
- (c) if this agreement is terminated then any outstanding portion of the Quarterly Adjustment due to a Parent under clause 9.3(a) will be paid to the Parent on demand.

10 Invoices

10.1 Invoicing Procedure

Reach will invoice each Parent in accordance with the procedure set out in Annexure E ("Billing and Settlement").

10.2 Right to require separate invoices

- (a) If a Parent notifies Reach that it requires a part of the Outsourcing Fee to be invoiced to another member or members of that Parent's Group and specifies the proportion of the Outsourcing Fee which is to be invoiced to that other member or members, Reach will issue any invoice for the Estimated Monthly Amount and the Quarterly Adjustment in accordance with that direction.

- (b) If a Parent notifies Reach that it requires specific Voice Services to be invoiced to another member or members of that Parent's Group, Reach will issue any invoice for the specified Voice Services in accordance with that direction and any payment made in relation to that invoice will be treated as having been made by the Parent on account of the Estimated Monthly Fees for the Parent's Group for the Quarter in which the payment is received.
- (c) A Parent may by further notice to Reach amend any notice given under clauses 10.2(a) or (b).
- (d) Unless otherwise agreed with Reach, a notice given under this clause 10.2 may only take effect at the start of a Quarter and will not apply to any invoices issued prior to it taking effect.
- (e) Notwithstanding that notice is given under this clause and an invoice is issued to some other member of a Parent's Group, the Parent remains liable for the Outsourcing Fee as if no notice had been given and all invoices were issued directly to the Parent.

10.3 Payment procedure

Except as otherwise agreed between Reach and a Parent, each Parent will make payment of the invoice in United States Dollars in accordance with the procedure set out in Annexure E ("Billing and Settlement").

10.4 Other Currencies

- (a) Where Reach and a Parent agree that a portion of the Outsourcing Fee representing the recovery of a third party cost which is billed to the Reach Group in a currency other than US\$ is to be recovered in the currency in which it is billed, that portion of the Outsourcing Fee will be payable by the Parent's Group in the currency in which it is billed to the Reach Group.
- (b) Except for the costs referred to in clauses 10.4(a) and 10.5, all costs incurred by Reach will be converted into US\$ and will be billed by Reach in, and will be payable to Reach in, US\$.

10.5 Parent Group Charges

Where a Parent renders charges to Reach which are recoverable from that Parent as an attributable cost (relevant charge):

- (a) for the purpose of determining the component of the Outsourcing Fee on account of the relevant charge (relevant component), that component will be calculated in the currency in which the Parent bills Reach for the relevant charge; and
- (b) the relevant charge will set off against the relevant component.

10.6 Disputed Amount

Where a Parent is not satisfied that the Charges in an invoice are correct, it may notify a Billing Dispute in accordance with Annexure E ("Billing

and Settlement") and that Billing Dispute will be dealt with in accordance with Annexure E ("Billing and Settlement"). Save in the case there is a manifest error in the invoice, the Parent must pay the disputed amount pending resolution of the dispute. This clause is subject to the rights of a party to make an election under clause 37.1.

11 Audit Procedure

11.1 Audit right

Reach Parent must procure that :

- (a) each Parent is permitted at reasonable times and on reasonable notice, through their officers, agents or advisers authorised on their behalf, to:
 - (i) access to the premises of members of the Reach Group;
 - (ii) examine, inspect, audit and copy any accounts and records relating to this agreement or the Outsourcing Services or which affect the amount of the Outsourcing Fee; and
 - (iii) provide all necessary facilities for this purpose;
- (b) the Reach Group complies with clause 11.1(a) however and wherever the records and accounts are stored or located; and
- (c) in the case of documents or records stored on a medium other than in writing, make available to the Parent on request reasonable facilities necessary to enable a legible reproduction to be created.

11.2 Costs and Responsibility

Subject to any express provision in this agreement to the contrary each party must bear its own costs of any audit.

11.3 No unreasonable interference In the exercise of the rights granted by this clause, a Parent must use reasonable endeavours not to unreasonably interfere with the Reach Group's activities in any material respect.

12 Reach Capex Commitments

12.1 Parent Funded Non Cable Capex

- (a) The Parents may individually or jointly agree with Reach to fund Non Cable Capex in which case the relevant Capex commitment in relation to that Non Cable Capex will be Parent Funded Non Cable Capex.
- (b) The Parents will fund any Parent Funded Non Cable Capex in the following proportions:

- (i) where the agreement to fund the relevant Capex commitment is with an individual Parent, that Parent will assume liability for the entire amount of the Capex commitment;
- (ii) where the agreement to fund the relevant Capex commitment is with both Parents, each Parent will fund that part of the Capex commitment allocated to the Parent in that agreement or in the absence of any such agreed allocation, in equal shares.
- (c) Unless otherwise agreed between the Parents and Reach, any incremental operating expenses incurred in relation to Non Cable Capex will be recoverable as part of the Recovery Fee.
- (d) The manner in which the Parents will fund Non Cable Capex and any incremental operating expenses in relation to that Capex, what rights they get in relation to that Non Cable Capex and the manner in which funds are to be contributed will be set out in the agreement with Reach which on signing will be deemed to be an annexure to this agreement.

12.2 Reach not to incur other Capex

Subject to clause 12.3 ("De minimus"), Reach may only incur further Capex commitments if they are Funded Capex commitments or the commitment is:

- (i) included in the current AOP; or
- (ii) is otherwise approved by the Board of Reach Parent (or any sub committee of the Board of Reach Parent to whom the right to give this approval has been delegated, currently the finance monitoring sub committee of the Board).

12.3 De minimus

Notwithstanding clause 12.2 ("Reach not to incur other Capex"), Reach may incur up to US\$10,000 per month of Unfunded Capex.

12.4 No change to terms applying to Funded Capex

Reach must not change the terms and conditions applicable to Funded Capex or do or omit to do anything which would increase the liability of Reach or the Parents for the Funded Capex without first obtaining the approval of each Parent. Where the agreement to fund the relevant Capex commitment is with an individual Parent, only the approval of that Parent will be required to the change in terms and conditions.

13 Additional Capacity

13.1 No obligation

The parties acknowledge that nothing in the Capacity Allocation Agreement or this agreement:

- (a) prevents a Parent acquiring Capacity directly from a third party; or
- (b) requires a Parent to exercise its rights under this clause to make such Capacity, Acquired Capacity.

13.2 Acquired Capacity

A Parent may by notice to Reach and the other Parent notify Reach that it proposes to make Capacity acquired by that Parent or a Related Body Corporate, Acquired Capacity of that Parent for the purpose of this agreement.

13.3 Provisions applying where a Parent gives notice

- (a) Where a Parent gives notice under clause 13.2 ("Acquired Capacity"), Reach must as soon as is reasonably practical advise the Parent giving notice:
 - (i) whether it is technically feasible to integrate the relevant Capacity into Reach's network;
 - (ii) what additional systems and equipment (if any) it would require to enable Reach to provide Telecommunications Services to the Parent if such Capacity were to become Acquired Capacity; and
 - (iii) whether Reach has sufficient backhaul and other domestic Capacity available to enable Reach to provide Telecommunications Services to the Parent if such Capacity were to become Acquired Capacity and if not, when additional backhaul would be available.
- (b) Where Reach gives notice under clause 13.3(a) ("Provisions applying where a Parent gives notice") that it would not be technically feasible to integrate the relevant Capacity into Reach's network or that additional systems and equipment would be required, the Parent concerned and Reach will meet to seek to address Reach's concerns which may require the Parent to procure the provision of additional systems and equipment to Reach either by funding the acquisition of the systems and equipment by Reach or otherwise so as to permit Reach to provide the relevant Telecommunications Services utilising such Capacity.
- (c) Where Reach gives notice under clause 13.3(a) ("Provisions applying where a Parent gives notice") that it would be technically feasible to integrate the relevant Capacity into Reach's network and that no additional systems and equipment would be required, the relevant Capacity will become part of the Parent's Capacity on a date agreed between Reach and the Parent concerned which unless otherwise agreed will be the earliest date on which it would be reasonably practical to integrate the relevant Capacity into Reach's network.
- (d) Where Reach gives notice under clause 13.3(a) ("Provisions applying where a Parent gives notice") that it would not be technically feasible to integrate the relevant Capacity into Reach's network or that

additional systems and equipment would be required, and Reach and the Parent concerned are able to agree on a work around which would address Reach's concerns, the relevant Capacity will become part of the Parent's Capacity on a date agreed between Reach and the Parent concerned which unless otherwise agreed will be the earliest date on which it would be reasonably practical to integrate the relevant Capacity into Reach's network taking into account the implementation of the agreed work around.

- (e) Reach will on the request of the Parent seeking Acquired Capacity inform the Parent (with a copy of such notification to be given to the other Parent) of the estimated incremental costs (if any) which Reach reasonably considers will be incurred as a result of making such Capacity, Acquired Capacity.
- (f) Reach acknowledges that it is technically feasible to provide Telecommunications Services in relation to Capacity acquired on the Southern Cross Cable Network between Sydney and the United States of America.

13.4 Management of Acquired Capacity

- (a) If requested by a Parent, Reach will administer and manage the Parent's rights and obligations in respect of Acquired Capacity and the agreements under which the Acquired Capacity is held.
- (b) In administering and managing the Parent's Acquired Capacity under clause 13.4(a), Reach must act in accordance with guidelines agreed between Reach and the Parent and Reach to the extent required by the guidelines will consult with the Parent on all decisions and actions made by Reach in relation to the Acquired Capacity in accordance with those guidelines.

13.5 Withdrawal of Parent Acquired Capacity

- (a) A Parent may by further notice of not less than six months notice to Reach (or such other period as may be agreed with Reach), such notice to be given prior to October in the Year preceding the Year in which it is to take effect, elect to withdraw Parent Acquired Capacity from the Parent's Capacity for the purpose of this agreement.
- (b) A Parent which withdraws Acquired Capacity will remain liable for any incremental costs incurred in relation to that Capacity to the extent that they continue to be incurred by Reach following the withdrawal of that Capacity. Reach will use its reasonable endeavours to reallocate the resources the subject of those incremental costs or will at the request of the relevant Parent seek to terminate any agreement under which those incremental costs are incurred in which case any early termination costs will be recovered from the relevant Parent as part of the incremental costs in relation to that Acquired Capacity.

14 Reach Recommendations

- (a) As part of the Outsourcing Services, Reach must monitor the use of each Parent's Capacity.
- (b) Reach must make recommendations to each Parent regarding any timely acquisitions of Capacity by that Parent which it believes are required in order to ensure that Reach is able to provide the Parent with Telecommunications Services in accordance with the Parent's forecasts and the relevant Performance Requirements for that Parent's Telecommunications Services.
- (c) Neither Parent is obliged to acquire the additional Capacity recommended by Reach. However, to the extent that it fails to do so, Reach will be excused from any resulting failure to provide Telecommunications Services in accordance with the relevant forecasts or Performance Requirements.
- (d) At the commencement of each Quarter or at any other time as and when considered necessary, Reach will meet with each Parent to discuss whether any acquisition of Capacity is required and if so, the likely extent of that Capacity.
- (e) Where Reach recommends an acquisition of Capacity by the Parent, Reach must assist the Parent to acquire such additional Capacity on the best available commercial terms.

15 Telecommunications Service Development

15.1 New Services

Reach must use all reasonable endeavours during the Term consistent with the limitation imposed on Reach by the provisions of this clause 15, to improve the Telecommunications Services and to develop superior replacement services for the Telecommunications Services and to make those improvements and new services promptly available under this agreement.

15.2 Parent Funded Development

- (a) Subject to the provisions of this clause, where requested by a Parent, Reach will develop new telecommunications services and improve the functionality of Telecommunications Services (Development) in accordance with the Parent's specifications in a timely and cost efficient manner.
- (b) The Parents may individually or jointly agree with Reach to fund a Development in which case the relevant funding commitment will be a "Parent Funded Development".
- (c) The Parents will be liable for the funds required for any Parent Funded Development in the following proportions:
 - (i) where the agreement to fund the Development is with an individual Parent, that Parent will be liable for the entire

amount of funds required for the Development (subject to any limit agreed between the Parent and Reach);

- (ii) where the agreement to fund the Development is with both Parents, each Parent will be liable for that part of the funds required for the Development apportioned to the Parent in that agreement or in the absence of any allocation, in equal shares but subject to any agreed limit.

15.3 No unfunded development

Subject to clause 15.4 ("De minimus"), Reach may not engage in any Development of telecommunications services which is not Parent Funded Development unless the funding for the development:

- (i) is included in the current AOP; or
- (ii) is otherwise approved by the Board of Reach Parent (or any sub committee of the Board of Reach Parent to whom the right to give this approval has been delegated, currently the finance monitoring sub committee of the Board).

15.4 De minimus

Notwithstanding clause 15.3 ("No unfunded development"), Reach may incur up to US\$5,000 per month of Unfunded Development.

15.5 Compensation

Where a Parent individually funds Development, the other Parent is not entitled to the benefit of the Development or to order any new Telecommunications Services which uses the benefit unless it reaches agreement with the Parent funding the Development under which it reimburses that Parent an equitable amount on account of the amount by which the Parent funded the Development.

16 Restoration

16.1 External Restoration

- (a) Where there is a fault in respect of a Telecommunications Service provided to a Parent or a member of a Parent's Group under this agreement and in order to rectify that fault in a cost effective manner, Reach is required to acquire additional Capacity on an interim basis (External Restoration Capacity) then the cost of that additional Capacity will be passed on to the Parent to whom the affected Telecommunications Service is being provided. Notice of the acquisition of External Restoration Capacity will be given to the Parent concerned in accordance with guidelines approved by the OSF.
- (b) External Restoration Capacity is to be acquired and the Parent is liable for the cost of the External Restoration Capacity in accordance with guidelines approved by the OSF.

16.2 Internal Restoration

- (a) Where there is a fault in respect of a Telecommunications Service provided to a Parent or some other member of the Parent's Group under this agreement and Reach is able to rectify that fault by using part of the other Parent's Capacity without diminishing in any way the quality of the Telecommunications Services provided to that other Parent, Reach may use that part of the other Parent's Capacity (Internal Restoration Capacity) for this purpose.
- (b) There will be no charge for the use of Internal Restoration Capacity where it is used for a period not exceeding 6 weeks.
- (c) Where the Internal Restoration Capacity is used for a continuous period exceeding 6 weeks, the Parent who receives the benefit of the Internal Restoration Capacity must pay to the other Parent compensation for any use of the Internal Restoration Capacity for the portion of the period of use exceeding 6 weeks in accordance with the principles for compensation set out in clause 20.
- (d) Reach must notify both Parents prior to or as soon as practical thereafter using the Internal Restoration Capacity.
- (e) Unless otherwise agreed between the Parents, Reach must cease using Internal Restoration Capacity for the purpose set out in paragraph (a) where the use of that Capacity would prevent Reach provisioning Telecommunications Services ordered by that other Parent's Group or would otherwise diminish the quality of the Telecommunications Services provided to that other Parent's Group.

16.3 Reports

Reach will report to the Parents on a monthly basis on:

- (a) the planned outages in the Reach Network expected in the forthcoming month;
- (b) what additional Capacity is required to cover those planned outages and where that Capacity will be sourced and on what terms;
- (c) what steps are being taken to rectify any faults which have caused or are likely to cause outages.

16.4 Obligation to minimise faults

Reach will use its reasonable endeavours to:

- (a) minimise faults in the Reach Network which cause outages; and
- (b) rectify such faults as soon as is reasonably practical.

17 Committed Third Party Data Services

17.1 No new Committed Third Party Data Contracts

Without the prior approval of each Parent, Reach will not enter into any new Committed Third Party Data Contracts or renew the term of any Committed Third Party Data Contract.

17.2 Existing Committed Third Party Data Contracts

Reach will continue to provide Committed Third Party Data Services to Committed Third Party Customers in accordance with the principles set out in Annexure D ("Committed Third Party Data Services - transition and extension principles").

17.3 Not used

17.4 Transition of Committed Third Party Data Services

Reach and the Parents will comply with the transition principles set out in Annexure D ("Committed Third Party Data Services - transition and extension principles").

18 Staff and other resources

18.1 Provision of staff

Reach must provide and maintain the necessary staff and resources to enable it to perform its obligations in accordance with this agreement.

18.2 Responsibility for staff

Reach acknowledges that:

- (a) it is responsible for its own employees;
- (b) any act or omission of any of those employees, whether or not the employee is acting lawfully or within his or her authority, is an act or omission of Reach;
- (c) it must procure compliance by all its employees with the obligations of Reach under this agreement,

and Reach must pay the salaries, insurance premiums, payroll tax, superannuation levies, leave expenses and any other monies payable in relation to its employees.

19 Reach Systems and Equipment

19.1 Reach Systems

Reach must provide the Reach Systems and any other systems needed to properly provide the Telecommunications Services in accordance with this agreement.

19.2 Maintenance and Repair

Reach must keep and maintain the Reach Systems in good order and repair and in sound working condition.

19.3 Reach Equipment

Reach must provide the Reach Equipment and any other hardware required to properly provide the Outsourcing Services in accordance with this agreement.

19.4 Title

As between Reach and the Parents, Reach retains full title to, and risk in relation to, the Reach Equipment at all times.

19.5 Maintenance and Repair

It is Reach's responsibility to keep and maintain the Reach Equipment in good order and repair and in sound working condition, including the payment of all repair and operational expenses.

19.6 Parent's Systems and Equipment

Where this agreement provides that Reach is not obliged to do something unless a Parent agrees to fund the acquisition of equipment, the Parent may elect to provide that equipment to Reach instead of funding the acquisition.

20 Trespass

- (a) Except as set out in clause 16.2 ("Internal Restoration"), where after 30 June 2005 the provision of a Telecommunications Service to a Parent makes use of the other Parent's Capacity, the Parent to whom the Telecommunications Service is being provided will reimburse the other Parent for the use of that Capacity at fair market value.
- (b) Where the use of the other Parent's Capacity under paragraph (a) continues for 6 months or for periods which in aggregate exceed 6 months in any 12 month period, the other Parent has the right to require the Parent to whom the Telecommunications Service is being provided to purchase the Capacity at fair market value.
- (c) Where the fair market value of Capacity or use of Capacity is to be determined for the purpose of this clause it is to be determined in accordance with the following principles:
 - (i) Each Parent will obtain and provide to the other bona fide quotes for the acquisition or use of equivalent Capacity (as the case may be).
 - (ii) The fair market value will be the average of the two quotes except where the higher quote exceeds by more than fifteen percent the lower quote.
 - (iii) Where the higher quote exceeds by more than fifteen percent the lower quote, resolution of fair market value will be

referred to the OSF for resolution and if the OSF is unable to resolve the matter, it will be dealt with under clause 38 ("Dispute Resolution").

- (d) For the avoidance of doubt, the parties acknowledge that nothing in this clause 20 permits the provision of a Telecommunications Service to a Parent using the other Parent's Capacity and Reach must monitor and notify the Parents where it occurs. Any encroachment on the other Parent's Capacity must immediately cease if requested by the other Parent.

21 Reports

Reach must deliver reports to each Parent containing the content and at the times determined by the OSF. These reports must enable the Parents to determine the extent to which Reach is providing the Telecommunications Services in accordance with the Performance Requirements.

22 No set off

22.1 Parent not entitled to set off amounts

Subject to clause 22.2 ("Set off under the AJC Indemnity Agreement"), a Parent may not set off any amount owed by Reach to the Parent on any account whatsoever against any amount payable by the Parent to Reach on account of the Charges.

22.2 Set off under the AJC Indemnity Agreement

Notwithstanding clause 22.1 ("Parent not entitled to set off amounts"), Telstra may set off against any amount due by Telstra to Reach under this agreement, any amount due for payment by Reach to Telstra under the AJC Indemnity Agreement.

23 Minimal Cost

- (a) The Outsourcing Services provided under this agreement must be provided in a manner so as to minimise the Outsourcing Fee payable by each Parent to extent that this is practical without adversely impacting on the provision of the Telecommunications Services in accordance with the applicable Performance Requirements.
- (b) The parties acknowledge that it is their objective and expectation that, in real dollar terms when measured against the Outsourcing Services provided in each Year, the Outsourcing Fee will decline on a Year by Year basis as Reach achieves greater efficiencies and lowers its cost base.
- (c) The Parents may request Reach to provide written details of processes in place and steps taken by Reach to measure and achieve the objective and requirements set out in this clause. Reach must respond to any such request within 30 Business Days.

24 Review of Performance Requirement

Reach must meet with each Parent on a quarterly basis to discuss whether the Performance Requirements should be varied. If, following those discussions, Reach and the Parent are unable to reach agreement, the Parent may elect to refer any outstanding issues to the OSF for resolution. Issues which are not resolved by the OSF will be dealt with in accordance with clause 38 ("Dispute Resolution").

25 Forecasts

Each Parent must provide Reach with quarterly forecasts on a rolling 12 month basis setting out its forecast requirements for each Telecommunications Service in accordance with Annexure F ("Forecasting, Ordering and Provisioning") and its anticipated requirements for the development of new Telecommunications Services. These forecasts will form an input to the AOP for the following Year. In addition, each Parent must provide Reach with indicative quarterly forecasts for a rolling three year period setting out its forecast Telecommunications Services requirements for each Telecommunications Service.

26 Disaster recovery

Reach must prepare and submit to the OSF for approval a disaster recovery plan and must update and submit that plan to the OSF for approval on an annual basis (or as otherwise determined by the OSF). It is acknowledged that the plan will also need to be approved by the board of directors of the Reach Parent.

27 Insurance

27.1 Maintain insurance policies

Reach must take out and maintain with reputable insurers the insurance policies provided for in each AOP.

27.2 Compliance

Reach must comply with all of the terms and conditions of any insurance policy taken out by Reach under clause 27.1 ("Maintain insurance policies").

27.3 Evidence

Reach must on request by a Parent, promptly provide to the Parent:

- (a) copies of the insurance policies; and
- (b) a certificate of currency for the insurance policies.

28 Taxes

- (a) The Parent and any member of the Parent's Group who is invoiced for Charges must pay the Charges payable to Reach free of any deduction or withholding on account of Taxes, except where required by law, in which event the payer (the "Payer") must:
 - (i) ensure that the deduction or withholding does not exceed the minimum amount legally required;
 - (ii) also pay to Reach such additional amount (the "gross-up amount") as shall result in the net amount received by Reach being equal to the amount which would have been received had no such deduction or withholding been made;
 - (iii) pay to the relevant tax authority within the requisite period the full amount of the deduction or withholding (including the full amount of any deduction or withholding on any gross-up amount); and
 - (iv) upon a written request from Reach furnish a copy of an official receipt (if available) of the amount deducted or withheld and paid to the tax authority or other evidence of the relevant deduction or withholding.
- (b) If Reach receives a tax credit as a result of a payment to a tax authority under this clause, it shall forthwith pay to the Payer an amount equal to the tax credit.
- (c) Any Taxes, other than tax on net income, imposed by any government authority on or with respect to services acquired by Reach from a Local Reach PoP, Hong Kong PoP or third party will be recoverable from the Parents as part of the Recovery Fee.
- (d) Nothing in this clause 28 ("Taxes") requires a Parent to pay any amount on account of a fine, penalty or interest for which Reach is liable unless such fine, penalty or interest is incurred as a result of an action or inaction by a Parent, nor pay any Taxes that are otherwise recoverable by Reach.
- (e) In the event of a change of Tax law by virtue of an enactment, amendment, replacement or repeal of Tax legislation or a change of practice by a Tax authority in a jurisdiction affecting a supply or acquisition of services by a party under this agreement, then upon the request from any party, the parties will (without prejudice to any other rights the requesting party may have) enter into good faith negotiations as soon as practicable, to amend or vary this agreement to the extent the requesting party reasonably considers necessary to address its Tax concerns, taking into account the ability or otherwise of Reach to enjoy the benefit of any tax credits arising as a result of any Tax law change.
- (f) Where there are any particular tax issues in respect of this agreement, the parties must use their respective reasonable endeavours to

mitigate any adverse effect on the other parties. However, no party will be obliged to prejudice its own tax position, pay any increased amount (including increased Charges) nor prejudice any of its rights or remedies under this agreement.

- (g) The parties will reasonably co-operate with each other over any tax dispute involving this agreement.

29 OSF

29.1 Establishment of OSF

The parties will as soon as practicable, establish an Outsourcing Services Forum (OSF) which will be responsible for co-ordinating the implementation of this agreement including any matters referred to it pursuant to this agreement.

29.2 Workings of OSF

The OSF may:

- (a) delegate such matters as it determines to one or more specialised sub-groups ("Working Groups");
- (b) direct each Working Group to report to it on such matters as it determines; and
- (c) establish rules to govern the conduct of each Working Group.

29.3 Rules of OSF

The rules of the Working Group should provide for:

- (a) subject areas dealt with by each Working Group;
- (b) chairmanship and administrative functions of the Working Group to be shared on an agreed basis; and
- (c) formal notification procedures to the Working Group.

Unless the parties agree otherwise, each party will have an equal number of representatives on the OSF and any Working Groups.

The OSF will meet at times to be agreed between the parties ("regular meeting").

Without limiting the meetings of the OSF under this clause a party may request a special meeting of the OSF by giving the other parties not less than 10 Business Days notice, provided that a special meeting may not occur within 5 Business Days of a regular meeting unless the parties agree.

The OSF may meet in any manner agreed between the parties, including, for the avoidance of doubt, by telephone.

Written minutes must be agreed and kept of all meetings of the OSF and any Working Group. A copy of draft minutes relating to a meeting must be given by the party responsible for keeping such minutes (as agreed between the parties) to the other parties within 10 Business Days after the relevant meeting.

30 Confidentiality

30.1 Privacy Obligations

A party shall be under no obligation to provide the other parties with any information, including without limitation, any personal information pertaining to any End Customer, where such disclosure is inconsistent with any Privacy Laws.

30.2 Fraud and Bad Debt Prevention

To the extent permitted by law or agreed between the parties, the parties will exchange information and otherwise co-operate in relation to:

- (a) the prevention and investigation of fraudulent use or misuse of the parties' respective services or the theft of equipment; and
- (b) the prevention and minimisation of incidents of Network or telecommunications fraud.

30.3 Disclosure or Use of Confidential Information

Each party must keep confidential all Confidential Information of the other parties and must not:

- (a) use such Confidential Information except as permitted by this agreement; or
- (b) disclose or communicate, cause to be disclosed or communicated or otherwise make available such Confidential Information to any third person except as permitted by this agreement.

30.4 Permitted Disclosure

A party ("disclosing party") may disclose the Confidential Information of another party ("providing party"):

- (a) to those of its People to whom the Confidential Information is reasonably required to be disclosed for the purposes of this agreement; or
- (b) to any professional person acting for the disclosing party to the extent necessary to permit that person to protect or advise on the rights of the disclosing party in respect of the obligations of the disclosing party under this agreement; or
- (c) to an auditor acting for the disclosing party to the extent necessary to permit that auditor to perform its audit functions;

- (d) in connection with Dispute Resolution Procedures set out in this agreement or legal proceedings or for the purpose of seeking advice from a professional person in relation thereto; or
- (e) as required or permitted by law, provided that the disclosing party has first notified the providing party that it is required to disclose the Confidential Information so that the disclosing party has an opportunity to protect the confidentiality of its Confidential Information; or
- (f) with the consent of the disclosing party, provided that if required by the providing party as a condition of giving its consent, the disclosing party must comply with clause 30.6 ("Conditions on consent to disclosures of Confidential Information"); or
- (g) in accordance with a lawful and binding directive issued by a Regulator; or
- (h) to a tax authority if reasonably requested by the tax authority; or
- (h) if reasonably required to protect the safety of personnel or equipment; or
- (i) as required by the rules or regulations of any stock exchange where that party's securities are listed or quoted.

30.5 Procedures to protect Confidential Information

Each party must establish and observe procedures adequate to protect the Confidential Information of a providing party, including, without limitation, ensuring that each of its People to whom that Confidential Information is disclosed is subject to and maintains the confidentiality obligations consistent with those set out in this clause 30 ("Confidentiality").

30.6 Conditions on consent to disclosures of Confidential Information

If required by a providing party as a condition of it giving its consent to the disclosure of its Confidential Information to a third person ("disclosee"), the disclosing party, before disclosing that Confidential Information, must:

- (a) impose an obligation upon the disclosee:
 - (i) to use the Confidential Information disclosed solely for the purposes for which the disclosure is made and to observe appropriate confidentiality requirements in relation to such information; and
 - (ii) not to disclose the Confidential Information without the prior written consent of the disclosing party; and
- (b) obtain an acknowledgment from such a disclosee that:
 - (i) the Confidential Information is and at all times remains proprietary to the providing party; and

- (ii) that misuse or unauthorised disclosure of the Confidential Information will cause serious harm to the providing party.

Each party must co-operate, where reasonable to do so, in any action taken by the providing party to:

- (i) protect the confidentiality of the providing party's Confidential Information; or
- (ii) enforce that the providing party's rights in relation to its Confidential Information.

Confidential Information provided by a party to another party is provided for the benefit of the other party only.

Telstra may disclose Confidential Information to the Commonwealth of Australia as required or authorised by the Telstra Corporation Act 1991 (Cth).

30.7 Third party Confidential Information

Nothing in this agreement may be construed as requiring a party at any time to disclose to another party information which is the subject of a confidentiality obligation owed to a third person unless the third person consents to such disclosure. Where the consent of a third person is required, the party holding the information must use its reasonable endeavours to obtain the consent of that third person.

30.8 Announcements

- (a) Subject to clause 30.8(b), no party may make or send a public announcement, communication or circular concerning the transactions referred to in this agreement unless it has first obtained the written consent of the other parties which consent is not to be unreasonably withheld or delayed.
- (b) Clause 30.8(a) does not apply to a public announcement, communication or circular required by law or a regulation of a stock exchange ("Announcement"). Each party must provide the other parties with a draft of such Announcement prior to its release.

31 Regulatory Event

31.1 Right to request good faith negotiations

Notwithstanding any other provision of this agreement, if:

- (a) in the opinion of a party acting reasonably, a Regulatory Event may occur or is likely to occur in relation to it, then upon request from that party; or
- (b) a Legislative Event occurs, or in the opinion of a party, a Legislative Event may or is likely to occur, then upon request from any party,

the parties will (without prejudice to any other rights the requesting party may have) enter into good faith negotiations as soon as practicable, to amend or vary this agreement to the extent the requesting party reasonably considers necessary to address its concerns regarding such a Regulatory Event or Legislative Event, as the case requires. However no such amendments are required to become effective until a reasonable period of time before the Regulatory Event or Legislative Event occurs.

31.2 Right to suspend or terminate

Notwithstanding any other provision of this agreement, if a Regulatory Event occurs in relation to a party ("affected party"), that party may:

- (a) suspend all or part of the performance of its obligations (other than those under clause 30 ("Confidentiality") and this clause 31 ("Regulatory Event") or its obligation to pay moneys due and payable) under this agreement with effect from such date as it may reasonably determine and notify the other parties of such suspension as soon as reasonably practical but by no later than the time of such suspension; and/or
- (b) by giving notice to the other parties, amend this agreement (including terminating the provision of one or more of the Services),

to the extent that it determines necessary (acting in good faith), in order to comply with the Regulatory Event.

31.3 Failure to agree

If, within a reasonable period after the exercise by a party of its rights under clause 31.2 ("Right to suspend or terminate"), the other parties do not agree with that exercise of such rights, they:

- (a) may notify a dispute which will be resolved in accordance with the Dispute Resolution Procedure; or
- (b) (in the event it is a Parent) may terminate the provision to it of any Service the supply of which has been or will be affected by the suspension or amendment under clause 31.2 ("Right to suspend or terminate"), by the giving of not less than 10 Business Days notice; or
- (c) seek a declaration from a court of competent jurisdiction that the relevant amendment or suspension as the case may be should no longer apply having regard to the impact of the Regulatory Event or Legislative Event on the other party provided, however, that neither party may:
 - (i) seek any compensation for or in relation to any loss occasioned prior to the date of any such declaration by the court; or
 - (ii) seek a declaration having any retrospective effect.

32 Intellectual Property

32.1 Rights

Except in as provided in any agreement reached between Reach and a Parent for the purpose of clause 15 in respect of a specific Development, all right, title and interest in and to any:

- (a) Intellectual Property owned by a party prior to the Commencement Date, remains owed by that party; and
- (b) Intellectual Property (in relation to matters the subject of this agreement) developed after the Commencement Date, subject to sub-clause (c), vests in the party who developed that Intellectual Property or for whom that Intellectual Property was developed by a third person; and
- (c) improvements to or adaptations, versions or modifications of Intellectual Property (in relation to matters the subject of this agreement) vests in the party who developed that Intellectual Property or for whom that Intellectual Property was developed by a third person.

The parties will negotiate arrangements (including in respect of ownership rights) concerning Intellectual Property jointly developed in the course of performing or otherwise in connection with this agreement.

32.2 Infringement

If a party becomes aware of any infringement or threatened infringement of any Designated IP under this agreement, the party must promptly notify the IP Owner identifying (if possible) the infringer and the infringement or potential infringement.

32.3 Protection of rights

The IP Owner may take such steps and proceedings as it considers necessary or desirable to protect its rights in respect of the Designated IP and the rights of any other party to which Services are supplied using such Designated IP and each IP User must render all reasonable assistance in connection with those steps or proceedings at the request and expense of the IP Owner.

32.4 Rights on infringement

If it is determined by an independent tribunal of fact or law or if it is agreed between the parties to a dispute that Designated IP used by a party ("Infringing Party") in supplying Services to the another party for the purposes of this agreement has infringed any Intellectual Property of any person, the Infringing Party, at its option:

- (a) may procure a right to continue using the infringing Designated IP; or
- (b) may modify or replace the infringing Designated IP so that the infringement, defect or inadequacy is removed; or

(c) may, if it is unreasonable, having regard to the likely costs, likely consequences for IP Users and other relevant matters, for the Infringing Party to implement a solution set out in clauses 32.4(a) or (b) ("Rights on infringement"), withdraw the infringing Designated IP on 5 Business Days notice.

32.5 Parties to discuss

The parties recognise that where infringing Designated IP has been withdrawn by the Infringing Party under clause 32.4(c) ("Rights on infringement") and that infringing Designated IP was used:

- (a) in a Service provided by the Infringing Party to an IP User; and
- (b) by the Infringing Party in its own operations,

it is in the interests of the parties that the situation be promptly resolved and the Infringing Party and each IP User will discuss alternative solutions and joint action which can be undertaken.

32.6 Limit of rights

Each party acknowledges to the other that clause 32.4 ("Rights on infringement") sets out the only rights available to a party in relation to or arising from an allegation, agreement or determination (or any act, matter or thing relating to or arising from such an allegation, agreement or determination) that Designated IP used by the party, in supplying Services, or that Intellectual Property disclosed, licensed or provided by another party under or for the purposes of this agreement has infringed or infringes any rights of another person.

32.7 No right to use other name and logo

A party must not use another party's name, logo, trade marks or get up, without the prior written consent of that party.

32.8 No licence

The parties acknowledge that save as expressly provided by this agreement, no member of a Group has any licence to use Reach's Intellectual Property as a result of this agreement.

33 Force Majeure

33.1 Suspension of obligations

If a party is unable to perform any of its obligations (other than an obligation to pay money including any agreement to pay Capex or the Outsourcing Fee) under this agreement by reason of Force Majeure and that party:

- (a) gives the other parties prompt notice of and reasonably full details of the Force Majeure and an estimate of the extent and duration of its inability to perform; and

(b) uses all possible diligence to remove that Force Majeure as quickly as possible,

that obligation is suspended for the minimum extent and duration of that Force Majeure.

33.2 Force Majeure continuing for more than 10 Business Days

If the Force Majeure continues more than 10 Business Days after the notice given under clause 33.1 ("Suspension of obligations"), the parties must meet to discuss in good faith a mutually satisfactory resolution to the problem.

33.3 Strikes

The requirement that a Force Majeure be removed with all possible diligence does not require the settlement of strikes, lockouts or other labour disputes or claims or demands on unreasonable terms in the reasonable opinion of the party affected by such events. If a strike, lockout or other labour dispute or claim or demand principally concerns any matter the subject of this agreement, the affected party must advise the other parties.

34 Reach default

34.1 Reach Default Notice

- (a) Telstra and PCCW may, if they both agree, jointly issue a Default Notice to Reach if:
- (i) Reach is in Material Breach and, if that breach is capable of remedy, Reach has failed to remedy that breach within 10 Business Days of a notice from either Parent requesting it to do so;
 - (ii) Reach or any other member of the Reach Group is in material breach of any other Transaction Document and, if that Transaction Document contains an applicable cure period, that default has not been remedied within that cure period; or
 - (iii) a Reach Insolvency Event has occurred.
- (b) For the avoidance of doubt, it is expressly acknowledged that Telstra and PCCW may only issue a Default Notice jointly with the other and may not do so without the other's consent.
- (c) A Default Notice may be issued in conjunction with other notices issued under the Transaction Documents, whether they are contained within the one notice or otherwise.
- (d) The obligation of each Parent to make a payment which falls due for payment after the issue of a Default Notice is suspended during the currency of a Default Notice.

34.2 Termination

- (a) No party may terminate this agreement except in accordance with this clause.
- (b) No party other than a Parent may terminate this agreement.
- (c) Telstra and PCCW may only terminate this agreement by acting jointly, if they both agree and if:
 - (i) a Default Notice has been issued under this agreement; or
 - (ii) a Default Notice (as defined in the Capacity Allocation Agreement) has been issued under the Capacity Allocation Agreement.
- (d) For the avoidance of doubt, it is expressly acknowledged that Telstra and PCCW may only terminate this agreement jointly with the other and may not do so without the other's consent.

34.3 Damages

The parties acknowledge that if this agreement is terminated for breach by Reach that termination will result in a loss by the Parents of the right to receive the Outsourcing Services and the Losses reasonably within the contemplation of the parties as a probable result of that breach and subsequent termination include:

- (a) the loss of revenue as a result of the interruption to the Parents' respective businesses resulting from the loss of their rights to receive the Outsourcing Services;
- (b) costs incurred by the Parents to acquire replacement services;
- (c) damages payable by the Parents to their customers resulting from the loss of the Outsourcing Services; and
- (d) damage to the reputation of the Parents.

35 Not used

36 Suspension

Reach may, without prior notice, immediately suspend the supply of a Service or access to the Network operated by Reach:

- (a) during an Emergency, to the extent Reach reasonably considers necessary to address the Emergency; or
- (b) if the supply of that Service or access to the Network operated by Reach poses a threat to Network security.

Reach is entitled to continue such suspension until the relevant Emergency or threat has passed.

37 Parent Payment Default

37.1 Reach to advise others

If a Parent (Defaulting Parent) fails to make, or advises Reach that it will not make, a payment due from it under this agreement (Disputed Payment) then Reach must notify the other Parent (Non-Defaulting Parent) of such failure or advice immediately and either Parent may then by notice to the other elect that the provisions of clause 37.2 will apply. The date on which a Parent gives notice to the other Parent is referred to as the Dispute Date.

37.2 Resolution of Payment Dispute

- (a) The Chief Executive Officer of each of Telstra and PCCW (or their nominees) must enter into discussions in good faith to seek to resolve any dispute giving rise to the Disputed Payment by the Defaulting Parent (Payment Dispute) within 7 Business Days of the Dispute Date.
- (b) If the Payment Dispute is resolved in accordance with paragraph (a) within 7 Business Days of the Dispute Date then the Defaulting Parent must make any payment determined in accordance with that resolution. If the Defaulting Parent does not make any payment in accordance with that resolution then the Payment Dispute will be deemed not to be resolved and the remaining provisions of this clause will apply.
- (c) If the Payment Dispute is not resolved within 7 Business Days of the Dispute Date then the Defaulting Parent must pay the amount of the Disputed Payment within a further 3 Business Days, failing which:
 - (i) unless Reach has received payment under sub-paragraph (ii) or otherwise from the Non-Defaulting Shareholder (in which case any arrangements agreed for that funding will apply), the Non-Defaulting Parent may, but is not obliged to, make the payment of the amount of the Disputed Payment on behalf of the Defaulting Parent, in which case that payment will be deemed to be a loan from the Non-Defaulting Parent to the Defaulting Parent, repayable on demand and incurring interest at the Interest Rate, calculated daily and compounding monthly from the date that the Non-Defaulting Parent makes payment under this clause until the date that it receives repayment of the loan and all accrued interest in full from the Defaulting Parent;
 - (ii) if the Non-Defaulting Parent does not make the Disputed Payment within 20 Business Days of the Dispute Date, or gives a notice to Reach that it will not make that payment, then Reach may issue proceedings against the Defaulting Parent for the amount of the Disputed Payment and damages in respect of its failure to make that payment, plus interest on the amount of the Disputed Payment at the Interest Rate, calculated daily and compounding monthly from the date that the amount of the Disputed Payment was initially due under

this agreement until the date that it receives payment of that amount.

- (d) If the Non-Defaulting Parent makes payment of the Disputed Payment under sub-paragraph (c)(i), then the Non-Defaulting Parent may at its option, and as its sole remedy, either:
- (i) demand repayment of the loan and payment of all accrued interest referred to in that sub-paragraph together with any direct costs arising from the failure of the Defaulting Shareholder to make the Disputed Payment, in which case the Defaulting Parent must make those payments within 5 Business Days of the demand; or
 - (ii) elect if the amount of the Disputed Payment either by itself or when added to other outstanding Disputed Payments exceeds \$5,000,000 (Outstanding Payments), to acquire a volume of IRUs and or MIU Points held by, or reserved for, the Defaulting Parent (or if the Defaulting Parent is PCCW, the PCCW Capacity Holder) under the Capacity Allocation Agreement, as nominated by the Non-Defaulting Parent, of a value, based on a fair market value of those IRUs and or MIU Points calculated in accordance with clause 37.3 ("Valuation of IRUs and MIU points"), which does not exceed the amount of the Outstanding Payments, for a purchase price equal to that value in which case the Parents (and where the Defaulting Parent is PCCW, the PCCW Capacity Holder) must procure the transfer of such IRUs or MIU points to the Non-Defaulting Parent in accordance with clause 12.1 ("Capacity Trading - Transfers") of the Capacity Allocation Agreement and, on completion of such transfers, the loan referred to in sub-paragraph (d)(i) and any interest accrued on it will be applied in payment of the purchase price with any remaining balance to be repaid to the Non-Defaulting Parent (Remaining Balance).

For the avoidance of doubt, it is acknowledged that the Non-Defaulting Parent may not both demand repayment under paragraph (i) and elect to acquire IRUs or MIU points under paragraph (ii) in relation to the same Disputed Payment. However, the Non-Defaulting Parent may elect to determine the value of IRUs or MIU points under clause 37.3 ("Valuation of IRUs and MIU points") prior to it electing to either demand repayment under paragraph (i) or to acquire IRUs or MIU points under paragraph (ii) and may recover any Remaining Balance by way of a demand under paragraph (i).

- (e) The PCCW Capacity Holder agrees to abide by and give effect to any transfer of IRUs and MIU points to Telstra which is contemplated by clause 37.2(d)(ii) as if it were PCCW and agrees that any application of the loan in payment of the purchase price for the transfer of IRUs and MIU points as provided for in clause 37.2(d)(ii) will be deemed to be the receipt of the purchase price by the PCCW Capacity Holder.

- (f) For the avoidance of doubt, Reach's remedies under this clause 37.2 are its only remedies in respect of the Payment Dispute.

37.3 Valuation of IRUs and MIU points

Prior to or after making an election under clause 37.2(d), the Non-Defaulting Parent may notify the Defaulting Parent that it wishes to determine the fair market value of an IRU held by, and or a MIU point reserved for, the Defaulting Parent, on one of more cable systems in which case the fair market value of those IRUs or MIU points is to be determined in accordance with the following principles:

- (a) Each Parent will obtain and provide to the other bona fide quotes for the acquisition of the IRUs or MIU points on the nominated cable system or cable systems (as the case may be).
- (b) The fair market value will be the average of the two quotes except where the higher quote exceeds the lower quote by more than 15 percent of the lower quote.
- (c) Where the higher quote exceeds the lower quote by more than 15 percent of the lower quote, then the Non-Defaulting Parent may elect that the determination of the fair market value be referred for resolution in the manner set out in clause 38.3.

38 Dispute Resolution

38.1 Manner in which disputes to be resolved

If a dispute arises between the parties in connection with or arising from this agreement, the dispute shall be resolved as follows:

- (a) if the dispute arises on a matter under the Billing and Settlement Costing Information Procedures, the dispute shall first be referred to the nominated contacts in accordance with Annexure E ("Billing and Settlement");
- (b) if the dispute is a Billing Dispute, the dispute shall first be referred to the nominated contacts in accordance with Annexure E ("Billing and Settlement");
- (c) if the dispute arises on a matter under the Ordering and Provisioning Procedures, the dispute shall first be referred to the nominated contacts in accordance with Annexure F ("Forecasting, Ordering and Provisioning");
- (d) if the dispute arises on a matter under the Operations and Maintenance Procedures, the dispute shall first be referred to the nominated contacts in accordance with Annexure G ("Operations and Maintenance");
- (e) if a dispute as described in paragraphs (a), (b), (c) or (d) is not resolved within the time limits imposed by the relevant procedures, or if the dispute is not on a matter as described in paragraphs (a), (b),

(c) or (d), a party to the dispute may, by notice to the other parties to the dispute, refer the dispute for resolution under clause 38.2 ("Notice of Dispute").

38.2 Notice of Dispute

- (a) Any dispute included in a notice under clause 38.1(e) ("Manner in which disputes to be resolved") shall be referred to the OSF or to a Working Group established by the OSF for resolution. The OSF or the Working Group shall endeavour to resolve the dispute within [10] Business Days of the date of that notice or within such other period as may be agreed by the parties.
- (b) If the OSF or the Working Group does not resolve the dispute within the time specified in clause 38.2(a) ("Notice of Dispute"), a party to the dispute may by notice to the other parties to the dispute refer the dispute for resolution under clause 38.2(c) ("Notice of Dispute").
- (c) Any dispute included in a notice under clause 38.2(b) ("Notice of Dispute") shall be referred to the Chief Executive Officer of Reach and a nominated direct report to the Chief Executive Officer of the Parent or Parents who are party to the Dispute for a period of 10 Business Days. If after that period (provided the Chief Executive Officer and the nominated direct report have met (whether in person or electronically) at least twice to discuss the dispute) there is no resolution of the dispute, the dispute must be referred to arbitration in accordance with clause 38.4 ("Appointment of arbitration tribunal").
- (d) Where the dispute is a Billing Dispute, the Parent concerned may at any time if it is not satisfied with the progress being made on addressing the issues raised by the dispute, elect by notice to the other parties to the dispute including the other Parent to refer the matter directly for resolution in the manner provided in clause 38.3.

38.3 Compulsory final and binding Arbitration

- (a) Subject to the provisions of this agreement, a dispute will be referred to and finally resolved by binding arbitration under the Rules of the London Court of International Arbitration (the "LCIA"), as varied herein, which Rules are deemed to be incorporated by reference into this clause, by notice in writing ("Arbitration Notice") given by any party to this agreement at any time after that party becomes permitted to do so under clause 38.2 ("Notice of Dispute").
- (b) The arbitration proceedings will be taken to have commenced when a party gives the Arbitration Notice.
- (c) The parties to a Dispute may agree to resolve the Dispute in a manner other than by arbitration in which case the Dispute is to be resolved in accordance with that agreement.

38.4 Appointment of arbitration tribunal

- (a) The number of arbitrators will be three unless the parties otherwise agree.

- (b) The parties will jointly appoint the arbitrators within twenty one days of the commencement of the arbitration proceedings. The arbitrators so appointed must (unless the parties agree otherwise) be (i) a chartered accountant of at least ten years experience or (ii) a lawyer of at least ten years experience; or (iii) a person with a minimum of ten years technical experience within the telecommunications industry. Within fourteen days of an appointment under this sub clause the claimant will make its written request for arbitration to the LCIA identifying the arbitrators selected by the parties.
- (c) If the parties cannot agree on the appointment of arbitrators the claimant will make its written request for arbitration within twenty eight days of the commencement of the arbitration proceedings. The claimant shall provide to the LCIA the name and contact details of its nominee arbitrator in its written request for arbitration, and the respondent shall provide to the LCIA the name and contact details of its nominee arbitrator within five working days of its receipt of the claimant's written request for arbitration. The LCIA Court shall nominate the chairman, taking into account the criteria in sub-clause (b), and appoint the tribunal within five working days of its receipt of the claimant's written request for arbitration or as soon as possible thereafter.

38.5 Conduct of arbitration

- (a) Unless the parties otherwise agree, the arbitration is to be conducted in London.
- (b) The language to be used in the arbitration proceedings shall be English.

38.6 Arbitrator's award

The parties agree to request the arbitration tribunal to make its final award within three months after the request for arbitration. The arbitrators agree that the arbitrators may (where necessary varying the LCIA rules) determine the periods of time in which Notices, communications and other documents are to be served or delivered and actions are to be taken by the parties in order to give effect to this clause.

A party may not commence legal proceedings in any court (except proceedings seeking urgent interlocutory relief) or request any Regulator to intervene, mediate, arbitrate or make orders in respect of a dispute in connection with or arising from this agreement until the arbitration tribunal makes its final award.

Each party must continue to fulfil its obligations under this agreement during the pendency of a dispute and any dispute resolution process involved under this clause 38 ("Dispute Resolution").

A party must not use information obtained in the course of any procedure established by this clause 38 ("Dispute Resolution") for any purpose other than to resolve the relevant dispute.

38.7 Election rights

This clause is subject to the rights of a party to make an election under clause 37.1.

39 Miscellaneous

39.1 Representations and Warranties

- (a) Each party represents and warrants that:
 - (i) it is duly incorporated and in existence under the laws of the place set out in the Details as its place of incorporation;
 - (ii) it has power to enter into and observe its obligations under this agreement; and
 - (iii) it has in full force and effect the authorisations necessary to enter into this agreement, observe obligations under it and allow it to be enforced; and
 - (iv) its obligations under this agreement are valid and binding.
- (b) Each party will indemnify the other party on demand for any liability, loss, damage or cost or expense (including legal fees on a full indemnity basis) incurred or suffered by that other party which arises out of or in connection with any breach of any of the representations and warranties given by the first party in clause 39.1(a) ("Representations and Warranties").

39.2 Severance

- (a) Subject to clause 39.2(b) ("Severance"), if a provision of this agreement is void, voidable by a party, unenforceable or illegal, but would not be void, voidable, unenforceable or illegal if it were read down and it is capable of being read down, it is to be read down to that extent.
- (b) If a provision of this agreement is not able to be read down or is still void, voidable, unenforceable or illegal after being read down under clause 39.2(a) ("Severance"):
 - (i) if the provision would not be void, voidable, unenforceable or illegal if words were omitted, those words are hereby severed; and
 - (ii) in any other case, the whole provision is hereby severedand the remainder of this agreement has full force and effect.

39.3 Governing law and jurisdiction

- (a) This agreement and the transactions contemplated by this agreement are governed by the law in force in England.

- (b) Each party irrevocably and unconditionally submits to the non-exclusive jurisdiction of the courts of England and courts of appeal from them for determining any dispute concerning this agreement or the transactions contemplated by this agreement. Each party waives any right it has to object to an action being brought in those courts, to claim that the action has been brought in an inconvenient forum, or to claim that those courts do not have jurisdiction.
- (c) Without preventing any other mode of service, any document in an action (including, but not limited to, any writ of summons or other originating process or any third or other party notice) may be served on any party by being delivered to or left for that party at its address for service of notices under clause 39.11 ("Notices").
- (d) Each party appoints the person referred to below as its process agent to receive on its behalf service of process in any proceedings in England:

Reach Parent, Reach and RNHK

Reach Europe Limited
50-52 Paul Street
London EC2A 4LB
ENGLAND

Telstra and CSL

Telstra Europe Limited

Telstra Europe Limited
Telstra House,
21 Tabernacle Street,
London EC2A 4DE
ENGLAND PCCW, PCCW Capacity Holder and
PCCW-HKT

Simmlaw Services Limited
Citypoint
1 Ropemaker Street
London EC2Y 9SS

- (e) Service upon the process agent shall be good service upon the party whether or not it is forwarded to and received by the party provided that a copy provided that a copy of those documents must also be provided to:

- (i) in the case of Telstra and CSL:

Company Secretary
Telstra Corporation Limited
Level 41
242 Exhibition Street
Melbourne Victoria, 3000
Australia; and

- (ii) in the case of PCCW or PCCW Singapore, to:

The Company Secretary
PCCW Limited
39th Floor, PCCW Tower
TaiKoo Place
979 King's Road, Quarry Bay
Hong Kong

(iii) in the case of Reach Parent, Reach or RNHK, to:

The Company Secretary
Reach Global Services Limited
20th Floor, Telecom House,
3 Gloucester Road,
Wanchai,
Hong Kong

- (f) If for any reason the process agent ceases to be able to act as process agent, or no longer has an address in England, the party irrevocably agrees to appoint a substitute process agent with an address in England acceptable to the other parties and to deliver to the other parties a copy of the substitute process agent's acceptance of that appointment within 20 Business Days. In the event that the party fails to appoint a substitute process agent, it shall be effective service for another party to serve the process upon the last known address in England of the last known process agent notified to the serving party, notwithstanding that such process agent is no longer found at such address or has ceased to act:

39.4 Entire agreement

This agreement and the other Transaction Documents constitutes the entire agreement of the parties about their respective subject matters and any previous agreements, understandings and negotiations on those subject matters cease to have any effect. Each party acknowledges that in entering into this agreement, it has not relied on any representations or warranties about its subject matter except as provided in this agreement and is not liable to the other party in equity, contract or tort under the Misrepresentation Act 1967 (UK) for a representation not set out in this agreement or any document referred to in this agreement.

39.5 Variation

Except as expressly provided for in this agreement, no variation of this agreement shall be effective unless:

- (a) the variation is specifically provided for elsewhere in this agreement; or
- (b) the variation is in writing and executed by the parties; or
- (c) the variation is one which is contemplated and provided for in clause 5 ("Variation of Telecommunications Services").

39.6 Assignment

No party may assign or transfer any of its rights or obligations under this agreement without the prior consent of the other parties.

39.7 Waiver

The waiver of any breach of, or failure to enforce, any term or condition of this agreement shall not be construed as a waiver or a waiver of any other breach of this agreement. No waiver shall be valid unless it is in writing and signed by an authorised officer on behalf of the party granting the waiver.

39.8 Relationship of parties

The relationship of the parties to this agreement is one of independent contractors only. Nothing in this agreement is to be construed as creating an agency, partnership, association, trust or joint venture between the parties.

39.9 Relationships with Third Persons

- (a) Neither a party nor any of its employees, agents, representatives or contractors is to be deemed an employee, agent, contractor or representative of the other party.
- (b) No party has any authority to bind or oblige or incur any liability on behalf of the other party and no such authority is to be implied.
- (c) A person who is not a party has no right to enforce any term of this agreement.

39.10 Approvals and Consents

A party may give conditionally or unconditionally or withhold its approval or consent in its absolute discretion unless this agreement expressly provides otherwise.

A party may exercise a right, power or remedy at its discretion, and separately or concurrently with another right, power or remedy. A single or partial exercise of a right, power or remedy by a party does not prevent a further exercise of that or of any other right, power or remedy. Failure by a party to exercise, or delay by a party in exercising, a right, power or remedy does not prevent its exercise.

39.11 Notices

- (a) Unless expressly stated otherwise in this agreement, all notices, certificates, consents, approvals, waivers and other communications in connection with this agreement must be in writing signed by an Authorised Officer and must be marked for the attention of the person identified in the Details or, if the recipient has notified otherwise, then marked for attention in the last way notified.
- (b) Notices must be:
 - (i) left at the address set out or referred to in the Details;

(ii) sent by prepaid ordinary post (airmail if appropriate) to the address set out or referred to in the Details;

(iii) sent by fax to the fax number set out or referred to in the Details; or

(iv) given in any other way permitted by law.

However, if the intended recipient has notified a changed address or fax number, then the communication must be to that address or number.

(c) They take effect from the time they are received unless a later time is specified.

(d) If sent by post, they are taken to have been received three days after posting (or seven days after posting if posted from the sender's country to another country).

(e) If sent by fax, they are taken to have been received at the time shown in the transmission report as the time that the whole fax was sent.

(f) Despite clauses 39.11(d) and (e), if they are received after 5.00pm in the place of receipt or on a non-business day, they are taken to be received at 9.00am on the next business day.

39.12 Counterparts

This agreement may consist of a number of counterparts and the counterparts taken together constitute one and the same instrument.

40 Structure and interpretation

40.1 Structure

This agreement consists of

- (a) the Main Body;
- (b) Annexures A to J;
- (c) a Service Schedule for each Other Outsourcing Service and each Telecommunications Service; and
- (d) a Performance Requirements and Cost Information Schedule for each Telecommunications Service.

40.2 Annexures E to G

Annexures E to G detail procedures and terms and conditions which apply generally to the supply of all the provision of Telecommunications Services in the particular areas of:

- (a) costing information and billing and settlement (Annexure E ("Billing and Settlement"));

(b) ordering and provisioning (Annexure F ("Forecasting, Ordering and Provisioning"); and

(c) operations and maintenance (Annexure G ("Operations and Maintenance"))).

40.3 Annexure A ("Definitions")

Annexure A ("Definitions") contains a list of defined terms used in this agreement.

40.4 Annexure J

Annexure J contains the list of Telecommunications Services to be provided by Reach to each Parent Group.

40.5 Service Schedules

Each Service Schedule:

(a) contains a service description for a particular Telecommunications Service or other Outsourcing Service (which description may refer to a Specification for that Service); and

(b) may contain additional terms and conditions applicable to that Service.

40.6 Performance Requirements and Cost Information Schedule

Each Performance Requirements and Cost Information Schedule sets out the format in which costs are to be itemised for the Telecommunications Services and Performance Requirements for the Telecommunications Services.

40.7 Inconsistency

In the event of inconsistency between any of the Main Body, the Annexures, the Service Schedules and the Performance Requirements and Cost Information Schedules, then the order of precedence to the extent of any inconsistency (unless expressly stated otherwise) will be as follows:

(a) the Main Body, Annexures A ("Definitions"), B ("Outsourcing Services"), C ("Quarterly Outsourcing Fee"), E ("Billing and Settlement"), H ("Return Rates") and I ("Mark-up Table"),

(b) then Annexure J; then

(c) the Service Schedules; then

(d) Annexures F ("Forecasting, Ordering and Provisioning) and G ("Operations and Maintenance"); then

(e) the Performance Requirements and Cost Information Schedules.

40.8 Interpretation

In this agreement, except if the context requires otherwise:

- (a) words and expressions have the meanings set out in Annexure A ("Definitions"); and
- (b) words and expressions in relation to a particular Service or a Charge for a particular Service, have the meanings set out in the Service Schedule and Performance Requirements and Cost Information Schedule for that Service.
- (c) words and expressions in relation to a particular Service have the meanings set out in the Service Schedule for that Service; and
- (d) the singular includes the plural and vice versa; and
- (e) a reference to an agreement, document or another instrument includes any variation or replacement of any of them; and
- (f) a reference to this agreement includes a reference to an Annexure, Service Schedule and Performance Requirements and Cost Information Schedule; and
- (g) an agreement, representation or warranty in favour of two or more persons is for the benefit of them jointly and each of them individually;
- (h) an agreement, representation or warranty by two or more persons binds them individually only;
- (i) a reference to a clause is a reference to a clause of the Main Body or an Annexure and a reference to a paragraph is a reference to a paragraph in a Service Schedule or Performance Requirements and Cost Information Schedule; and
- (j) a reference to a statute, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them; and
- (k) the word person includes a firm, body corporate, unincorporated association or an authority; and
- (l) a reference to a person includes the person's executors, administrators, successors, substitutes (including, without limitation, persons taking by novation), and permitted assigns; and
- (m) a reference to a period of time:
 - (i) which dates from a given day or the day of an act or event is to be calculated exclusive of that day; or
 - (ii) which commences on a given day or the day of an act or event is to be calculated inclusive of that day; and
- (n) a reference to a month is a reference to a calendar month and a reference to a year is a calendar year; and

- (o) if the day on which the payment of money falls due is not a Business Day, the due date is deemed to be the next Business Day; and
- (p) a reference to a third person or a third party is a reference to a person who is not a party to this agreement; and
- (q) except in a context where it means the Calling Party or the Called Party in relation to a Call, a reference to a party is a reference to a party to this agreement; and
- (r) the paraphrasing of any statutory provisions in this agreement does not amount to either party agreeing to waive any of its rights under the paraphrased provisions and those statutory provisions continue to apply in full;
- (s) references to paid, paid in full or payment means that the funds paid or included in that payment are available for immediate use by the payee;
- (t) PCCW-HKT is only entering this agreement for the purposes of clauses 2.2 and 2.3 and shall have no liability, or be considered a party, under this agreement for any other purpose.
- (u) PCCW Capacity Holder is only entering this agreement for the purposes of clauses 4.3 and 37.2(d) and (e) and shall have no liability, or be considered a party, under this agreement for any other purpose.
- (v) CSL is only entering this agreement for the purposes of clauses 2.2 and 2.3 and shall have no liability, or be considered a party, under this agreement for any other purpose.

40.9 Headings

Headings and bold type are included for convenience and do not affect the interpretation of this agreement.

EXECUTED as an agreement

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Signing page

DATED: 16 October 2005

SIGNED by)
as attorney for REACH LTD. in)
the presence of:)
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))
-----)
Signature of witness) -----
))
-----) By executing this agreement
Name of witness (block letters)) the attorney states that the
) attorney has received no
) notice of revocation of the
) power of attorney

SIGNED by)
as attorney for REACH GLOBAL)
SERVICES LIMITED in the)
presence of:)
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Signature of witness) -----
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-----) By executing this agreement
Name of witness (block letters)) the attorney states that the
) attorney has received no
) notice of revocation of the
) power of attorney

SIGNED by)
as attorney for REACH NETWORKS)
HONG KONG LIMITED in the)
presence of:)
))
))
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Signature of witness) -----
))
-----) By executing this agreement
Name of witness (block letters)) the attorney states that the
) attorney has received no
) notice of revocation of the
) power of attorney

SIGNED by Simon James Brookes)
as attorney for TELSTRA)
CORPORATION LIMITED under power)
of attorney dated 13 April 2005)
in the presence of:)

-----)
Signature of witness)
-----)
Name of witness (block letters))

-----)
By executing this agreement)
the attorney states that the)
attorney has received no)
notice of revocation of the)
power of attorney)

SIGNED by Simon James Brookes)
as authorised representative)
for HONG KONG CSL LIMITED:)

-----)
Signature of witness)
-----)
Name of witness (block letters))

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By executing this agreement)
the signatory warrants that)
the signatory is duly)
authorised to execute this)
agreement on behalf of HONG)
KONG CSL LIMITED)

SIGNED by)
as authorised representative)
for PCCW LIMITED in the)
presence of:)

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Signature of witness)
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Name of witness (block letters))

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By executing this agreement)
the signatory warrants that)
the signatory is duly)
authorised to execute this)
agreement on behalf of PCCW)
LIMITED)

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SIGNED by)
as authorised representative)
for PCCW COMMUNICATIONS)
(SINGAPORE) PTE LTD in the)
presence of:)
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Signature of witness) -----
) By executing this agreement
) the signatory warrants that
) the signatory is duly
) authorised to execute this
) agreement on behalf of PCCW
Name of witness (block letters)) COMMUNICATIONS (SINGAPORE) PTE
) LTD

SIGNED by)
as authorised representative)
for PCCW -HKT TELEPHONE LIMITED)
in the presence of:)
)
)
-----)
Signature of witness) -----
) By executing this agreement
) the signatory warrants that
) the signatory is duly
) authorised to execute this
) agreement on behalf of PCCW
Name of witness (block letters)) -HKT TELEPHONE LIMITED

Annexure A (Definitions)

1 Definitions

Acquired Capacity for a Parent means capacity acquired by the Parent or a Related Body Corporate of the Parent which becomes part of the Parent's Capacity under clause 13 ("Additional Capacity").

Acquired Capacity Integration and Management means the Outsourcing service specified in the corresponding Service Schedule.

Addendum means, in relation to a particular Telecommunications Service, any addendum to Annexes E ("Billing and Settlement"), F ("Forecasting, Ordering and Provisioning") and G (Operations and Maintenance) contained in a Service Schedule which contains additional procedures applicable to that Telecommunications Service.

Allocated Capacity for a Parent means Reach Capacity allocated to in the case of Telstra, Telstra and in the case of PCCW, the PCCW Capacity Holder under the Capacity Allocation Agreement.

AJC Indemnity Agreement means the Australia Japan Cable Indemnity Agreement dated 15 April 2003 between Telstra and Reach.

Annexure means an Annexure to this agreement.

AOP means the Reach Annual Operating Plan of Reach Parent for each Year which is approved from time to time in accordance with clause 7.13 of the Shareholders Agreement.

Authorised Officer means a person appointed by a party to act as an Authorised Officer for the purposes of this agreement.

Bilateral Arrangements is defined in clause 7.2 of the Main Body.

Billing Dispute means a dispute of the nature referred to in clause 1.5(d) of Annexure F ("Forecasting, Ordering and Provisioning").

Billing and Settlement Procedures means the procedures specified in Annexure E ("Billing and Settlement").

BSM means Reach's Billing and Settlement Manual.

Business Day means a day other than a Saturday, Sunday or public holiday in Hong Kong.

Cable Capex means Capex relating to the acquisition, construction, installation, commissioning or upgrade of Capacity on a cable system

Call means a Voice Service carried by a Network and, where the context permits, includes an attempt to establish a Communication.

Capacity means the amount of carriage that can be conducted simultaneously on a telecommunications facility.

Capacity Allocation Agreement means the agreement of that name between RGNL, Telstra, the PCCW Capacity Holder and PCCW dated on or about the date of this agreement.

Capacity Holder means Telstra or the PCCW Capacity Holder.

Capex means capital expenditure.

Carrier means a person who is the holder of a carrier licence.

Charges means the Quarterly Outsourcing Fees and other amount payable to Reach under this agreement on account of the Outsourcing Services.

Claim includes any allegation, debt, cause of action, Liability, claim, proceeding, suit or demand of any nature howsoever arising and whether present or future, fixed or unascertained, actual or contingent, whether at law, in equity, under statute or otherwise.

CLI or Calling Line Identification means information generated by the Network capability which identifies and forwards through one party's Network to the other party's Network the calling number or End User number.

Commencement Date means 1 March 2005.

Committed Third Party Data Contract means a contract under which Committed Third Party Data Services are provided.

Committed Third Party Capacity means the Capacity which is currently being used by Reach to provide the Committed Third Party Data Services.

Committed Third Party Customers means customers under Committed Third Party Data Contract

Committed Third Party Data Services means the data telecommunication services provided by Reach or any of its Related Bodies Corporate to third parties (excluding any Third Party Network Interconnect Services) which Reach or any of its Related Bodies Corporate have a legal obligation to continue to provide for a period.

Communication includes any communication:

- (a) whether between persons and persons, things and things, or persons and things; and
- (b) whether in the form of speech, music or other sounds, data, text, visual images, signals or any other form or in any combination of forms,

and, where the context permits, includes an attempt to establish a Communication.

Confidential Information of a party means all information, know-how, ideas, concepts, technology, manufacturing processes, industrial, marketing and commercial knowledge of a confidential nature (whether in tangible or

intangible form) relating to the business of that party which is disclosed, communicated or delivered by it to another party pursuant to this agreement, or is learnt or comes into the possession of the another party in connection with this agreement, but does not include any such information which:

- (a) is or becomes part of the public domain (other than through any breach of this agreement or breach of an obligation of confidence owed to a third party); or
- (b) is rightfully received by a party from a third person without a duty of confidentiality being owed by the party to the third person, except where the party has knowledge or should reasonably have known:
 - (i) that the third person has obtained that information either directly or indirectly as a result of a breach of any duty of confidence owed to the first mentioned party; or
 - (ii) disclosure of the information to that party by the third person is a breach of a duty of confidence owed to the first party; or
- (c) has been independently developed by the party.

Conversation Minute means the derived period of time (expressed in minutes and calculated and chargeable in multiples of one second or part thereof) from the receipt of an answer signal until receipt of a "clear forward" or "forced release signal" in each case by Reach at the international gateway exchange.

Correspondent means an international telecommunications operator to whom a party's international network (or the network operated by that party) is directly connected and from whom traffic is sourced and/or to whom international traffic is provided.

Cost or Cost Information means costs for a Telecommunications Service which are required to be provided by Reach as set out in a Cost Statement.

Cost Statement for a Telecommunications Service means a statement containing the information specified in the Performance Requirements and Cost Information Schedule for that service.

Costing Information Dispute means a claim by a Parent that some or all of the cost information included in a Cost Statement is incorrect.

Costing Information Procedures means the procedures specified in Annexure E ("Billing and Settlement").

Costing Period means a period of one month.

CSL WISA means the Wireless International Services Agreement between RNHK and CSL.

DAAs means the Domestic Access Agreement entered into by Reach with Telstra, the Domestic Connectivity Agreement entered into by RNHK with HKT-PCCW and the Wireless Domestic Access Agreement entered into by CSL and RNHK.

Data Fee means the data fee payable by a Parent under paragraph 1.1 of Annexure C ("Outsourcing Fee").

Default Notice means a notice issued under clause 34 of the Main Body.

Delivery Date means the agreed date on which a given Telecommunications Service will be delivered by Reach.

Designated IP means any Intellectual Property the use of which is an integral but subsidiary part of the supply of a Service.

Details means the section of the Main Body headed "Details".

Development is defined in clause 15.2 ("Parent Funded Development").

Dispute Resolution Procedure means the procedure set out in clause 38 ("Dispute Resolution").

Effective Date has the meaning given to it in the Reach Debt and Asset Restructure Deed.

Emergency means an emergency due to an actual or potential occurrence (such as fire, flood, storm, earthquake, explosion, accident, epidemic or war like action) which:

(a) endangers or threatens to endanger the safety or health of persons;
or

(b) destroys or damages, or threatens to destroy or damage property,

being an emergency which requires a significant and co-ordinated response.

End Customer means a person who contracts or agrees with a supplier to acquire a carriage service or content service from that supplier.

End Customer Capacity Integration and Management means the Outsourcing Service described in the corresponding Service Schedule by that name.

Estimated Monthly Fee is defined in clause 9.1(a) ("Payment of monthly amount").

Exchange means telephone switching equipment of Reach, Telstra or PCCW.

Existing Allocated Capacity means the Capacity which is allocated to a Telstra under clauses 1.1(a) and (b) ("Allocation to Telstra") of the Capacity Allocation Agreement and to the PCCW Capacity Holder under clauses 2.1(a) and (b) ("Allocation to PCCW") of the Capacity Allocation Agreement and includes in each case any further Capacity which is allocated to Telstra or the PCCW Capacity Holder in accordance with clause 10.7 of the Capacity Allocation Agreement.

External Restoration Capacity is defined in clause 16.1(a) ("External Restoration").

Fault means a disruption or interruption in the delivery of a Telecommunications Service or in the normal operation of a Network.

Force Majeure means any cause which is not reasonably within the control of the party affected including, but not limited to, act of God, industrial disputes of any kind, war declared or undeclared, blockade, disturbance, lightning, fire, earthquake, storm, flood, explosion or meteor, governmental restraint, expropriation or prohibition (including unavailability or delay in availability of software, equipment or transport, inability or delay in granting or obtaining governmental approvals (other than in respect of external financing), consents, permits, licences or authorities where, in respect of all such events, the cause is not reasonably within the control of the party affected.

Forecast means a Parent's best estimate of the level of its Group's requirements for a Telecommunications Service.

Free Upgrade Capacity means additional Capacity which is allocated to a Capacity Holder under clause 12.3 ("Free capacity upgrades") of the Capacity Allocation Agreement.

Funded Capex means Overhead Capex and Parent Funded Capex.

Further Reach Capacity is defined in the Capacity Allocation Agreement.

Group is defined in clause 3.4 of the Main Body.

Holding Company of a body corporate ("first body") means a body corporate of which the first body is a Subsidiary.

Hong Kong PoP means RNHK, Reach Cable Networks Limited and their successors.

Hong Kong PoP Recovery Fee means the fee charged by a Hong Kong PoP to Reach for services, which shall be determined as the Hong Kong PoP costs marked up at the Mark up Rate in accordance with the Mark up Table plus the return on assets determined by applying the Return on Assets Rate to the monthly average net book value of assets owned by the Hong Kong PoP.

Intellectual Property means all rights conferred under statute, common law and equity in and in relation to trade marks, trade names, logos and get up, inventions, patents, designs, copyright, circuit layouts, confidential information, know-how and trade secrets and all rights and interests in them or licences to use any of them.

Interconnect Capacity means the capacity provided as Switchports between Reach's Interconnect Gateway Exchange and a POI for use in the provision of a Telecommunications Service.

Interconnect Gateway Exchange means an Exchange nominated by Reach for provision of interconnection of Reach's Network with that of a member of a Group receiving Telecommunications Services.

Interest Rate means the Default Rate as defined in the Shareholder Term Loan Facility Agreement.

Internal Restoration Capacity is defined in clause 16.2 ("Internal Restoration").

International POI means a POI which is used for a telephony Service and which is connected only to the international side of Reach's international gateway Exchanges.

Invoice means the demand for payment of Charges; an Invoice may include Charges, credits and previous invoice information.

IP Owner means the party which is the owner or licensee of Designated IP.

IP User in relation to Designated IP means the party which is not the IP Owner.

IRU is defined under the Capacity Allocation Agreement.

ISAs means the PCCW ISA, the Telstra ISA and the CSL WISA.

ISA Services means telecommunications services provided under an ISA.

A body corporate is Insolvent if:

- (a) an order is made or an effective resolution has been passed for it to be wound up, or dissolved without winding-up (otherwise than for the purposes of reconstruction or amalgamation);
- (b) a receiver, receiver manager, judicial manager, liquidator, provisional liquidator, official manager, administrator, trustee or like official has been appointed over the whole or any material part of its undertaking or property;
- (c) any distress, execution, sequestration or other similar process has been levied or enforced upon or sued out against the whole or any material part of its property and has remained undischarged for a continuous period of more than 30 days;
- (d) it has made an assignment for the benefit of creditors (including a class of creditors) generally;
- (e) it is subject to any arrangement, assignment, moratorium or composition, protected from creditors under any statute or dissolved (in each case, other than to carry out a reconstruction or amalgamation while solvent on terms approved in writing by the Parents);
- (f) it is unable or admits inability to pay its debts as they fall due, suspends making payments on any of its debts or, by reason of actual or anticipated financial difficulties, commences negotiations with its creditors generally to reschedule any or all of its indebtedness; or
- (g) a situation substantially analogous to any of (a) to (f) exists in connection with the body corporate under the law of any jurisdiction.

Landing Station means a facility for landing an international cable system.

Landing Segment Capacity means that part of any Capacity on an international cable system on the international side of an applicable Landing Station and which is not in International Waters (as defined in the Capacity Allocation Agreement).

Legislative Event means:

- (a) the enactment, amendment, replacement or repeal of the Telecommunications Act, the TPA or other telecommunications related legislation or subordinate legislation in Australia or another country connected with this agreement;
- (b) the registration, making, promulgation, issue, amendment or replacement of any code with which either or both of the parties is bound, required or obliged to comply; or
- (c) the making of a determination or finding by a Regulator or a court of law that all or any part of this agreement contravenes any provision of any law, except to the extent that the making of such determination or finding constitutes a Regulatory Event; or
- (d) the determination, addition, variation or removal of a Service Provider Rule (as defined in section 98 of the Telecommunications Act) applicable to a party.

Local Reach PoP Recovery Fee means the amount earned by a Local Reach PoP in accordance with its services agreement with Reach plus any taxes thereon other than tax on net income, excluding any return on assets or depreciation recapture related to assets over which RGNL has issued an IRU under the Capacity Allocation Agreement.

Local Reach PoP means a member of the Reach Group providing services to the Reach Group.

Loss means all damage, loss, cost and expense (including legal costs and expenses of whatsoever nature or description).

Main Body means the provisions of this agreement excluding the Annexes and Service Schedules.

Major Route means a destination which makes up one of the top 15 destinations for any voice traffic for a Parent's Group as measured by volume of minutes.

Mark-up Rate means the rate specified in Annexure H ("Return Rates").

Mark-up Table means the table contained in Annexure I ("Mark-up Table") specifying which Reach costs are to be marked up for the purpose of determining the Quarterly Outsourcing Fee.

Material Breach means a material breach of this agreement by Reach.

MIU Point is defined under the Capacity Allocation Agreement.

Network (of a party) means the system, or series of systems, owned or operated by that party that carries, or is capable of carrying Communications by means of guided or unguided electromagnetic or optical energy.

Network Conditioning means the conditioning, equipping, installing and/or commissioning of equipment, software and infrastructure in Reach's Network to enable the provision of the Telecommunications Services by Reach.

Network Service means a Telecommunications Service provided by Reach under this agreement which is described in Reach's Service Schedule to be a Network Service.

Non Cable Capex means Capex which is not Cable Capex.

O&M Charges in relation to a cable system means costs incurred in relation to the operation and maintenance of the cable system but excludes any Capex.

OMM means Reach's Operations and Maintenance Manual associated with Annexure G ("Operations and Maintenance").

Operations and Maintenance Procedures means the procedures specified in Annexure G ("Operations and Maintenance").

OPM means Reach's Ordering and Provisioning Manual associated with Annexure F ("Forecasting, Ordering and Provisioning").

Order means an order for a Telecommunications Service under this agreement.

Ordinance means the Telecommunications Ordinance (Cap 106).

Other Outsourcing Services means the services set out in Item 2 of Annexure B ("Outsourcing Services") as described further in the relevant Service Schedules.

Outsourcing Fee means the fee payable by each Parent to Reach for the Outsourcing Services.

Outsourcing Services means the services set out in Annexure B ("Outsourcing Services").

Outsourcing Services Forum or OSF means the body established under clause 29.1 ("Establishment of OSF").

Overhead Capex means any capex commitments of Reach which are:

- (a) included in an AOP; or
- (b) otherwise approved by the Board of Reach Parent (or any sub committee of the Board of Reach Parent to whom the right to give this approval has been delegated, currently the capital management sub committee of the Board),

and which the Parents agree is to be Overhead Capex.

Party means a party to this agreement and parties means any of them.

Parent means PCCW or Telstra.

Parent's Capacity means:

- (a) Reach Capacity allocated to the Parent or in the case of PCCW, the PCCW Capacity Holder; and
- (b) the Acquired Capacity of that Parent.

Parent Funded Cable Capex means any capex commitments of Reach which is the Capacity Holders or either of them has agreed to fund under the Capacity Allocation Agreement.

Parent Funded Capex means Parent Funded Cable Capex and Parent Funded Non Cable Capex.

Parent Funded Non Cable Capex means any Capex other than Cable Capex which the Parents or either of them has agreed to fund.

Parent Funded Development is defined in clause 15.2(b) ("Parent Funded Development").

Parent Specific Charges means the charges payable by a Parent under paragraph 1.3 of Annexure C ("Outsourcing Fee").

Parent's Group means the Parent and each Related Body Corporate of the Parent who may order Telecommunication Services pursuant to clause 3.4 of the Main Agreement.

Parent's Systems and Equipment means the systems and equipment which Reach and the Parent may agree to be Parent's Systems and Equipment and will include any systems and equipment provided by a Parent pursuant to clause 19.6.

PCCW ISA means the International Services Agreement (Hong Kong) dated 13 October 2000 between RNHK and PCCW-HKT as amended.

PCCW PoP means an entity controlled by PCCW which is located in a country other than Australia and which acquires telecommunication services.

People (of a party) means each of that party's directors, officers, employees, agents, contractors and representatives but, for the avoidance of doubt, does not include that party's End Customers or another party.

Performance Requirements means, in relation to a Telecommunications Service, the performance requirements for that Telecommunications Service set out in the Performance Requirements and Cost Information Schedule for that Telecommunications Service.

Performance Requirements and Cost Information Schedule means a schedule for a Telecommunications Service which sets out the Performance Requirements and Cost Information for that Telecommunications Service.

POI means, in relation to a Parent, an agreed location which is a physical point of demarcation between Reach's Network and that Parent's Network.

Privacy Laws means any laws, regulations, codes, or policies applicable to or protecting the privacy of individuals and their personal information, including but not limited to, Parts 13 and 14 of the Telecommunications Act, the Privacy Act 1998 (Australia) and any privacy codes registered under Division 4 of Part 6 of the Telecommunications Act and equivalent legislation in the Hong Kong SAR.

Prohibited Traffic means traffic offered across a POI for which there is no agreement between Reach and a Parent that Reach will carry this traffic or provide a related service to the Parent and members of its Group.

Quarter means the period from the Commencement Date to 30 June 2005 and each other subsequent 3 calendar month period commencing on 1 July, 1 October, 1 January and 1 April during the Term.

Quarterly Adjustment is defined in clause 9.2 ("Quarterly Adjustment").

Quarterly Outsourcing Fee is defined in clause 8.1 ("Quarterly Outsourcing Fee").

Reach Capacity means the following Capacity:

- (a) Existing Allocated Capacity;
- (b) Free Upgrade Capacity;
- (c) Further Reach Capacity.

Reach Debt and Asset Restructure Deed means the deed by that name dated on or about the date of this agreement between Reach Parent and certain of its Subsidiaries, PCCW and certain of its Subsidiaries and Telstra and certain of its Subsidiaries .

Reach Equipment means the equipment used by the Reach Group to provide the Outsourcing Services.

Reach Group means Reach and each Related Body Corporate used by Reach to provide the Outsourcing Services.

Reach Insolvency Event means Reach or any of its Related Bodies Corporate being Insolvent.

Reach ROA Assets is defined in clause 1.4(d) of Annexure C ("Outsourcing Fee").

Reach Systems means the systems used by the Reach Group to provide Outsourcing Services under this agreement.

Recovery Fee means the data fee payable by a Parent under paragraph 1.4 of Annexure C ("Outsourcing Fee").

Regulator means any authority or agency whether in Australia, the Hong Kong SAR or another country, sharing lawful authority over the subject matter of this agreement including, the avoidance of doubt, the Australian Competition and Consumer Commission and the HongKong Telecommunications Authority ("TA").

Regulatory Event means the occurrence of:

- (a) legal or regulatory restrictions;
- (b) restrictions due to domestic or foreign government policy; or
- (c) other restrictions imposed on telecommunication operators in relation to providing telecommunication services (including licensing requirements and restrictions relating to reselling services),

which operate such that this agreement or any action taken or required to be taken in accordance with this agreement, including the provision of the Telecommunication Services, contravenes or may contravene any provision of any applicable law in force in the jurisdiction where the Telecommunication Services are being supplied or used.

Related Body Corporate means a body corporate which is:

- (a) a Holding Company of another body corporate; or
- (b) a Subsidiary of another body corporate; or
- (c) a Subsidiary of a Holding Company of another body corporate,

but neither Telstra nor PCCW, nor their Subsidiaries, are Related Bodies Corporate of Reach.

Return on Assets Rate means the rate specified in Annexure H ("Return Rates")

RGNL means Reach Global Networks Limited.

Service Manual means a manual developed by Reach setting out procedures and operational matters relating to Annexes E ("Billing and Settlement"), F ("Forecasting, Ordering and Provisioning") or G ("Operations and Maintenance").

Service Schedule means a schedule to this agreement which, among other things, describes a Telecommunications Service or Other Outsourcing Service being supplied by Reach to the Parents and other members of their Groups.

Shareholders Agreement means the IP Backbone Company Shareholders Agreement between Telstra, Telstra Holdings Pty Limited, Telstra Holdings (Bermuda) Pty Limited, PCCW, Pacific Century Cable Holdings Limited and Reach Parent, dated 13 October 2000, as amended.

Shareholder Term Loan Facility Agreement means the agreement of that name between Reach Finance Limited, Reach Parent, RNHK, Reach Networks Australia Pty Limited, RGNL, Reach Global Services Limited,

Reach International Holdings Limited, Reach Global Holdings Limited, Reach Networks KK, Telstra and PCCW dated 12 January 2001, as amended.

Signalling Gateway means Reach's Interconnect Gateway Exchange where interconnection of signalling is provided and traffic circuits are provided.

Signalling Terminal means equipment in a Signalling Gateway which provides CCS7 signalling.

Specification means Reach's specification for a Telecommunications Service, which specification is referenced in the service description in Reach's Service Schedule for that Telecommunications Service.

Subsidiary of a body corporate ("first body") means a body corporate ("other body"):

- (a) in which the first body:
 - (i) controls the composition of the other body's board; or
 - (ii) is in a position to cast, or control the casting of, more than one-half of the maximum number of votes that might be cast at a general meeting of the other body; or
 - (iii) holds more than one-half of the issued share capital of the other body (excluding any part of that issued share capital that carries no right to participate beyond a specified amount in a distribution of either profits or capital); or
- (b) which is a Subsidiary of a Subsidiary of the first body.

Taxes means all duties (including, but not limited to, stamp duty), taxes (including, but not limited to, withholding tax), levies, charges, imposts, or like charges.

Telecommunication Services means the services listed in Annex J ("List of Telecommunications Services") and described in the Service Schedules.

Telstra ISA means the International Services Agreement (Australia) dated 13 October 2000 between Reach and Telstra as amended.

Telstra PoP means an entity controlled by Telstra which is located in a country other than Australia and which acquires telecommunication services.

Term means the term of the agreement.

Third Party Network Interconnect Services means the network to network interconnection services that Reach matches with other carriers for the provision of international services.

Transaction Documents has the meaning given to it in the Shareholder Term Loan Facility Agreement.

Unauthorised Traffic is defined in clause 4.5 of the Main Body.

Unfunded Capex is Capex which is not Funded Capex and is not:

- (a) included in an AOP; or
- (b) is otherwise approved by the Board of Reach Parent (or any sub committee of the Board of Reach Parent to whom the right to give this approval has been delegated, currently the capital management sub committee of the Board).

Unfunded Development is Development which is not Parent Funded Development and is not:

- (a) included in an AOP; or
- (b) is otherwise approved by the Board of Reach Parent (or any sub committee of the Board of Reach Parent to whom the right to give this approval has been delegated, currently the finance monitoring sub committee of the Board).

US\$ and United States Dollars means the lawful currency of the United States of America.

Voice Fee means the voice fee payable by a Parent under paragraph 1.2 of Annexure C ("Outsourcing Fee").

Voice Management Principles means principles guiding the management of the settlement arrangements for Voice Charges and components of the Voice Fee as agreed among the parties from time to time through the voice working group of the OSF.

Voice Services means the Telecommunications Services listed in Annexure J which are voice services.

Working Group has the meaning given by clause 29.2 ("Workings of OSF") of the Main Body.

Year means each of the following periods:

- (a) from 1 March 2005 to 31 December 2005;
- (b) each calendar year thereafter save for the Year in which the Term ends;
- (c) for the Year in which the Term ends, from 1 January of that Year until the last day of the Term.

MALLESONS STEPHEN JAQUES

Capacity Allocation Agreement

Dated 16 April 2005

Reach Global Networks Limited (RGNL)
Telstra Corporation Limited (Telstra)
PCCW Communications (Singapore) Pte Ltd (PCCW Singapore)
PCCW Limited (Guarantor)

Mallesons Stephen Jaques
Level 50
Bourke Place
600 Bourke Street
Melbourne Vic 3000
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F +61 3 9643 5999
DX 101 Melbourne
www.mallesons.com

Capacity Allocation Agreement
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Capacity Allocation Agreement
Details

Interpretation - definitions are at the end of the General terms

Parties RGNL, Telstra, PCCW Singapore and Guarantor

RGNL Name Reach Global Networks Limited
 Incorporated in Bermuda
 Address 2 Church Street
 Hamilton, Bermuda
 Process Agent Reach Europe Limited 50-52 Paul Street,
 London EC2A 4LB

Telstra Name Telstra Corporation Limited
 ABN 33 051 775 556
 Incorporated in Commonwealth of Australia
 Address Level 41, 242 Exhibition Street
 Melbourne, Victoria 3000
 Australia
 Process Agent Telstra Europe Limited
 Telstra House, 21 Tabernacle Street, London
 EC2A 4DE

PCCW
Singapore Name PCCW Communications (Singapore) Pte Limited
 Incorporated in Singapore
 Address Attention: Lim Beng Jin
 152 Beach Road
 #26-06 Gateway East
 Singapore 189721
 Fax +65 6230 8787
 Process Agent Simmlaw Services Limited
 Simmons and Simmons
 CityPoint

1 Ropemaker Street
London EC2Y 9SS

| | | |
|-----------|-----------------|---|
| Guarantor | Name | PCCW Limited |
| | Incorporated in | Hong Kong Special Administrative Region, Peoples' Republic of China |
| | Address | 39th Floor, PCCW Tower TaiKoo Place 979 King's Road, Quarry Bay Hong Kong |
| | Process Agent | Simmlaw Services Limited Simmons and Simmons CityPoint 1 Ropemaker Street London EC2Y 9SS |

| | | |
|----------|---|--|
| Recitals | A | RGNL holds indefeasible rights to use capacity on certain international submarine cable systems. |
| | B | RGNL has agreed to grant to the IRU Purchasers indefeasible rights to use certain of that capacity on each of those cable systems in the proportions set out in schedule 3, on arms length terms as set out in this agreement. |
| | C | The Guarantor has agreed to guarantee certain of PCCW Singapore's obligations under this agreement. |

| | |
|---------------|-------------------|
| Governing law | England and Wales |
|---------------|-------------------|

| | |
|-------------------|------------------|
| Date of agreement | See Signing page |
|-------------------|------------------|

1 Allocation of Capacity and MIU Points to Telstra

1.1 Allocation to Telstra

RGNL grants to Telstra:

- (a) an IRU in respect of the Capacity described by multiplying the units of capacity in column 2 of schedule 1 by the volumes in column 3 of schedule 1 on the cable systems described in column 1 of schedule 1;
- (b) an IRU in respect of the Capacity described by multiplying the units of capacity in column 2 of schedule 2 by the volume in column 3 on the cable systems described in column 1 of schedule 2; and
- (c) the Telstra MIU Point Rights.

1.2 Consideration

In consideration of the grants given in clause 1.1, Telstra agrees to pay the amount specified in clause 1.3 and assume the obligations to pay the amounts in accordance with clause 1.4.

1.3 Payment on Completion

At the direction of RGNL, Telstra must pay US\$157m to RGNL in the manner set out in clause 5 of the Reach Debt and Asset Restructure Deed.

1.4 Committed Capex

For as long as a Default Notice has not been issued, following receipt by Telstra of a demand made in accordance with clause 1.5, Telstra must pay one half of the value of each applicable Capex Item of Committed Capex at least seven Business Days before the last day of the Prior Month to either:

- (a) RGNL, by transfer of immediately available funds to the separate account for funds which are contributed by Telstra and which has been established and notified to Telstra under clause 4.2; or
- (b) the third party to whom the Capex Item is payable by RGNL in accordance with schedule 4 provided that:
 - (i) both IRU Purchasers so agree; or
 - (ii) PCCW Singapore has failed to make, or PCCW Singapore advises Telstra that it will not make, the corresponding Capex Payment in accordance with clause 2.4 and Telstra determines that it still wishes to make its corresponding Capex Payment under this clause 1.4.

Telstra must reimburse RGNL in accordance with clause 6.2 in respect of payments of Committed Capex made by RGNL between the Commencement Date and the Effective Date.

1.5 Demands for payment

- (a) RGNL may not make a demand for a payment under clause 1.4 except in accordance with this clause 1.5.
- (b) Subject to paragraph (c), RGNL may only make a demand for payment under clause 1.4 in the Invoice Month for the applicable Capex Item, or such earlier date as may be agreed by the Parties.
- (c) If RGNL determines that funding for a Capex Item is not required by it until after the Due Month for that Capex Item then RGNL must advise Telstra of the new month that such funding will be required by it and that month will be the Due Month for that Capex Item.
- (d) RGNL must make the demand for the corresponding Capex Payment in respect of the applicable Capex Item from PCCW Singapore at the same time that it makes the demand for the Capex Payment for that Capex Item from Telstra under this clause.

2 Allocation of Capacity and MIU Points to PCCW Singapore

2.1 Allocation to PCCW Singapore

RGNL grants to PCCW Singapore:

- (a) an IRU in respect of the Capacity described by multiplying the units of capacity in column 2 of schedule 1 by the volumes in column 4 of schedule 1 on the cable systems described in column 1 of schedule 1;
- (b) an IRU in respect of the Capacity described by multiplying the volumes of capacity in column 2 of schedule 2 by the volumes described in column 4 of schedule 2 on the cable systems described in column 1 of schedule 2; and
- (c) the PCCW MIU Point Rights.

2.2 Payment and assumption of obligations

PCCW Singapore agrees to pay the amount specified in clause 2.3 and assume the obligations to pay the amounts in accordance with clause 2.4.

2.3 Payment on Completion

At the direction of RGNL, PCCW Singapore must pay to RGNL US\$157m by applying that sum in accordance with clause 5 of the Reach Debt and Asset Restructure Deed.

2.4 Committed Capex

For as long as a Default Notice has not been issued, following receipt by PCCW Singapore of a demand made in accordance with clause 2.5, PCCW Singapore must pay one half of the value of each applicable Capex Item of Committed Capex at least seven Business Days before the last day of the Prior Month to either:

- (a) RGNL, by transfer of immediately available funds to the separate account for funds which are contributed by PCCW Singapore and which has been established and notified to PCCW Singapore under clause 4.2; or
- (b) the third party to whom the Capex Item is payable by RGNL as specified in schedule 4 provided that:
 - (i) both IRU Purchasers so agree; or
 - (ii) Telstra has failed to make, or Telstra advises PCCW Singapore that it will not make, the corresponding Capex Payment in accordance with clause 1.4 and PCCW Singapore determines that it still wishes to make its corresponding Capex Payment under this clause 2.4.

PCCW Singapore must reimburse RGNL in accordance with clause 6.2 in respect of any payments of Committed Capex made by RGNL between the Commencement Date and the Effective Date.

2.5 Demands for payment

- (a) RGNL may not make a demand for a payment under clause 2.4 except in accordance with this clause 2.5.
- (b) Subject to paragraph (c), RGNL may only make a demand for payment under clause 2.4 in the Invoice Month for the applicable Capex Item, or such earlier date as may be agreed by the Parties.
- (c) If RGNL determines that funding for a Capex Item is not required by it until after the Due Month for that Capex Item, then RGNL must advise PCCW Singapore of the new month that such funding will be required by it and that month will be the Due Month for that Capex Item.
- (d) RGNL must make the demand for the corresponding Capex Payment in respect of the applicable Capex Item from Telstra at the same time that it makes the demand for the Capex Payment for that Capex Item from PCCW Singapore under this clause.

3 Funding for Further Reach Capacity

3.1 Telstra funding for Further Reach Capacity

If the IRU Purchasers agree to provide Agreed Uncommitted Capex for Further Reach Capacity under clauses 12.4 ("Right to participate in Funded Capacity Upgrades") or 12.5 ("Further Capacity Purchases") and the AOP is updated in accordance with those clauses to include that funding then, for as long as a Default Notice has not been issued, following receipt by Telstra of a demand made by RGNL in accordance with clause 3.4, Telstra agrees to pay that proportion of the Capex Item associated with that Further Reach Capacity specified in (or if not individually specified, determined in accordance with) the then current AOP as being payable by Telstra in respect of that Further Reach Capacity at least seven Business Days before the end of the Prior Month as follows:

- (a) if both IRU Purchasers are required to provide the funding as specified in the then current AOP, to:
 - (i) RGNL, by transfer of immediately available funds to the separate account for funds which are contributed by Telstra and which has been established and notified to Telstra under clause 4.2; or
 - (ii) if both IRU Purchasers agree, the third party to whom the Capex Item is payable by RGNL as specified in the then current AOP (as updated in accordance with clause 12.4 or 12.5, as applicable) or, if no such third party is specified, to the third party advised by RGNL as being the intended recipient of payments for the purpose specified in the then current AOP; or
- (b) if PCCW Singapore is not required to provide funding towards that Capex Item as specified in the then current AOP, to:
 - (i) RGNL, by transfer of immediately available funds to the separate account for funds which are contributed by Telstra and which has been established and notified to Telstra under clause 4.2; or
 - (ii) the third party to whom the Capex Item is payable by RGNL as specified in the then current AOP (as updated in accordance with clause 12.4 or 12.5, as applicable) or, if no such third party is specified, to the third party advised by RGNL as being the intended recipient of payments for the purpose specified in the then current AOP.

3.2 PCCW funding for Further Reach Capacity

If the IRU Purchasers agree to provide Agreed Uncommitted Capex for Further Reach Capacity under clause 12.4 ("Right to participate in Funded Capacity Upgrades") or 12.5 ("Further Capacity Purchases") and the AOP is updated in accordance with those clauses to include that funding then, for as

long as a Default Notice has not been issued, following receipt by PCCW Singapore of a demand made by RGNL in accordance with clause 3.4, PCCW Singapore agrees to pay that proportion of the Capex Item associated with that Further Reach Capacity as specified in (or if not individually specified, determined in accordance with) the then current AOP as being payable by PCCW Singapore in respect of that Further Reach Capacity at least seven Business Days before the end of the Prior Month as follows:

- (a) if both IRU Purchasers are required to provide the funding as specified in the then current AOP, to:
 - (i) RGNL, by transfer of immediately available funds to the separate account for funds which are contributed by PCCW Singapore which has been established and notified to PCCW Singapore under clause 4.2; or
 - (ii) if both IRU Purchasers agree, the third party to whom the Capex Item is payable by RGNL as specified in the then current AOP (as updated in accordance with clause 12.4 or 12.5, as applicable) or, if no such third party is specified, to the third party advised by RGNL as being the intended recipient of payments for the purpose specified in the then current AOP; or
- (b) if Telstra is not required to provide funding towards that Capex Item as specified in the then current AOP, to:
 - (i) RGNL, by transfer of immediately available funds to the separate account for funds which are contributed by PCCW Singapore which has been established and notified to PCCW Singapore under clause 4.2; or
 - (ii) the third party to whom the Capex Item is payable by RGNL as specified in the then current AOP (as updated in accordance with clause 12.4 or 12.5, as applicable) or, if no such third party is specified, to the third party advised by RGNL as being the intended recipient of payments for the purpose specified in the then current AOP.

3.3 Allocation of Further Reach Capacity

In consideration of the funding provided by the IRU Purchasers under clauses 3.1 and 3.2 any Further Reach Capacity acquired by RGNL as a result of that funding will be allocated in accordance with clause 12.7.

3.4 Demands for payment

- (a) RGNL may not make any demand for payment under clause 3.1 or 3.2 except in accordance with this clause 3.4.
- (b) RGNL may only make a demand for payment under clause 3.1 or 3.2 during the Invoice Month for the applicable Capex Item of Agreed Uncommitted Capex for Further Reach Capacity, or such earlier date as may be agreed by the Parties.

- (c) If RGNL determines that funding for the applicable Capex Item of Agreed Uncommitted Capex for Further Reach Capacity is not required by it until after the Due Month for that Capex Item as determined in accordance with the then current AOP, then RGNL must advise the IRU Purchasers of the new month that such funding will be required by it and that month will be the Due Month for that Capex Item.
- (d) Where a Capex Payment of one IRU Purchaser corresponds to a Capex Payment of the other IRU Purchaser, RGNL must make the demand for both Capex Payments simultaneously.

4 Application of Capex Payments

4.1 Capex payments to match each other

Each Capex Payment relates specifically to a Capex Item and each Capex Payment made by one IRU Purchaser will correspond to any Capex Payment which is made (or due to be made) by the other IRU Purchaser in respect of that Capex Item (if any).

4.2 Establishment of separate accounts

RGNL must establish separate accounts for the Capex Payments received from Telstra (on the one hand) and the Capex Payments received from PCCW Singapore (on the other) and must notify Telstra and PCCW Singapore, respectively, of the details of the relevant account for funds received from that IRU Purchaser.

4.3 Application of capex amounts

Capex Payments received by RGNL are received and held by RGNL on trust for the IRU Purchaser who made that Capex Payment and may only be applied by RGNL in discharge of the obligation owed by RGNL to a third party in respect of the Capex Item to which the Capex Payment relates.

4.4 Application of Capex Payments to match

A Capex Payment received by RGNL from an IRU Purchaser may not be applied by RGNL under clause 4.3 unless:

- (a) a Default Notice has not been issued; and
- (b) one of the following has occurred:
 - (i) RGNL has received and simultaneously applies the corresponding Capex Payment from the other IRU Purchaser (if any is, or will be, due to be made);
 - (ii) the corresponding Capex Payment payable by the other IRU Purchaser (if any is, or will be, due to be made) has been paid in accordance with clause 1.4(b), 2.4(b), 3.1(b), 3.2(b) or 5.2; or

(iii) the IRU Purchaser who has made the Capex Payment directs RGNL to apply the amount in accordance with clause 4.3.

4.5 Distribution to IRU Purchaser

A Capex Payment received by RGNL may only be distributed by RGNL to the IRU Purchaser who made the payment to RGNL if a demand for payment is made by that IRU Purchaser in accordance with clause 4.6. To avoid doubt, the distribution of a Capex Payment to an IRU Purchaser in accordance with this clause does not give rise to a breach by that IRU Purchaser of its obligation to make that Capex Payment initially under clause 1.4, 2.4, 3.1 or 3.2 (as applicable) and that IRU Purchaser has no further obligation to RGNL in relation to that Capex Payment.

4.6 Demands for distribution

- (a) Subject to paragraph (b), an IRU Purchaser may only make a demand under clause 4.5 if the other IRU Purchaser has failed to make the corresponding Capex Payment due in accordance with this agreement (if any) and the IRU Purchaser making the demand has not issued a direction under clause 4.4(b) (iii).
- (b) A demand under clause 4.5 will be automatically deemed to have been made if a Default Notice is issued.

4.7 Interest

In the event that RGNL receives any interest on funds held by it on trust for an IRU Purchaser under clause 4.3, that interest is held on trust for the benefit of that IRU Purchaser and must be set off against amounts due from that IRU Purchaser under the Reach Networks Services Agreement.

4.8 Monthly Committed Capex Schedule

By 30 November each year, RGNL must provide the IRU Purchasers with a schedule setting out its requirements for the Committed Capex for the next calendar year on a monthly basis, which schedule must be consistent with schedule 4 ("Committed Capex Payments").

5 Failure by IRU Purchaser to fund and Reach Default

5.1 Reach to advise others

If an IRU Purchaser ("Non-Funding IRU Purchaser") fails to make, or advises RGNL that it will not make, a payment due under this agreement ("Payment Default") then RGNL must notify the other IRU Purchaser ("Funding IRU Purchaser") of such failure or advice immediately and, in which case, the provisions of clause 5.2 will apply. The date on which RGNL so notifies the Funding IRU Purchaser is referred to as the "Dispute Date".

5.2 Resolution of Funding Dispute

- (a) The Chief Executive Officer of each of Telstra and the Guarantor (or their nominees) must enter into discussions in good faith to seek to resolve any dispute giving rise to the Payment Default by the Non-Funding IRU Purchaser ("Funding Dispute") within 7 Business Days of the Dispute Date.
- (b) If the Funding Dispute is resolved in accordance with paragraph (a) within 7 Business Days of the Dispute Date then the Non-Funding IRU Purchaser must make any payment determined in accordance with that resolution. If the Non-Funding IRU Purchaser does not make any payment in accordance with that resolution then the Funding Dispute will be deemed to not be resolved and the remaining provisions of this clause will apply.
- (c) If the Funding Dispute is not resolved within 7 Business Days of the Dispute Date then the Non-Funding IRU Purchaser must pay the amount of the Payment Default within a further 3 Business Days, failing which:
 - (i) unless RGNL has received payment under sub-paragraph (ii) or otherwise from the Funding IRU Purchaser (in which case any arrangements agreed for that funding will apply), the Funding IRU Purchaser may, but is not obliged to, make the payment of the amount of the Payment Default on behalf of the Non-Funding IRU Purchaser, in which case that payment will be deemed to be a loan from the Funding IRU Purchaser to the Non-Funding IRU Purchaser, repayable on demand and incurring interest at the Interest Rate, calculated daily and compounding monthly from the date that the Funding IRU Purchaser makes payment under this clause until the date that it receives repayment of the loan and all accrued interest in full from the Non-Funding IRU Purchaser;
 - (ii) if the Funding IRU Purchaser does not make the Disputed Payment within 20 Business Days of the Dispute Date, or gives a notice to RGNL that it will not make that payment, then RGNL may issue proceedings against the Non-Funding IRU Purchaser for the amount of the Payment Default and damages in respect of its failure to make that payment, plus interest on the amount of the Payment Default at the Interest Rate, calculated daily and compounding monthly from the date that the amount of the Payment Default was initially due under this agreement until the date that it receives payment of that amount.
- (d) If the Funding IRU Purchaser makes payment of the Disputed Payment under sub-paragraph (c)(i), then the Funding IRU Purchaser may at its option, and as its sole remedy, either:
 - (i) demand repayment of the loan and payment of all accrued interest referred to in that sub-paragraph, together with any

direct costs arising from the Payment Default, in which case the Non-Funding IRU Purchaser must make those payments within 5 Business Days of the demand; or

- (ii) elect to acquire a volume of IRUs or MIU Points held by, or reserved for, the Non-Funding Purchaser, as nominated by the Funding IRU Purchaser, of a value, based on a fair market value of those IRUs calculated in accordance with clause 5.3 ("Valuation of IRUs and MIU points"), which does not exceed the amount of the Payment Default, for a purchase price equal to that value, in which case such IRUs or MIU points will be deemed to be transferred to the Funding IRU Purchaser in accordance with clause 12.1 ("Capacity Trading - Transfers") and, on completion of such transfers, the loan referred to in sub-paragraph (d)(i) and any interest accrued on it will be applied in payment of the purchase price, with any remaining balance to be repaid to the Funding IRU Purchaser ("Remaining Balance").

To avoid doubt, it is acknowledged that the Funding IRU Purchaser may not both demand repayment under paragraph (i) and elect to acquire IRUs or MIU points under paragraph (ii) in relation to the same Disputed Payment. However, the IRU Purchaser may elect to determine the value of IRUs or MIU points under clause 5.3 ("Valuation of IRUs and MIU points") prior to it electing to either demand repayment under paragraph (i) or to acquire IRUs or MIU points under paragraph (ii) and may recover any Remaining Balance under paragraph (i).

- (e) To avoid doubt, RGNL's remedies under this clause 5.2 are its only remedies in respect of a Payment Default.

5.3 Valuation of IRUs and MIU points

Prior to making an election under clause 5.2(d), or after making an election under clause 5.2(d)(ii), the Funding IRU Purchaser may notify the Non-Funding Purchaser that it wishes to determine the fair market value of certain IRUs held by, or MIU points reserved for, the Non-Funding IRU Purchaser, in which case the fair market value of those IRUs or MIU points is to be determined in accordance with the following principles:

- (a) Each IRU Purchaser will obtain and provide to the other bona fide quotes for the acquisition of the IRUs, MIU points or equivalent rights to use Capacity on the nominated cable system or cable systems (as the case may be).
- (b) The fair market value will be the average of the two quotes except where the higher quote exceeds the lower quote by more than 15 percent of the lower quote.
- (c) Where the higher quote exceeds the lower quote by more than 15 percent of the lower quote, then the Funding IRU Purchaser may elect that the determination of the fair market value be referred for

resolution in the manner to be dealt with under clause 38.3 of the Reach Network Services Agreement ("Dispute Resolution"), as though it were a dispute under that agreement.

5.4 Reach Default Notice

- (a) Telstra and the Guarantor may, if they both agree, jointly issue a Default Notice to RGNL if:
 - (i) RGNL is in Material Breach and, if that breach is capable of remedy, RGNL has failed to remedy that breach within 10 Business Days of a notice from either IRU Purchaser requesting it to do so;
 - (ii) RGNL or any other member of the Reach Group is in material breach of any other Transaction Document and, if that Transaction Document contains an applicable cure period, that default has not been remedied within that cure period; or
 - (iii) a Reach Insolvency Event has occurred.
- (b) To avoid doubt, Telstra and the Guarantor may only issue a Default Notice jointly with the other and may not do so without the other's consent.
- (c) A Default Notice may be issued in conjunction with other notices issued under the Transaction Documents, whether they are contained within the one notice or otherwise.

5.5 Termination

- (a) No Party may terminate this agreement except in accordance with this clause.
- (b) RGNL may not terminate this agreement at any time.
- (c) PCCW Singapore may not terminate this agreement at any time.
- (d) Telstra and the Guarantor may jointly terminate this agreement, but only if they both agree, in circumstances where:
 - (i) a Default Notice has been issued under this agreement; or
 - (ii) a Default Notice (as defined in the Reach Network Services Agreement) has been issued under the Reach Network Services Agreement.
- (e) To avoid doubt, Telstra and the Guarantor may only terminate this agreement jointly with the other and may not do so without the other's consent.

5.6 Damages

The parties acknowledge that if this agreement is terminated for breach by RGNL and that termination results in a loss by the IRU Purchasers of the right to use IRUs in respect of Capacity granted under this agreement then the Losses reasonably within the contemplation of the Parties as a probable result of that breach and subsequent termination include:

- (a) the loss of revenue as a result of the interruption to the IRU Purchasers' business resulting from the loss of their rights to use Capacity;
- (b) costs incurred by the IRU Purchasers to acquire replacement capacity;
- (c) any damages payable by the IRU Purchasers to their customers resulting from the loss of the IRU Purchaser's rights to use Capacity;
- (d) damage to the reputation of the IRU Purchasers; and
- (e) payments made by the IRU Purchasers in respect of Capacity which the IRU Purchasers are unable to use.

6 Commencement and Effective Date

6.1 Commencement and effective date

This agreement commences on the Effective Date but is intended to be of effect as though it came into force on the Commencement Date.

6.2 Committed Capex paid after 1 March 2005

Each IRU Purchaser must reimburse RGNL in accordance with the AOP one half of the value of each Capex Item of Committed Capex which is specified in schedule 4 as being due after the Commencement Date and before the Effective Date and which has been paid by RGNL before the Effective Date in accordance with schedule 4.

7 Apportionment of benefit and O&M charges

7.1 Intention of the Parties

Notwithstanding the date of the Effective Date, the Parties acknowledge that it is their intention that the benefit of the IRUs granted under clauses 1 and 2 is to be conferred on the IRU Purchasers in the manner set out in this agreement with effect from the Commencement Date and the Parties shall account to each other accordingly.

7.2 Benefit of IRUs granted under clauses 1 and 2

If RGNL receives any benefit (including any bonus Capacity) after the Commencement Date in respect of the Capacity to which it has granted IRUs under this agreement then:

- (a) to the extent that such benefits are attributable to IRUs in respect of Capacity held by a particular IRU Purchaser, RGNL holds those benefits for that IRU Purchaser; and
- (b) to the extent that such benefits are not, or cannot be, attributable to IRUs in respect of Capacity held by a particular IRU Purchaser, RGNL holds 50% of those benefits for each IRU Purchaser.

To the extent that an IRU Purchaser is entitled under this clause to the benefit of any rebate received by RGNL then that rebate may be applied and set off against any amounts payable by that IRU Purchaser under the Reach Networks Services Agreement.

7.3 Operations and maintenance expenses

The Parties acknowledge that RGNL will recover operations and maintenance costs incurred by it in relation to the IRUs granted under this agreement in accordance with the Reach Network Services Agreement.

8 Insurance

If requested by an IRU Purchaser, RGNL must insure any rights or interests in relation to that IRU Purchaser's IRUs granted under this agreement as directed by that IRU Purchaser, in which case that IRU Purchaser will pay RGNL for such insurance in accordance with the applicable terms of the Reach Network Services Agreement.

9 Indefeasible Rights of Use

9.1 Best endeavours

In addition to RGNL's obligations under clause 7.2, RGNL agrees to use its best endeavours to ensure that each of the IRU Purchasers obtains the full benefit of the rights to deal with IRUs to be granted to them, and any other benefits which arise as a result of owning such IRUs, with effect from the date that such a grant is to be made to them under this agreement.

9.2 Consent

RGNL agrees to use its best endeavours to obtain any necessary consents from other parties to all relevant CUAs, C&MAs and RNAL Agreements to the extent necessary to grant the IRUs in accordance with this agreement.

9.3 Consent to grant of IRU

If the consent or agreement of any party is required to grant an IRU under this agreement, this agreement takes effect, in relation to that IRU, as an irrevocable promise by RGNL to grant that IRU immediately upon obtaining that consent or agreement.

9.4 IRU Purchaser to co-operate

Each IRU Purchaser agrees to co-operate with RGNL in any reasonable arrangements and do anything reasonably requested by RGNL (such as signing and producing documents) as may be necessary or desirable to transfer to that IRU Purchaser the benefit of the applicable CUA, C&MA or RNAL Agreement to the extent that they relate to an IRU granted to that IRU Purchaser under this agreement.

9.5 Benefit of all IRUs

If an IRU to be granted under this agreement:

- (a) is not effectively granted to the applicable IRU Purchaser in accordance with this agreement; or
- (b) cannot be effectively granted to the applicable IRU Purchaser in accordance with this agreement without the consent of a third party and that party does not give their consent or agreement,

then RGNL acknowledges that from the date that the IRU was otherwise to have been granted under this agreement it will account to the applicable IRU Purchaser for any benefit RGNL receives in relation to that IRU and will do all things as may reasonably be required by that IRU Purchaser to ensure that that IRU Purchaser receives:

- (c) that benefit; and
- (d) any other benefit that IRU Purchaser would have received if that IRU had been effectively granted in accordance with this agreement.

10 MIU Points and Unactivated Capacity

10.1 Telstra Unactivated Capacity

To the extent that the Capacity referred to in clause 1.1(a) or (b) is Capacity which is not activated because RGNL has not converted its MIU points to that Capacity, RGNL declares that it holds those MIU points for the benefit of Telstra.

10.2 PCCW Singapore Unactivated Capacity

To the extent that the Capacity referred to in clause 2.1(a) or (b) is Capacity which is not activated because RGNL has not converted its MIU points to that Capacity, RGNL declares that it holds those MIU points for the benefit of PCCW Singapore.

10.3 Telstra MIU Point Rights

RGNL declares that it holds the MIU points described in column 6 of schedule 2 in respect of the cable systems described in column 1 of schedule 2 for the benefit of Telstra.

10.4 PCCW Singapore MIU Point Rights

RGNL declares that it holds the MIU points described in column 7 of schedule 2 in respect of the cable systems described in column 1 of schedule 2 for the benefit of PCCW Singapore.

10.5 Exercise of MIU Point Rights

If requested and as directed by an IRU Purchaser, RGNL must use, allocate or convert (as applicable under the relevant CUA, C&MA or RNAL Agreement) MIU points reserved for that IRU Purchaser under clause 10.1, 10.2, 10.3 or 10.4 or 11.2(a)(ii) (as applicable) to an IRU in respect of Capacity on the applicable cable system in accordance with the terms of the relevant CUA, C&MA or RNAL Agreement.

10.6 Allocation to paths

To avoid doubt, if permitted under the terms of the relevant CUA, C&MA or RNAL Agreement, the IRU Purchaser may direct that MIU points allocated to that IRU Purchaser be converted to Capacity on Paths other than in accordance with that IRU Purchaser's Capacity Forecast, provided that such conversion will not have a detrimental effect on the ability of the other IRU Purchaser to use Capacity in accordance with its Capacity Forecast, and RGNL must act in accordance with that request.

10.7 Indefeasible Right to Use

RGNL hereby grants to an IRU Purchaser for whom MIU points were reserved in accordance with 10.1, 10.2, 10.3, 10.4 or 11.2 an IRU in respect of Capacity to which those MIU points are converted with effect from the conversion of MIU points either:

- (a) in accordance with clause 10.5; or
- (b) automatically in accordance with the terms of the relevant CUA, C&MA or RNAL Agreement,

and the terms of this agreement will apply to that IRU (save as to the effective date of the grant of that IRU).

11 Existing Reach Customers

11.1 Committed Third Party Services

The Parties acknowledge that, notwithstanding clauses 1.1 and 2.1, some of the Capacity described in Schedule 1 and Schedule 2 is currently being used to provide Committed Third Party Data Services and that the grants of IRUs under clauses 1.1 and 2.1 in relation to such Capacity are subject to RGNL's obligations to provide such services and are made in accordance with clause 11.2.

11.2 Cessation of Third Party Data Services

- (a) Upon the expiry or termination of an obligation of RGNL to provide any Committed Third Party Data Services, RGNL must either:
 - (i) make the applicable Newly Available Capacity available for use by the IRU Purchaser to whom an IRU was granted in respect of that Newly Available Capacity under clause 1.1 or 1.2; or
 - (ii) if RGNL is permitted under the relevant CUA, C&MA or RNAL Agreement, and if agreed by the IRU Purchaser to whom that Newly Available Capacity would be made available under paragraph (i), deactivate that Newly Available Capacity in which case the MIU points received as a result of that deactivation will be held for the benefit of that IRU Purchaser and that IRU Purchaser may convert those MIU points to Capacity in accordance with clauses 10.5 to 10.7.
- (b) Where it is not possible to determine whether Newly Available Capacity is in respect of an IRU that has been granted to Telstra or PCCW Singapore then that Newly Acquired Capacity will be made available for use by either IRU Purchaser:
 - (i) as agreed by the IRU Purchasers; or
 - (ii) if the IRU Purchasers are unable to agree, as determined by a ballot between the IRU Purchasers,and subsequent similar Capacity, will be allocated between the IRU Purchasers on an alternating basis.

12 Capacity Trading Principles and Capacity Upgrades

12.1 Capacity trading - transfers

- (a) The Parties acknowledge that the IRU Purchasers may from time to time agree to transfer IRUs or MIU Points between themselves on terms agreed by them which reflect the market value of those IRUs or MIU Points and the IRU Purchasers must keep RGNL informed, and consult with RGNL to the extent reasonably necessary, in relation to any such transfer.
- (b) If the IRU Purchasers agree to transfer IRUs or MIU Points between themselves then such an agreement must be signed by both of them and they must both advise RGNL as soon as practicable of such agreement and provide details of the IRUs or MIU Points which they have agreed to transfer and such transfers shall not take effect until RGNL is so notified (or such later date as the IRU Purchasers may agree).

- (c) RGNL must do all things necessary to give effect to a transfer of which it is notified under paragraph (b) so that from the date of effect of the transfer the transferee will have the same rights and obligations in respect of the relevant IRUs or MIU Points as it would have had if the IRUs had been granted to it, or the MIU Points reserved for it, directly under this agreement (save for the date of effect of the grant or reservation).

12.2 Capacity trading - leases and licences

The Parties acknowledge that the IRU Purchasers may from time to time grant to each other or to third parties leases of, or licences to use, Capacity that has been provided pursuant to an IRU, however the IRU Purchasers will remain liable for their obligations under this agreement in respect of such Capacity.

12.3 Free capacity upgrades

If there is a Free Capacity Upgrade on a cable system listed in column 1 of schedule 1 which results in RGNL receiving an IRU in respect of additional Capacity or MIU points in respect of that cable system then RGNL thereupon grants to each of the IRU Purchasers an IRU in respect of that Capacity or those MIU points to the extent that, and in proportion to which, the IRU in respect of the additional Capacity or MIU points received by RGNL is attributable to the IRUs held by that IRU Purchaser at the time the additional Capacity is allocated to RGNL. If the IRU in respect of Capacity or MIU points granted to RGNL as a result of a Free Capacity Upgrade is not, or cannot be, attributable to the IRUs granted to the IRU Purchasers under this agreement then RGNL must immediately grant to each of the IRU Purchasers an IRU in respect of 50% of that Capacity.

12.4 Right to participate in Funded Capacity Upgrades

- (a) If a Capacity Upgrade is proposed that would require capital expenditure by RGNL, then RGNL must notify each IRU Purchaser of the details of the proposed Capacity Upgrade including:
 - (i) the capital expenditure that would be required by RGNL to proceed with or participate in that proposed Capacity Upgrade; and
 - (ii) the details of the Capacity that would be made available to RGNL as a result of that Capacity Upgrade.
- (b) Each IRU Purchaser must advise RGNL within 20 Business Days, or such other time period as agreed by the parties, of a notification under paragraph (a) of whether it wishes to contribute funding for that Capacity Upgrade (as Agreed Uncommitted Capex for Further Reach Capacity) and the amount of Capacity it wishes to fund and receive IRUs in respect of as a result of that Capacity Upgrade.
- (c) If the total Agreed Uncommitted Capex for the Further Reach Capacity that the IRU Purchasers notify RGNL that they wish to

provide exceeds the total amount of funding required and the IRU Purchasers are then unable to agree between them the amount of funding that they each will provide, then, subject to the approval of the necessary amendments to the AOP in accordance with paragraph (e), each IRU Purchaser will be entitled to provide Agreed Uncommitted Capex for Further Reach Capacity to RGNL in proportion to their existing IRUs on the cable system to which the proposed Capacity Upgrade relates. In the event that the IRU Purchasers do not agree to provide sufficient Agreed Uncommitted Capex for Further Reach Capacity to enable the Capacity Upgrade to proceed or for RGNL to participate in the Capacity Upgrade, then RGNL must advise both IRU Purchasers of this fact as soon as it becomes so aware.

- (d) Upon determining the extent to which each IRU Purchaser wishes to provide Agreed Uncommitted Capex for Further Reach Capacity in accordance with paragraphs (b) and (c), Reach must:
 - (i) consider the proposal, in consultation with the IRU Purchasers;
 - (ii) determine what changes to the then current AOP would be required in order to acquire the Further Reach Capacity (based on the Agreed Uncommitted Capex for Further Reach Capacity which each of the IRU Purchasers has agreed they would provide), including changes to the Agreed Uncommitted Capex for Further Reach Capacity and changes to the operations and maintenance costs which would be recovered under the Reach Network Services Agreement; and
 - (iii) prepare a submission to the Reach Board seeking the amendments to the AOP determined necessary under paragraph (ii) for presentation to the Reach Board as soon as reasonably practicable.
- (e) If the Reach Board approves the amendments to the AOP requested in the submission referred to in paragraph (d)(iii) then the AOP will be amended to incorporate those amendments and such Agreed Uncommitted Capex for Further Reach Capacity agreed to be provided by the IRU Purchasers will be provided by them in accordance with clause 3 ("Funding for Further Reach Capacity").

12.5 Further Capacity purchases

The IRU Purchasers may agree that they would be willing to provide Agreed Uncommitted Capex for Further Reach Capacity for the acquisition by RGNL of Further Reach Capacity which is not part of a Funded Capacity Upgrade in whatever proportions the IRU Purchasers agree, in which case they may put a proposal to RGNL that it acquire that Further Reach Capacity and RGNL must then:

- (a) consider the proposal, in consultation with the IRU Purchasers;

- (b) determinewhat changes to the then current AOP would be required in order to acquire the Further Reach Capacity (based on the Agreed Uncommitted Capex for Further Reach Capacity which each of the IRU Purchasers has agreed they would provide), including changes to the Agreed Uncommitted Capex for Further Reach Capacity and changes to the operations and maintenance costs which would be recovered under the Reach Network Services Agreement; and
- (c) prepare a submission to the Reach Board seeking the amendments to the AOP determined necessary under paragraph (b) for presentation to the Reach Board as soon as reasonably practicable.

If the Reach Board approves the amendments to the AOP requested in the submission referred to in paragraph (c) then the AOP will be amended to incorporate those amendments and such Agreed Uncommitted Capex for Further Reach Capacity agreed to be provided by the IRU Purchasers will be provided by them in accordance with clause 3 ("Funding for Further Reach Capacity").

12.6 No Capacity Purchases

RGNL may not acquire Further Reach Capacity unless:

- (a) it is Further Reach Capacity acquired as part of a Free Capacity Upgrade in accordance with clause 12.3; or
- (b) it is Further Reach Capacity acquired as part of a Funded Capacity Upgrade in accordance with clause 12.4;
- (c) it is Further Reach Capacity acquired in accordance with clause 12.5 ("Further Capacity Purchases"); or
- (d) Telstra and the Guarantor have agreed that RGNL may acquire such Further Reach Capacity and that RGNL may fund that acquisition in accordance with the AOP.

12.7 Allocation of capacity from funded Capacity upgrades and further Capacity purchases

In consideration for each Capex Payment for Further Reach Capacity under clause 3 ("Funding for Further Reach Capacity"), RGNL grants to each IRU Purchaser an IRU in respect of the amount of the Further Reach Capacity (International Wet Segment) acquired as part of that Further Reach Capacity which is proportionate to that IRU Purchaser's contribution to such funding.

12.8 RNAL upgrades

Unless the IRU Purchasers agree otherwise, if:

- (a) one IRU Purchaser (Initial Funding IRU Purchaser) agrees to fund Capacity Upgrade on RNAL, but the other IRU Purchaser (Non-Funding IRU Purchaser) does not;

- (b) the Non-Funding IRU Purchaser subsequently agrees to fund (or contribute to the funding of) a further Capacity Upgrade on RNAL; and
- (c) the total amount of Further Reach Capacity in respect of which IRUs are granted (or which will be granted on completion of the Capacity Upgrades) to the IRU Purchasers in respect of both of those Capacity Upgrades are disproportionate to the funding by each IRU Purchaser referred to in paragraphs (a) and (b),

then the Non-Funding IRU Purchaser must pay to the Initial Funding IRU Purchaser an amount ("Compensation Amount") such that:

- (d) the funding provided by the Initial Funding IRU Purchaser, less the Compensation Amount; and
- (e) the funding provided by the Non-Funding IRU Purchaser, plus the Compensation Amount,

are proportionate to the amount of Further Reach Capacity in respect of which the IRUs granted, or to be granted, to the Initial Funding IRU Purchaser and the Non-Funding IRU Purchaser, respectively, as a result of the funding referred to in paragraphs (a) and (b).

12.9 Payment of Compensation Amount

The Compensation Amount payable under clause 12.8 must be paid within 2 Business Days of the date that the funding contribution referred to in clause 12.8(b) is made and must be by the transfer of immediately available funds to the bank account nominated by the Initial Funding IRU Purchaser and advised to the Non-Funding IRU Purchaser.

13 Capacity flexibility and reduction of Capacity

13.1 Reallocation of IRUs

Where an IRU Purchaser has been granted an IRU in respect of Capacity on a Path which may be transferred or converted by RGNL to Capacity on a different Path under the terms of the relevant CUA, C&MA or RNAL Agreement and that IRU Purchaser notifies RGNL that it wishes to convert that IRU to an IRU in respect of Capacity on a different Path then RGNL will do all things necessary to convert that IRU as requested, provided that this does not affect the other IRU Purchaser's IRUs in respect of Capacity on the new Path.

13.2 Payment for reallocation of IRUs

If an IRU Purchaser notifies RGNL under clause 13.1 that Capacity on a Path is to be transferred or converted to Capacity on a different Path then that IRU Purchaser must provide RGNL (or at RGNL's direction) with sufficient funds to meet any costs associated with that transfer or conversion.

13.3 Notification of reduction of Capacity

If the total Capacity on a cable system listed in column 1 of schedule 1 ("Capacity Allocation") is reduced pursuant to the terms of the CUA, C&MA or RNAL Agreements applicable to that cable system then RGNL must promptly advise each of the IRU Purchasers of that reduction.

13.4 Reduction in Capacity for IRU Purchasers

If a reduction of the total Capacity on a cable system listed in column 1 of schedule 1 ("Capacity Allocation") results in a reduction of the amount of Capacity on that cable system available for the IRU Purchasers (Available Capacity) then RGNL may reduce the amount of Capacity over which an IRU is granted, or is to be granted, to each of the IRU Purchasers under this agreement in the same proportion as the reduction of Available Capacity.

13.5 Decommissioning of cable systems

If RGNL has provided, or is to provide, under this agreement an IRU in respect of Capacity on a cable system and that cable system is wholly or partly decommissioned then RGNL's obligation to provide such an IRU ceases to the extent that RGNL is unable to do so as a result of that decommissioning.

14 No amendments to capacity agreements

14.1 No amendments to Capacity agreements

RGNL must not make, or agree to make, any amendments to any CUA, C&MA or RNAL Agreement which derogate from the Capacity or the IRUs or any rights or benefits granted under, or in connection with, this agreement or increases (or could be reasonably expected to increase) the amounts payable by, or any obligation imposed upon, an IRU Purchaser under this agreement or the Reach Network Services Agreement without the prior consent of each of the IRU Purchasers who are granted IRUs or MIU Point Rights in respect of Capacity that is the subject of that CUA, C&MA or RNAL Agreement, such consent not being unreasonably withheld.

15 Warranties, representations and indemnities

15.1 Telstra corporate warranties

Telstra represents and warrants to each of the other Parties that:

- (a) it is duly incorporated and in existence under the laws of Australia;
- (b) it has the power to enter into and perform this agreement and has obtained all necessary consents to enable it to do so; and
- (c) the entry into and performance of this agreement by it does not constitute a breach of any obligation (including, but not limited to, any statutory, contractual or fiduciary obligation), or default under any agreement or undertaking, by which it is bound.

15.2 Telstra indemnity

Telstra indemnifies each of the other Parties against any Loss suffered by them arising directly or indirectly from, and any costs, charges and expenses incurred in connection with, any inaccuracy in or breach of any of the warranties given by it in clause 15.1 ("Telstra Warranties").

15.3 PCCW Singapore corporate warranties

PCCW Singapore represents and warrants to each of the other Parties that:

- (a) it is duly incorporated and in existence under the laws of Singapore;
- (b) it has the power to enter into and perform this agreement and has obtained all necessary consents to enable it to do so; and
- (c) the entry into and performance of this agreement by it does not constitute a breach of any obligation (including, but not limited to, any statutory, contractual or fiduciary obligation), or default under any agreement or undertaking, by which it is bound.

15.4 Guarantor corporate warranties

The Guarantor represents and warrants to each of the other Parties that:

- (a) it is duly incorporated and in existence under the laws of the Hong Kong Special Administrative Region of the Peoples Republic of China;
- (b) it has the power to enter into and perform this agreement and has obtained all necessary consents to enable it to do so;
- (c) the entry into and performance of this agreement by it does not constitute a breach of any obligation (including, but not limited to, any statutory, contractual or fiduciary obligation), or default under any agreement or undertaking, by which it is bound; and
- (d) PCCW Singapore is a Subsidiary of the Guarantor.

15.5 Guarantor indemnity

The Guarantor indemnifies each of the other Parties against any Loss suffered by them arising directly or indirectly from, and any costs, charges and expenses incurred in connection with, any inaccuracy in or breach of any of the warranties given by PCCW Singapore in clause 15.3 ("PCCW Singapore Corporate Warranties") or by it in clause 15.4 ("Guarantor Corporate Warranties").

15.6 RGNL corporate warranties

RGNL represents and warrants to each of the other Parties that:

- (a) it is duly incorporated and in existence under the laws of Bermuda;

- (b) it has the power to enter into and perform this agreement and has obtained all necessary consents to enable it to do so; and
- (c) the entry into and performance of this agreement by it does not constitute a breach of any obligation (including, but not limited to, any statutory, contractual or fiduciary obligation), or default under any agreement or undertaking, by which it is bound.

15.7 Accuracy

RGNL represents and warrants to each of the IRU Purchasers that each Warranty set out in schedule 8 is correct and not misleading on the date of this agreement and will be correct and not misleading on each day after the date of this agreement up to and including the Effective Date as if made on and as at each of those dates.

15.8 Separate Warranties

Each Warranty is to be treated as a separate representation and warranty. The interpretation of any statement made may not be restricted by reference to or inference from any other statement.

15.9 Indemnity

RGNL indemnifies each of the IRU Purchasers against any Loss suffered by them arising directly or indirectly from, and any costs, charges and expenses incurred in connection with, any inaccuracy in or breach of any Warranty.

15.10 No extinguishment

The Warranties are not extinguished or affected by any investigation made by or on behalf of the IRU Purchasers into the affairs of RGNL or by any other event or matter unless:

- (a) both of the IRU Purchasers have given a specific written waiver or release;
- (b) the Claim relates to a matter which is expressly disclosed to the IRU Purchasers before the date of this agreement; or
- (c) the Claim relates to a thing done or not done after the date of this agreement at the request or with the approval of both of the IRU Purchasers.

15.11 Inducement

Each Party acknowledges that:

- (a) it has made and given the warranties made by it under this clause 15 ("Warranties, Representations and Indemnities") with the intention of inducing the other Parties to enter into this agreement; and

- (b) the other Parties have entered into this agreement in full reliance on the warranties made by it under this clause 15 ("Warranties, Representations and Indemnities").

16 Regulatory and tax events

16.1 Regulatory Event

In the event that either:

- (a) RGNL is unable to perform an obligation under this agreement; or
- (b) an IRU Purchaser is unable to utilise a right to use Capacity granted to it under this agreement

due to a Regulatory Event then the Parties agree to enter into negotiations in good faith with a view to agreeing the necessary amendments to this agreement so that the Regulatory Event no longer has such an effect and with minimum additional cost or loss of rights to each Party.

16.2 Tax event

In the event of a change of Tax law by virtue of an enactment, amendment, replacement or repeal of Tax legislation, exemption orders, practice notes, Tax rules or a change of practice in relation to Taxes by a Tax authority in a jurisdiction which, in PCCW Singapore's opinion acting reasonably, has a detrimental effect on a supply by PCCW Singapore to its customers or acquisition of Capacity by PCCW Singapore under this agreement, then PCCW Singapore may request that its rights and obligations under this agreement be novated to another Subsidiary of PCCW located in another jurisdiction, or to PCCW, (the "New PCCW Subsidiary") in which case:

- (a) the Parties must (without prejudice to any other rights they may have) enter into good faith negotiations as soon as practicable, to amend or vary the Transaction Documents (including this agreement) to the extent necessary so as to enable all of PCCW Singapore's rights and obligations under this agreement to be novated to the New PCCW Subsidiary without such amendment or assignment having any detrimental impact on any of Telstra or RGNL or their Related Bodies Corporate under any of the Transaction Documents or under the Transactions as a whole; and
- (b) from the date of any novation agreed by the Parties under paragraph (a):
 - (i) the Guarantor guarantees and indemnifies the other Parties in accordance with clause 19 ("Guarantee and Indemnity") as though references in that clause to PCCW Singapore were references to the New PCCW Subsidiary (including, to avoid doubt, references to PCCW Singapore in the definition of Change of Control of PCCW Singapore in clause 28.1);

(ii) references in this agreement to PCCW Singapore will be deemed to be references to the New PCCW Subsidiary; and

(iii) any other amendments to the Transaction Documents that are agreed by the Parties under that paragraph will take effect.

Notwithstanding any novation of PCCW Singapore's rights and obligations agreed in accordance with paragraph (a), PCCW Singapore and the Guarantor retain all rights and liabilities under this agreement in respect of the period prior to the novation.

17 Limitations of Liability

17.1 Liability of the IRU Purchasers

To avoid doubt, each IRU Purchaser's liability to RGNL in respect of the Capacity and the CUAs, C&MAs and RNAL Agreements is limited to the liabilities expressly assumed and the indemnities expressly given under this agreement.

17.2 Liability of RGNL

RGNL's liability to each IRU Purchaser under this agreement is limited to that IRU Purchaser's right to recover damages from RGNL in the event of termination of this agreement and claims for amounts expressly payable to each IRU Purchaser under clause 4.

18 Change of Control of PCCW Singapore

The Guarantor and PCCW Singapore must ensure that there is no Change of Control of PCCW Singapore.

19 Guarantee and Indemnity

19.1 Consideration

The Guarantor acknowledges that Telstra and RGNL are acting in reliance on the Guarantor incurring obligations and giving rights under this clause.

19.2 Guarantee

The Guarantor unconditionally and irrevocably guarantees to each of Telstra and RGNL PCCW Singapore's compliance with its obligations to that Party in connection with this agreement, including each obligation to pay money.

If PCCW Singapore does not comply with those obligations on time and in accordance with this agreement, then the Guarantor agrees to comply with those obligations on demand from the relevant Party to whom PCCW Singapore owes that obligation. A demand may be made only after demand has been made on PCCW Singapore and such demand remaining unsatisfied for 5 Business Days.

19.3 Indemnity

The Guarantor agrees as a primary obligation to indemnify each of Telstra and RGNL on demand from and against any loss incurred by such Party as a result of PCCW Singapore's obligations to such Party under this agreement becoming void, voidable or unenforceable for any reason, whether or not known to the Guarantor, the amount of such loss being the amount which such Party would have otherwise been entitled to recover from PCCW Singapore in respect of such obligation.

19.4 Extent of guarantee and indemnity

The guarantee in clause 19.2 ("Guarantee") is a continuing obligation despite any intervening payment, settlement or other thing and extends to all of PCCW Singapore's obligations in connection with this agreement. The Guarantor waives any right it has of first requiring Telstra or RGNL to commence proceedings or enforce any other right against PCCW Singapore or any other person before claiming from the Guarantor under this guarantee and indemnity.

19.5 Payments

The Guarantor agrees to make payments under this guarantee and indemnity:

- (a) in full without set-off or counterclaim, and without any deduction whatsoever unless prohibited by law, except that it shall be entitled to any rights which PCCW Singapore may have under this agreement or at law; and
- (b) in the currency in which the payment is due in immediately available funds.

19.6 Rights of the Beneficiary are protected

The rights given to Telstra and RGNL under this clause 19, and the Guarantor's liabilities under it, are not affected by any act or omission of Telstra or RGNL, or any other person. For example, those rights and liabilities are not affected by:

- (a) any act or omission:
 - (i) varying or replacing this agreement;
 - (ii) releasing PCCW Singapore or giving PCCW Singapore a concession (such as more time to pay);
 - (iii) releasing any person who gives a guarantee or indemnity in connection with any of PCCW Singapore's obligations;
 - (iv) by which the obligations of any person who guarantees any of PCCW Singapore's obligations (including obligations under this clause 19 may become unenforceable;

- (v) by which any person who was intended to guarantee any of PCCW Singapore's obligations does not do so, or does not do so effectively;
- (vi) by which a person who is co-surety or co-indemnifier is discharged under an agreement or by operation of law;
- (b) a person dealing in any way with this agreement or this guarantee and indemnity;
- (c) the death, mental or physical disability, or liquidation, administration or insolvency of any person including the Guarantor or PCCW Singapore;
- (d) changes in the membership, name or business of any person;
- (e) acquiescence or delay by Telstra or RGNL or any other person.

19.7 Guarantor's rights are suspended

After a demand has been made on the Guarantor under this guarantee, so long as the Guarantor is under any actual or contingent liability under this guarantee and indemnity, the Guarantor may not:

- (a) exercise in respect of any amount paid by the Guarantor under this guarantee any right of subrogation or any other right or remedy which the Guarantor may have in respect thereof;
- (b) except with the consent in writing of the other Parties, hold any security from PCCW Singapore (other than the Security Documents) or claim or receive payment of any other monies for the time being due to the Guarantor by PCCW Singapore or exercise any other right or remedy which the Guarantor may have in respect thereof;
- (c) unless so required by Telstra and RGNL, prove in a bankruptcy of, or other insolvency proceedings against, PCCW Singapore in competition with Telstra and RGNL for any monies owing to them by PCCW Singapore under this agreement.

20 Confidentiality and privacy

20.1 Confidential Information

Subject to clause 20.6 ("Privacy obligations") no Confidential Information may be disclosed by the Receiving Party to any person except:

- (a) to Representatives of the Receiving Party or its Related Bodies Corporate requiring the information for the purposes of this agreement; or
- (b) with the consent of the Disclosing Party; or

(c) if the Receiving Party is required to do so by law, a stock exchange or any regulatory authority; or

(d) if the Receiving Party is required to do so in connection with legal proceedings relating to this agreement.

20.2 Disclosure of Confidential Information

If the Receiving Party discloses Confidential Information as permitted under clause 20(a) or (b) ("Confidential Information"), the Receiving Party must use all reasonable endeavours to ensure that persons receiving Confidential Information from it do not disclose the Confidential Information except in the circumstances permitted in clause 20.1 ("Confidential Information").

20.3 Use of Confidential Information

RGNL must not use any Confidential Information of Telstra or PCCW Singapore except for the purpose of performing its obligations under this agreement and the other Transaction Documents.

20.4 Excluded Information

Clauses 20.1 ("Confidential Information"), 20.2 ("Disclosure of Confidential Information") and 20.3 ("Use of Confidential Information") do not apply to Excluded Information.

20.5 Delivery of materials

The Receiving Party must, on the request of the Disclosing Party, immediately deliver to the Disclosing Party all documents or other materials containing or referring to that information which are:

(a) in the Receiving Party's possession, power or control; or

(b) in the possession, power or control of persons who have received Confidential Information from the Receiving Party under clause 20.1(a) or (b) ("Confidential Information").

20.6 Privacy obligations

Each Party agrees to comply with its obligations under any Privacy Law by which it is bound in respect of all Personal Information collected, used or disclosed under this agreement.

20.7 Survival of termination

This clause 20 ("Confidentiality and privacy") survives termination of this agreement.

21 Announcements

21.1 Public announcements

Subject to clause 21.2 ("Public announcements required by law"), no Party may, before or after the Effective Date, make or send a public announcement, communication or circular concerning the transactions referred to in this agreement unless it has first obtained the written consent of the other Parties which consent is not to be unreasonably withheld or delayed.

21.2 Public announcements required by law

Clause 20.1(c) ("Confidential Information") and 21.1 ("Public announcements") do not apply to a public announcement, communication or circular required by law or a regulation of a stock exchange ("Announcement"). Each IRU Purchaser must provide the other IRU Purchaser with a draft of such Announcement prior to its release.

22 Legal Costs

Each Party agrees to pay their own legal and other costs and expenses in connection with the negotiation, preparation, execution and completion of this agreement and other related documentation.

23 Notices

23.1 Form

Unless expressly stated otherwise in this agreement, all notices, certificates, consents, approvals, waivers and other communications in connection with this agreement must be in writing signed by an Authorised Officer and must be marked for the attention of the person identified in the Details or, if the recipient has notified otherwise, then marked for attention in the last way notified.

23.2 Delivery

Notices must be:

- (a) left at the address set out or referred to in the Details;
- (b) sent by prepaid ordinary post (airmail if appropriate) to the address set out or referred to in the Details;
- (c) sent by fax to the fax number set out or referred to in the Details;
or
- (d) given in any other way permitted by law.

However, if the intended recipient has notified a changed address or fax number, then the communication must be to that address or number.

23.3 When effective

They take effect from the time they are received unless a later time is specified.

23.4 Receipt - post

If sent by post, they are taken to have been received three days after posting (or seven days after posting if posted from the sender's country to another country).

23.5 Receipt - fax

If sent by fax, they are taken to have been received at the time shown in the transmission report as the time that the whole fax was sent.

23.6 Receipt - general

Despite clauses 23.4 ("Receipt - post") and 23.5 ("Receipt - fax"), if they are received after 5.00pm in the place of receipt or on a non-Business Day, they are taken to be received at 9.00am on the next Business Day.

24 Assignment

24.1 No assignment

Except as provided for in clauses 12.1 ("Capacity trading - transfers"), and 12.2 ("Capacity trading - leases and licences"), no Party may assign or otherwise deal with its rights under this agreement (including its IRUs) or allow any interest in them to arise or be varied, in each case without the consent of the other Parties, which consent must not be unreasonably withheld or delayed.

25 Miscellaneous

25.1 Discretion in exercising rights

A Party may exercise a right or remedy or give or refuse its consent in any way it considers appropriate (including by imposing conditions), unless this agreement expressly states otherwise.

25.2 Partial exercising of rights

If a Party does not exercise a right or remedy fully or at a given time, the Party may still exercise it later.

25.3 No liability for loss

A Party is not liable for loss caused by the exercise or attempted exercise of, failure to exercise, or delay in exercising a right or remedy under this agreement.

25.4 Approvals and consents

By giving its approval or consent a Party does not make or give any warranty or representation as to any circumstance relating to the subject matter of the consent or approval.

25.5 Conflict of interest

The Parties' rights and remedies under this agreement may be exercised even if it involves a conflict of duty or a Party has a personal interest in their exercise.

25.6 Remedies cumulative

The rights and remedies provided in this agreement are in addition to other rights and remedies given by law independently of this agreement.

25.7 Rights and obligations are unaffected

Rights given to the Parties under this agreement and the Parties' liabilities under it are not affected by anything which might otherwise affect them by law.

25.8 Third party rights

A person who is not a party to this agreement has no rights under the Contracts (Rights of Third Parties) Act 1999 (UK) to enforce any term or condition of this agreement.

25.9 Variation and waiver

A provision of this agreement or a right created under it, may not be waived or varied except in writing, signed by the Party or Parties to be bound.

25.10 No merger

The warranties, undertakings and indemnities in this agreement do not merge on Completion.

25.11 Indemnities

Subject to this agreement the indemnities in this agreement are continuing obligations, independent from the other obligations of the Parties under this agreement and continue after this agreement ends. It is not necessary for a Party to incur expense or make payment before enforcing a right of indemnity under this agreement.

25.12 Further steps

Each Party agrees, at its own expense, to do anything the another Party asks (such as obtaining consents, signing and producing documents and getting documents completed and signed) and each of the IRU Purchasers agree to cooperate with each other as may be necessary or desirable to give full effect to the provisions of this agreement and the transactions contemplated by it.

25.13 Time of the essence

Time is of the essence of this agreement in respect of any date or period determined under this agreement.

25.14 Entire agreement

This agreement constitutes the entire agreement of the Parties about its subject matter and supersedes all previous agreements, understandings and negotiations on that subject matter

25.15 Construction

No rule of construction applies to the disadvantage of a Party because that Party was responsible for the preparation of, or seeks to rely on, this agreement or any part of it.

25.16 Severability

If the whole or any part of a provision of this agreement is void, unenforceable or illegal in a jurisdiction it is severed for that jurisdiction. The remainder of this agreement has full force and effect and the validity or enforceability of that provision in any other jurisdiction is not affected. This clause has no effect if the severance alters the basic nature of this agreement or is contrary to public policy.

26 Governing law, jurisdiction and service of process

26.1 Governing law

This agreement is governed by the law in force in the place specified in the Details.

26.2 Jurisdiction

Each Party submits to the non-exclusive jurisdiction of the courts of the place specified in the Details and courts of appeal from them. Each Party waives any right it has to object to an action being brought in those courts, including, without limitation, by claiming that the action has been brought in an inconvenient forum or that those courts do not have jurisdiction.

26.3 Serving documents

Without preventing any other method of service, any document in an action may be served on a Party by being delivered to or left at that Party's address in the Details or with its Process Agent.

26.4 Appointment of Process Agent

The parties irrevocably appoint the relevant Process Agent as their process agent to receive any document in an action in connection with this deed.

If for any reason a Process Agent ceases to be able to act as process agent, the appointing party must promptly appoint another person in the place as process agent.

Each party agrees that the service of documents on its Process Agent or any other person appointed under this clause will be sufficient service on it, provided that:

- (a) in the case of service on Telstra, a copy of those documents must also be provided to:

Company Secretary
Telstra Corporation Limited
Level 41
242 Exhibition Street
Melbourne Victoria, 3000
Australia; and

- (b) in the case of service on PCCW Singapore or the Guarantor, a copy of those documents must also be provided to:

The Company Secretary
PCCW Limited
39th Floor, PCCW Tower
TaiKoo Place
979 King's Road, Quarry Bay
Hong Kong

27 Counterparts

This agreement may be executed in counterparts. All counterparts when taken together are to be taken to constitute one instrument.

28 Interpretation

28.1 Definitions

These meanings apply unless the contrary intention appears.

Agreed Uncommitted Capex for Further Reach Capacity means any capital expenditure specified in the AOP as being Agreed Uncommitted Capex for Further Reach Capacity and which the IRU Purchasers have agreed to fund as Agreed Uncommitted Cable Capex for Further Reach Capacity in accordance with clause 12.4 ("Right to Participate in Funded Capacity Upgrades") or clause 12.5 ("Further Capacity Purchases") but, to avoid doubt, does not include the Committed Capex or any capital expenditure paid, or due to be paid, by RGNL, or its Related Bodies Corporate, prior to 1 March 2005.

AOP means the Reach Annual Operating Plan approved from time to time in accordance with clause 7.13 of the Shareholders Agreement (including as

amended from time in accordance with that clause pursuant to clause 12.4 or 12.5 of this agreement).

Authorised Officer means a person appointed by a Party to act as an Authorised Officer for the purposes of this agreement.

Business Day means a day other than a Saturday, Sunday or public holiday in Hong Kong.

C&MAs means the Construction and Maintenance Agreements under which RGNL holds indefeasible rights to use some of the Capacity, as set out in schedule 5.

Capacity means the amount of carriage that can be conducted simultaneously over that part of an international submarine telecommunications cable system described in column 1 of schedule 1, or any other cable system referred to in clause 12.5, which lies in International Waters.

Capacity Agreements means the CUAs, the C&MAs and the RNAL Agreements.

Capacity Forecast means, in respect of each IRU Purchaser, the capacity forecast provided to RGNL prior to the date of this agreement showing forecast capacity requirements to 31 December 2005.

Capacity Upgrade means an increase in the equipped Capacity of a cable system.

Capex means the Committed Capex and the Agreed Uncommitted Capex for Further Reach Capacity.

Capex Item means:

- (a) in the case of Committed Capex, a component of that capital expenditure which is specified in schedule 4;
- (b) in the case of Agreed Uncommitted Capex for Further Reach Capacity, a component of that capital expenditure which is specified in the then current AOP as being Capex for Further Reach Capacity.

Capex Payment means a payment under clause 1.4, 2.4, 3.1 or 3.2.

Change of Control of PCCW Singapore means PCCW Singapore ceasing to be a Subsidiary of the Guarantor.

Claim includes any allegation, debt, cause of action, Liability, claim, proceeding, suit or demand of any nature howsoever arising and whether present or future, fixed or unascertained, actual or contingent, whether at law, in equity, under statute or otherwise.

Commencement Date means 1 March 2005.

Committed Capex means the capital expenditure that Reach or its Related Bodies Corporate have contractually committed to as at 31 December 2004

and which has been agreed by the IRU Purchasers, as set out in schedule 4, but does not include any capital expenditure amounts paid by Reach or its Related Bodies Corporate, or specified in schedule 4 to be paid by any of them, prior to 1 March 2005.

Committed Third Party Data Services means data services provided by RGNL or any of its Related Bodies Corporate to third parties utilising part of the Capacity and which Reach or any of its Related Bodies Corporate have a legal obligation to continue to provide for a period.

Confidential Information means all Information disclosed to the Receiving Party or any Related Body Corporate or Representative of the Receiving Party, under or in connection with this agreement, including:

- (a) information which, either orally or in writing, is designated or indicated as being the proprietary or confidential information of the Disclosing Party or any of its Related Bodies Corporate;
- (b) information derived or produced partly or wholly from the Information including any calculation, conclusion, summary or computer modelling; and

whether the Information was disclosed:

- (c) orally, in writing or in electronic or machine readable form;
- (d) before, on or after the date of this agreement;
- (e) as a result of discussions between any of the Parties concerning or arising out of the granting of rights to the IRU Purchasers in respect of Capacity under this agreement; or
- (f) by the Disclosing Party or any of its Representatives, any of its Related Bodies Corporate, any Representatives of its Related Bodies Corporate or by any third person.

CUA means the Capacity Use Agreements under which RGNL holds indefeasible rights to use some of the Capacity, as set out in schedule 6.

Default Notice means a notice issued under clause 5.4.

Details means the section of this agreement headed "Details".

Disclosing Party means the Party disclosing Confidential Information.

Due Month means, in respect of a Capex Item, the month in which either:

- (a) funding for that Capex Item is required by RGNL as determined in accordance with:
 - (i) schedule 4 and the Monthly Committed Capex Schedule; or
 - (ii) clause 1.5(c) or 2.5(c); or

(b) funding for that Capex Item of Agreed Uncommitted Capex for Further Reach Capacity is required by RGNL as determined in accordance with:

- (ii) the then current AOP (or if no such date can be determined, the date RGNL reasonably anticipates that it will require such funding and which is consistent with the then current AOP); or
- (iii) clause 3.4(c).

Effective Date has the meaning given to it in the Reach Debt and Asset Restructure Deed.

Excluded Information means Confidential Information which:

- (a) is in or becomes part of the public domain other than through breach of this agreement or an obligation of confidence owed to the Disclosing Party or any Related Body Corporate of the Disclosing Party;
- (b) the Receiving Party can prove by contemporaneous written documentation was already known to it at the time of disclosure by the Disclosing Party or its Related Bodies Corporate or Representatives (unless such knowledge arose from disclosure of information in breach of an obligation of confidentiality); or
- (c) the Receiving Party acquires from a source other than the Disclosing Party or any Related Body Corporate or Representative of the Disclosing Party where such source is entitled to disclose it.

Free Capacity Upgrade means a Capacity Upgrade provided at no additional cost to RGNL or either of the IRU Purchasers.

Funded Capacity Upgrade means a Capacity Upgrade described in clause 12.4.

Further Reach Capacity means any capacity over an international submarine telecommunications cable system acquired by RGNL, in addition to the Capacity held by RGNL as at 1 March 2005, other than by the use, allocation or conversion of MIU Points held by RGNL as at 1 March 2005.

Further Reach Capacity (International Wet Segment) means any capacity over that part of an international submarine telecommunications cable system which lies in International Waters acquired by RGNL, in addition to the Capacity held by RGNL as at 1 March 2005, other than by the use, allocation or conversion of MIU Points held by RGNL as at 1 March 2005.

Holding Company of a body corporate ("first body") means a body corporate of which the first body is a Subsidiary.

Information means all information regardless of its material form relating to or developed, in connection with:

- (a) the business, technology or other affairs of the Disclosing Party or any Related Body Corporate of the Disclosing Party; or
- (b) any systems, technology, ideas, concepts, know-how, techniques, designs, specifications, blueprints, tracings, diagrams, models, functions, capabilities and designs (including computer software, manufacturing processes or other information embodied in drawings or specifications), intellectual property or any other information which is marked "confidential" or is otherwise indicated to be subject to an obligation of confidence owned or used by or licensed to the Disclosing Party or a Related Body Corporate of the Disclosing Party.

Interest Rate means the Default Rate as defined in the Shareholder Term Loan Facility Agreement.

International Waters means those parts of the sea which are not Territorial Waters.

A body corporate is Insolvent if:

- (a) an order is made or an effective resolution has been passed for it to be wound up, or dissolved without winding-up (otherwise than for the purposes of reconstruction or amalgamation);
- (b) a receiver, receiver manager, judicial manager, liquidator, provisional liquidator, official manager, administrator, trustee or like official has been appointed over the whole or any material part of its undertaking or property;
- (c) any distress, execution, sequestration or other similar process has been levied or enforced upon or sued out against the whole or any material part of its property and has remained undischarged for a continuous period of more than 30 days;
- (d) it has made an assignment for the benefit of creditors (including a class of creditors) generally;
- (e) it is subject to any arrangement, assignment, moratorium or composition, protected from creditors under any statute or dissolved (in each case, other than to carry out a reconstruction or amalgamation while solvent on terms approved in writing by the Guarantor and Telstra);
- (f) it is unable or admits inability to pay its debts as they fall due, suspends making payments on any of its debts or, by reason of actual or anticipated financial difficulties, commences negotiations with its creditors generally to reschedule any or all of its indebtedness; or
- (g) a situation substantially analogous to any of (a) to (f) exists in connection with the body corporate under the law of any jurisdiction.

Invoice Month means, in respect of a Capex Item:

- (a) in the case where the Due Month for that Capex Item is in April or May 2005, April 2005; and
- (b) in all other cases, the month prior to the Prior Month for that Capex Item.

IRU means an indefeasible right to use Capacity for the remainder of the economic life of the cable system (being the then current expected period of commercial operation of that cable system) or, where it is a lesser period, the remainder of the then current term of the relevant CUA, C&MA or RNAL Agreement and any extension of that term.

IRU Purchaser means each of Telstra and PCCW Singapore and a reference to IRU Purchasers is a reference to both of them individually.

Liability means any liability or obligation (whether actual, contingent or prospective), including for any Loss irrespective of when the acts, events or things giving rise to the liability occurred.

Loss means all damage, loss, cost and expense (including legal costs and expenses of whatsoever nature or description).

Material Breach means a material breach of this agreement by RGNL, including a failure by RGNL to provide an IRU in accordance with this agreement or a failure by RGNL to pay money in accordance with this agreement (including a failure to make a distribution in accordance with clause 4.5).

MIU points means any rights which are held by RGNL under a CUA, C&MA or RNAL Agreement as at the date of this agreement which entitle RGNL (either at the date of this agreement or on the fulfilment of certain conditions) to an indefeasible right to an amount of capacity on a cable system listed in schedule 1 and which have not been used, allocated or converted by RGNL to such capacity as at the date of this agreement, including those MIU points listed in schedule 2, as those MIU points are described in the relevant CUA, C&MA or RNAL Agreement.

MIU Point Rights means PCCW MIU Point Rights or Telstra MIU Point Rights.

Monthly Committed Capex Schedule means:

- (a) Part A of Schedule 4 ("Committed Capex") for 2005; and
- (b) the schedule provided under clause 4.8 for each subsequent year.

Newly Available Capacity means Capacity which is being used to provide Committed Third Party Data Services as at the date of this agreement and which subsequently ceases to be used to provide such services.

Party means a party to this agreement and Parties means all of them.

Path means either:

- (a) a transmission path between two traffic interconnection points on a cable system between which telecommunications traffic can be carried; or
- (b) a continuous part of a cable system between:
 - (i) two adjacent cable stations;
 - (ii) a cable station and an adjacent branching unit; or
 - (iii) two adjacent branching units.

PCCW MIU Point Rights means the rights granted to PCCW Singapore under clause 10.

Personal Information means information or an opinion (including information or an opinion forming part of a database), whether true or not, and whether recorded in a material form or not, about an individual whose identity is apparent, or can reasonably be ascertained, from the information or opinion.

Prior Month means in respect of a Capex Item, :

- (a) in the case where the Due Month for that Capex Item is April 2005, April 2005; and
- (b) in all other cases, the month prior to the Due Month for that Capex Item.

Privacy Laws means any requirement under any applicable law, industry code, policy or statement relating to the handling of Personal Information.

Process Agent means, in the case of each Party, the process agent specified for that Party in the Details.

Reach means Reach Ltd.

Reach Board means the board of directors of Reach and includes any properly constituted sub-committee of that board of directors.

Reach CEO means the Chief Executive Officer of Reach at the relevant time.

Reach Debt and Asset Restructure Deed means the deed by that name dated on or about the date of this agreement between Reach and certain of its Subsidiaries, the Guarantor and certain of its Subsidiaries and Telstra and certain of its Subsidiaries.

Reach Network Services Agreement means the agreement of that name between Telstra, PCCW Singapore, the Guarantor, PCCW-HKT Telephone Limited, Reach Global Services Limited, Reach Networks Hong Kong Limited and Hong Kong CSL Limited dated on or about the date of this agreement.

Reach Insolvency Event means Reach or any of its Related Bodies Corporate being Insolvent.

Receiving Party means the recipient of Confidential Information.

Regulatory Event means:

- (a) a change in any applicable law;
- (b) a decision or determination of a government agency or court of law; or
- (c) a refusal by a government agency to grant a necessary licence, permit, consent or approval, or a suspension or revocation of a necessary licence, permit, consent or approval, affecting the Parties rights or obligations under this agreement.

Related Body Corporate means a body corporate which is:

- (a) a Holding Company of another body corporate; or
- (b) a Subsidiary of another body corporate; or
- (c) a Subsidiary of a Holding Company of another body corporate,

but a Related Body Corporate of RGNL does not include Telstra, the Guarantor nor their Subsidiaries unless RGNL is a Subsidiary of Telstra or the Guarantor (as applicable).

Representative of a Party includes an employee, agent, officer, director, auditor, adviser, partner, associate, consultant, joint venturer or sub-contractor of that Party or of a Related Body Corporate of that Party.

RGNL Corporate Warranties means the warranties and representations made by RGNL in clause 15.6.

RGNL Group means RGNL and each of its Related Bodies Corporate.

RNAL Agreements means the agreements relating to the RNAL Network described in schedule 7.

Security Documents has the meaning given to it in the Shareholder Term Loan Facility Agreement.

Shareholder Term Loan Facility Agreement means the agreement of that name between Reach Finance Limited, Reach Ltd., Reach Networks Hong Kong Limited, Reach Networks Australia Pty Limited, RGNL, Reach Global Services Limited, Reach International Holdings Limited, Reach Global Holdings Limited, Reach Networks KK, Telstra and the Guarantor dated on 12 January 2001, as amended.

Shareholders Agreement means the Amended and Restated Shareholders Agreement between Telstra, Telstra Holdings Pty Limited, Telstra Holdings

(Bermuda) Pty Limited, the Guarantor, Pacific Century Cable Holdings Limited and Reach Ltd, dated on or about the date of this agreement.

Subsidiary of a body corporate ("first body") means a body corporate ("other body"):

- (a) in which the first body:
 - (i) controls the composition of the other body's board; or
 - (ii) is in a position to cast, or control the casting of, more than one-half of the maximum number of votes that might be cast at a general meeting of the other body; or
 - (iii) holds more than one-half of the issued share capital of the other body (excluding any part of that issued share capital that carries no right to participate beyond a specified amount in a distribution of either profits or capital); or
- (b) which is a Subsidiary of Subsidiary of the first body.

Taxes means all duties (including, but not limited to, stamp duty), taxes (including, but not limited to, withholding tax), levies, charges, imposts, or like charges.

Telstra MIU Point Rights means the rights granted to Telstra under clause 10.

Territorial Waters means those parts of the sea adjacent to the coast of a country and which are deemed by international law to be within the territorial sovereignty of that country.

Transaction means the transactions contemplated by the Transaction Documents.

Transaction Documents has the meaning given to it in the Shareholder Term Loan Facility Agreement.

Warranties means the RGNL Corporate Warranties and the warranties, undertakings and representations set out in schedule 8 ("Warranties") and Warranty has a corresponding meaning.

28.2 References to certain general terms

Unless the contrary intention appears, a reference in this agreement to:

- (a) (clauses, annexures and schedules) a clause, annexure or schedule is a reference to a clause in or annexure or schedule to this agreement;
- (b) (variations or replacements) a document (including this agreement) includes any variation or replacement of it;

- (c) (singular includes plural) the singular includes the plural and vice versa;
- (d) (person) the word "person" includes an individual, a firm, a body corporate, a partnership, joint venture, an unincorporated body or association or any government agency;
- (e) (executors, administrators, successors) a particular person includes a reference to the person's executors, administrators, successors, substitutes (including persons taking by novation) and assigns;
- (f) (two or more persons) an agreement, representation or warranty in favour of two or more persons is for the benefit of them jointly and each of them individually;
- (g) (dollars) US dollars, dollars, USD, \$ or US\$ is a reference to the lawful currency of the United States of America;
- (h) (calculation of time) if a period of time dates from a given day or the day of an act or event, it is to be calculated exclusive of that day;
- (i) (reference to a day) a day is to be interpreted as the period of time commencing at midnight and ending 24 hours later;
- (j) (reference to a group of persons) a group of persons or things is a reference to any two or more of them jointly and to each of them individually;
- (k) (meaning not limited) the words "include", "including", "for example" or "such as" are not used as, nor are they to be interpreted as, words of limitation, and, when introducing an example, do not limit the meaning of the words to which the example relates to that example or examples of a similar kind;
- (l) (next day) if an act under this agreement to be done by a Party on or by a given day is done after 5.30pm on that day, it is taken to be done on the next day;
- (m) (next Business Day) if an event must occur on a stipulated day which is not a Business Day then the stipulated day will be taken to be the next Business Day;
- (n) (time of day) time is a reference to Hong Kong time.

28.3 Headings

Headings (including those in brackets at the beginning of paragraphs) are for convenience only and do not affect the interpretation of this agreement.

EXECUTED as an agreement

Capacity Allocation Agreement

DATED: 16 April 2005

SIGNED by)
)
 as attorney for REACH)
 GLOBAL NETWORKS LIMITED)
 under power of attorney)
 dated)
)
 in the presence of:)
)
)
)
 Signature of witness)
) By executing this agreement the attorney
) states that the attorney has received no
) notice of revocation of the power of
 Name of witness (block letters)) attorney

SIGNED by)
)
 as authorised representative)
 for TELSTRA CORPORATION LIMITED)
 in the presence of:)
)
)
)
 Signature of witness)
)
)
)
 Name of witness (block letters)) By executing this agreement the
) signatory warrants that the signatory is
) duly authorised to execute this
) agreement on behalf of TELSTRA
 CORPORATION LIMITED

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SIGNED by)
)
as authorised representative)
for PCCW COMMUNICATIONS)
(SINGAPORE) PTE LTD in the)
presence of:)
)
.....)
Signature of witness)
) By executing this agreement the
) signatory warrants that the signatory is
.....) duly authorised to execute this
Name of witness (block letters)) agreement on behalf of PCCW
) COMMUNICATIONS (SINGAPORE) PTE LTD

SIGNED by)
)
as authorised representative)
for PCCW LIMITED in the)
presence of:)
)
.....)
Signature of witness)
) By executing this agreement the
.....) signatory warrants that the signatory
Name of witness (block letters)) is duly authorised to execute this
) agreement on behalf of PCCW
) LIMITED

Mallesons Stephen Jaques

Reach Debt and Asset Restructure Deed

Dated 16 April 2005

Telstra Corporation Limited (ABN 33 051 775 556) ("Telstra")
Telstra Holdings Pty Limited (ABN 45 057 808 988) ("Telstra
Holdings")
Telstra Holdings (Bermuda) No 1 Limited ("Telstra Shareholder")
PCCW Limited ("PCCW")
Pacific Century Cable Holdings Limited ("PCCW Shareholder")
PCCW-HKT Telephone Limited ("PCCW-HKT Telephone")
PCCW Communications (Singapore) Pte Limited ("PCCW Singapore")
Reach Ltd. ("Reach")
Reach Finance Limited ("RFL")
Reach Global Networks Limited ("RGNL")
Reach Networks Hong Kong Limited ("RNHK")
Reach Global Services Limited ("RGSL")
Reach Networks Australia Pty Limited ("RNA")
Reach International Holdings Limited ("RIH")
Reach Global Holdings Limited ("RGH")
Reach Networks KK ("Reach Networks KK")
Reach Cable Networks Limited ("RCN")

Mallesons Stephen Jaques
Level 50
Bourke Place
600 Bourke Street
Melbourne Vic 3000
Australia
T +61 3 9643 4000
F +61 3 9643 5999
DX 101 Melbourne
www.mallesons.com
S Mead

Reach Debt and Asset Restructure Deed
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Reach Debt and Asset Restructure Deed

Details

Interpretation - definitions are at the end of the General terms

Parties Telstra, Telstra Holdings, Telstra Shareholder,
PCCW, PCCW Shareholder, PCCW-HKT Telephone, PCCW
Singapore, Reach, RFL, RGNL, RNHK, RGSL, RNA, RIH,
RGH, Reach Networks KK, RCN

Telstra Name Telstra Corporation Limited
ABN 33 051 775 556
Address 242 Exhibition Street, Melbourne Vic
3000, Australia
Telephone +61 3 9634 6400
Fax +61 3 9632 3215
Attention The Company Secretary

Telstra Name Telstra Holdings Pty Limited
Holdings ABN 45 057 808 988
Address 242 Exhibition Street, Melbourne Vic
3000, Australia
Telephone +61 3 9634 6400
Fax +61 3 9632 3215
Attention The Company Secretary

Telstra Name Telstra Holdings (Bermuda) No 1
Shareholder Limited
Address Clarendon House, 2 Church Street,
Hamilton HM11, Bermuda
Telephone +61 3 9634 6400
Fax +61 3 9632 3215
Attention The Company Secretary

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PCCW Name PCCW Limited
Address 39th Floor, PCCW Tower, TaiKoo Place, 979 King's Road, Quarry Bay, Hong Kong
Telephone
Fax +852-2962-5725
Attention The Company Secretary

PCCW Shareholder Name Pacific Century Cable Holdings Limited
Address Clarendon House, 2 Church Street, Hamilton HM11, Bermuda
Telephone
Fax +1-441-292-4720
Attention The Company Secretary with a copy to PCCW

PCCW-HKT Telephone Name PCCW-HKT Telephone Limited
Address 39th Floor, PCCW Tower, TaiKoo Place, 979 King's Road, Quarry Bay, Hong Kong
Telephone
Fax +852 2962 5725
Attention The Company Secretary with a copy to PCCW

PCCW Singapore Name PCCW Communications (Singapore) Pte Limited
Address 152 Beach Road, #26-06 Gateway East, Singapore
Telephone +65 6230 8787
Fax +65 6230 8777
Attention Lim Beng Jin/PCCW Company Secretary

Reach Name Reach Ltd.
Address Clarendon House, 2 Church Street, Hamilton HM11, Bermuda
Telephone +1 441 299 4981
Fax +1 441 299 4985

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Attention The Company Secretary

RIH Reach International Holdings Limited

Address 20th Floor, Telecom House, 3
Gloucester Road, Wanchai, Hong Kong

Telephone +852 2983 3388

Fax +852 2824 0518

Attention The Company Secretary

RGH Reach Global Holdings Limited

Address 20th Floor, Telecom House, 3
Gloucester Road, Wanchai, Hong Kong

Telephone +852 2983 3388

Fax +852 2824 0518

Attention The Company Secretary

Reach Networks KK Reach Networks KK

Address Shin-Nikko Building, East Tower,
10-1 Toranomom, 2-chome, Minato-ku,
Tokyo, Japan

Telephone +81 3 5549 8400

Fax +81 3 5549 8550

Attention Representative Director

RCN Reach Cable Networks Limited

Address 20th Floor, Telecom House, 3
Gloucester Road, Wanchai, Hong Kong

Telephone +852 2983 3388

Fax +852 2824 0518

Attention The Company Secretary

Business Day Hong Kong
Place

Governing law England and Wales

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Process Agent Process Agent means:

- (a) for the Telstra Parties: Telstra Europe Limited, Telstra House, 21 Tabernacle Street, London EC2A 4DE;
 - (b) for the PCCW Parties: Simmlaw Services Limited, Simmons and Simmons, City Point, One Ropemaker Street, London, EC2Y 9SS; and
 - (c) for the Reach Parties: Reach Europe Limited, 50-52 Paul Street, London EC2A 4LB.
-

Date of deed See Signing page

Reach Debt and Asset Restructure Deed

General terms

1 Interpretation

1.1 Definitions

Allocated Asset means, at any time, an asset which is the subject of a Security Document and in respect of which at that time any Allocated Capacity is granted to a Financier or their Associate under any of clauses 1.1, 2.1, 10.7, 11.3, 12.3 or 12.6 of the Capacity Allocation Agreement.

Allocated Capacity means all Capacity in respect of which an IRU is granted, and all MIU Point Rights which are granted, under the CAA.

AOP means the Reach Annual Operating Plan for the period 1 January 2005 to 31 December 2005.

Associate means, in respect of PCCW, PCCW Singapore.

Business Day means a day other than a Saturday, Sunday or public holiday on which banks are open for general banking business.

Capacity Allocation Agreement means the agreement of that name entered into or to be entered into between Telstra, PCCW, PCCW Singapore and RGNL on or about the date of this deed.

Capacity Prepayment Agreement means the Capacity Prepayment Agreement dated 15 April 2003 and amended and restated on 17 June 2004 between RNHK, RGS�, PCCW-HKT Telephone, Telstra, Reach, PCCW and RFL.

Claim means any allegation, debt, cause of action, liability, claim, proceeding, suit or demand of any nature howsoever arising and whether present or future, fixed or unascertained, actual or contingent whether at law, in equity, under statute or otherwise.

Details means the section of this deed headed "Details".

Effective Date means the date on which Telstra and PCCW notify Reach that they have received the items referred to in clause 2.

Encumbrance means any security for the payment of money or performance of obligations, including a mortgage, lien, charge, pledge, trust, power, preferential right, interest or arrangement or any agreement to create any of them or allow them to exist.

Equitable Mortgage Amendment Deed means the deed of that name entered into between Telstra, PCCW and PCCW Shareholder on or about the date of this deed.

Holding Deed means the Holding Deed dated 17 June 2004 between PCCW, Telstra, Reach and RFL.

Hong Kong Domestic Connectivity Variation Agreement means the agreement of that name entered into or to be entered into between RNHK and PCCW-HKT Telephone on or about the date of this deed.

Issuing Company means RGSL, Reach, RNHK, RGH and RIH.

Outstanding Issues Settlement Letter means the letter dated on or about the date of this deed signed by Telstra, Telstra Holdings, PCCW, PCCW-HKT Telephone, Reach, RGSL, RGNL and RNHK by which certain outstanding issues are settled between the parties.

PCCW Accrued Interest means the interest accrued on the PCCW Term Loan Principal.

PCCW Existing Reach Debt is defined in clause 13.2 of this deed.

PCCW Parties means PCCW, PCCW Shareholder, PCCW-HKT Telephone and PCCW Singapore.

PCCW Receivable means the sum of \$157,000,000 payable by PCCW to RGNL pursuant to clause 2.3 of the Capacity Allocation Agreement.

PCCW Term Loan Principal means the principal sum of \$600,000,000 owing by RFL to PCCW pursuant to the Term Loan Facility Agreement.

Process Agent means the Process Agent specified in the Details.

Reach Debt To RFL means the intercompany loan from RFL to Reach of \$958,727,344.

Reach Network Services Agreement means the agreement of that name entered into between Telstra, PCCW, PCCW Singapore, PCCW-HKT, Hong Kong CSL Limited, Reach, RNHK and RGSL on or about the date of this deed.

Reach Parties means Reach, RFL, RGNL, RNHK, RGSL, RNA, RIH, RGH, Reach Networks KK and RCN.

Reach Satellite Services Agreement (Australia) means the agreement of that name entered into or to be entered into between Telstra and RGSL on or about the date of this deed.

Reach Satellite Services Agreement (Hong Kong) means the agreement of that name entered into or to be entered into between PCCW and RGSL on or about the date of this deed.

Reach Shareholders Variation Agreement No 6 means the Reach Shareholders (Variation) Agreement No 6 entered into or to be entered into between the Telstra Parties, PCCW, PCCW Shareholder and Reach on or about the date of this deed.

RGNL Debt To RFL means the intercompany loan from RFL to RGNL of \$221, 243,000.

RNHK Asset Sale Agreements means the three agreements called "RNHK Asset Sale Agreement", "RIH Asset Sale Agreement" and "Reach Asset Sale Agreement" entered into between RNHK and RIH, RIH and Reach and Reach and RGNL respectively on or about the date of this deed and by which there are transfers of the Assets.

Secured Parties means PCCW, PCCW Singapore and Telstra.

Secured Property means any property secured by a Security Document.

Subscribing Company means Reach, RGH, RIH, Telstra and PCCW

Telstra Accrued Interest means the interest accrued on the Telstra Term Loan Principal.

Telstra Domestic Access Variation Agreement means the agreement of that name entered into or to be entered into between Telstra and RGSL on or about the date of this deed.

Telstra Existing Reach Debt is defined in clause 13.1 of this deed.

Telstra Parties means Telstra, Telstra Holdings and Telstra Shareholder.

Telstra Promissory Note 1 means a promissory note to the value of \$155,000,000.

Telstra Promissory Note 2 means a promissory note to the value of \$2,000,000.

Telstra Term Loan Principal means the principal sum of \$600,000,000 owing by RFL to Telstra pursuant to the Term Loan Facility Agreement.

Term Loan Facility Agreement means the Shareholder Term Loan Facility Agreement dated 12 January 2001 and last amended and restated on 17 June 2004 between RFL, Reach, RNHK, RNA, RGNL, RGSL, RIH, RGH, Reach Networks KK, Telstra and PCCW.

Term Sheet means the Term Sheet signed by Telstra and PCCW on 24 March 2005.

Wireless Domestic Access Agreement means the agreement of that name entered into or to be entered into between RNHK and Hong Kong CSL Limited on or about the date of this deed.

Unallocated Asset means, at any time, an asset which is the subject of a Security Document and which, at that time, is not an Allocated Asset.

Warranty means each warranty set out in Schedule 1.

1.2 References to certain general terms

Unless the contrary intention appears, a reference in this deed to:

- (a) (variations or replacement) a document (including this deed) includes any variation or replacement of it;
- (b) (clauses, annexures and schedules) a clause, annexure or schedule is a reference to a clause in or annexure or schedule to this deed;
- (c) (singular includes plural) the singular includes the plural and vice versa;
- (d) (person) the word "person" includes an individual, a firm, a body corporate, a partnership, a joint venture, an unincorporated body or association, or any Government Agency;
- (e) (executors, administrators, successors) a particular person includes a reference to the person's executors, administrators, successors, substitutes (including persons taking by novation) and assigns;
- (f) (\$ or Dollar) except in clause 15(a), any reference to \$ or Dollar/s is a reference to United States (US) Dollars;
- (g) (two or more persons) an agreement, representation or warranty in favour of two or more persons is for the benefit of them jointly and each of them individually;
- (h) (parties) a reference to a "party" (whether described as such or specifically named) includes that party's employees, agents, assignees and advisers.
- (i) (jointly and severally) an agreement, representation or warranty by two or more persons binds them jointly and each of them individually.
- (j) (reference to a group of persons) a group of persons or things is a reference to any two or more of them jointly and to each of them individually; and
- (k) (meaning not limited) the words "include", "including", "for example" or "such as" are not used as, nor are they to be interpreted as, words of limitation, and, when introducing an example, do not limit the meaning of the words to which the example relates to that example or examples of a similar kind.

1.3 Terms defined in other agreements

Terms defined in the Capacity Allocation Agreement, the Reach Network Services Agreement, the Term Loan Facility Agreement (as amended by this deed), any Security Document and the RNHK Asset Sale Agreements and used in this deed have the meaning given to them in those agreements.

1.4 Headings

Headings (including those in brackets at the beginning of paragraphs) are for convenience only and do not affect the interpretation of this deed.

1.5 Inconsistent agreements

If a provision of this deed is inconsistent with a provision of any other deed or agreement between the parties the provision of this deed prevails.

1.6 Indorsement to include delivery

An obligation in this agreement of a party to indorse a promissory note includes an obligation to deliver it to the indorsee.

2 Condition precedent

The rights and obligations of the parties under this deed and the termination of the Holding Deed as contemplated by clause 12 are conditional and only become binding upon the execution and delivery of the documents referred to in clause 3.

3 Other Documents Entered into Contemporaneously

The following parties will enter into the following agreements at the same time that they execute this deed:

| | Parties | Agreement |
|-----|--|--|
| (a) | Telstra Parties, PCCW, PCCW Shareholder and Reach | Reach Shareholders Variation Agreement No 6 |
| (b) | Telstra, PCCW, PCCW Singapore and RGNL | Capacity Allocation Agreement |
| (c) | Telstra, PCCW, PCCW Singapore, PCCW-HKT, Hong Kong CSL Limited, Reach, RNHK and RGSL | Reach Network Services Agreement |
| (d) | RNHK and PCCW-HKT Telephone | Hong Kong Domestic Connectivity Variation Agreement |
| (e) | RGSL and Telstra | Telstra Domestic Access Variation Agreement |
| (f) | Telstra and RGSL | Reach Satellite Services Agreement (Australia) |
| (g) | PCCW and RGSL | Reach Satellite Services Agreement (Hong Kong) |
| (h) | Telstra, Telstra Holdings, PCCW, PCCW-HKT Telephone, Reach, RGSL and RNHK | Outstanding Issues Settlement Letter |
| (i) | RNHK and Hong Kong CSL Limited | Wireless Domestic Access Agreement Amendment Agreement |

(j) Telstra, PCCW and PCCW Equitable Mortgage Amendment
Shareholder Deed

4 RNHK Asset Sale to RGNL

The Assets will, pursuant to the RNHK Asset Sale Agreements, be assigned:

- (a) by RNHK to RIH;
- (b) by RIH to Reach; and
- (c) by Reach to RGNL.

5 Capacity Allocation Agreement Consideration

5.1 Pursuant to and in satisfaction of its obligation under clause 1.3 of the Capacity Allocation Agreement, Telstra will issue in favour of RGNL Telstra Promissory Note 1 and Telstra Promissory Note 2.

5.2 Pursuant to and in satisfaction of its obligation under clause 2.3 of the Capacity Allocation Agreement, PCCW will pay the PCCW Receivable. RGNL hereby assigns the PCCW Receivable to RFL as partial repayment of the principal of the RGNL Debt to RFL and RFL will so accept the PCCW Receivable, thereby reducing the principal of the RGNL Debt to RFL by \$157,000,000. RFL and PCCW further agree to apply the PCCW Receivable as a partial repayment of the PCCW Term Loan Principal (as to \$155,000,000) and as full payment of the PCCW Accrued Interest (as to the application of the remaining \$2,000,000) by RFL. RGNL acknowledges that payment by PCCW in the manner set out in this clause will satisfy PCCW's obligation to it under clause 2.3 of the Capacity Allocation Agreement. PCCW waives its right to receive the difference between the value of the PCCW Accrued Interest and \$2,000,000.

6 Reduction of RGNL debt to RFL

Immediately upon receipt of Telstra Promissory Note 2 RGNL will specially but not restrictively indorse that promissory note in favour of RFL as partial repayment to RFL of the principal of the RGNL Debt To RFL and RFL will so accept the promissory note, thereby reducing the principal of the RGNL Debt To RFL by \$2,000,000.

7 RGNL Loan to Reach

Immediately upon receipt of Telstra Promissory Note 1, RGNL will specially but not restrictively indorse that promissory note in favour of Reach in consideration of Reach agreeing to pay RGNL the sum of \$155,000,000 on RGNL's demand.

8 RGH Share Issue to Reach

Immediately upon receipt of Telstra Promissory Note 1, Reach will specially but not restrictively indorse that promissory note in favour of RGH in consideration of RGH issuing to Reach 155,000,000 fully paid ordinary shares in RGH.

9 RGSL Share Issue to RGH

Immediately upon receipt of Telstra Promissory Note 1, RGH will specially but not restrictively indorse that promissory note in favour of RGSL in consideration of RGSL issuing to RGH 1,208,783,000 fully paid ordinary shares in RGSL.

10 RGSL Repayment of Telstra CPP

Immediately upon receipt of Telstra Promissory Note 1, RGSL will specially indorse that promissory note in favour of Telstra in full and final discharge of RGSL's obligations to Telstra pursuant to the Capacity Prepayment Agreement.

11 Repayment by RFL of interest payable to Telstra pursuant to the Shareholder Term Loan Facility

11.1 Immediately upon Telstra Promissory Note 2 being indorsed in its favour as contemplated in clause 6, RFL must specially indorse Telstra Promissory Note 2 in favour of Telstra in full satisfaction of RFL's obligation to pay the Telstra Accrued Interest and Telstra waives its right to receive the difference between the value of the Telstra Accrued Interest and Telstra Promissory Note 2.

11.2 Despite anything to the contrary in the Term Loan Facility Agreement:

- (a) Telstra consents to the payments by RFL referred to in clause 5.2 being made and accepts the payment in clause 11.1 in payment of the Telstra Accrued Interest;
- (b) PCCW consents to the payments by RFL referred to in clause 11.1 being made and accepts the payment in clause 5.2 in payment of the PCCW Accrued Interest and in reduction of its Amount Owing; and
- (c) each of the Guarantors consents to the matters set out in this clause 11 and clause 5.

12 Holding Deed

12.1 Termination

The Holding Deed is terminated.

12.2 Release

Telstra, Telstra Shareholder, PCCW, PCCW Shareholder, Reach and RFL release each other from all Claims arising from, or relating to, the Holding Deed.

13 Assignment

13.1 Assignment to Telstra

RFL assigns to Telstra \$445,000,000 ("Telstra Existing Reach Debt") of the Reach Debt To RFL.

13.2 Assignment to PCCW

RFL assigns to PCCW \$290,000,000 ("PCCW Existing Reach Debt") of the Reach Debt To RFL.

13.3 Notice and acknowledgment

Each of RFL, Telstra and PCCW gives to Reach, and Reach acknowledges receipt of, notice of the assignments under clauses 13.1 and 13.2.

13.4 Reduction of Amount Owning

Despite anything to the contrary in the Term Loan Facility Agreement:

- (a) Telstra consents to the assignment referred to in clause 13.2 and accepts the assignment under clause 13.1 in reduction of its Amount Owning by an amount equal to the debt assigned;
- (b) PCCW consents to the assignment referred to in clause 13.1 and accepts the assignment under clause 13.2 in reduction of its Amount Owning by an amount equal to the debt assigned; and
- (c) each of the Guarantors consents to the matters set out in this clause 13.

14 Reach Share Issue

14.1 As consideration for repayment of:

- (a) \$445,000,000 of the Telstra Existing Reach Debt, Reach issues Telstra Shareholder 445,000,000 fully paid ordinary shares in Reach; and
- (b) \$290,000,000 of the PCCW Existing Reach Debt and RNHK's obligations to PCCW under the Capacity Prepayment Agreement, Reach issues PCCW Shareholder 445,000,000 fully paid ordinary shares in Reach.

- 14.2 Each of Telstra Shareholder and PCCW Shareholder accept the shares issued by Reach pursuant to clause 14.1.
- 14.3 Telstra accepts the shares issued by Reach pursuant to clause 14.1 to Telstra Shareholder in payment, to the extent of \$445,000,000, of the Telstra Existing Reach Debt.
- 14.4 PCCW accepts the shares issued by Reach pursuant to clause 14.1 to PCCW Shareholder:
- (a) in payment, to the extent of \$290,000,000, of the PCCW Existing Reach Debt; and
 - (b) in full satisfaction of RNHK's obligations to PCCW under the Capacity Prepayment Agreement.
- 14.5 PCCW Shareholder will mortgage the shares referred to in clause 14.1(b) to Telstra pursuant to the Equitable Share Mortgage.

15 RIH Share Issue to Reach and RNHK Share Issue to RIH

Immediately before Reach issues shares to PCCW Shareholder in accordance with clause 14.1(b):

- (a) RNHK will issue to RIH 120,876,750 HK\$10 fully paid ordinary shares in RNHK; and
- (b) RIH will issue to Reach 155,000,000 fully paid ordinary shares in RIH.

16 Term Loan Facility Agreement and Securities

16.1 Amendments to Term Loan Facility Agreement

Each of Telstra, PCCW, Reach, RFL, RNHK, RNA, RGNL, RGSL, RIH, RGH and Reach Networks KK agree that, with effect from the Effective Date and upon clauses 10 to 15 taking effect, the Term Loan Facility Agreement will be amended, read and construed as if:

- (a) the reference to the CPP Agreement in the definition of "Transaction Documents" in the Details was deleted;
- (b) RFL has no obligation to pay any interest on the Drawings (other than default interest under clause 15 of the Term Loan Facility Agreement), and all references to the contrary shall be deleted and shall have no effect;
- (c) clause 4.9 was deleted;
- (d) a new event of default were inserted in clause 13.1 as a new paragraph (m) as follows:

"(m) an event occurs which would entitle Telstra and PCCW to issue a Default Notice under the Capacity Allocation Agreement or the Reach Network Services Agreement."

and paragraph (l) is amended by deleting the "." at the end and replacing it with "; or";

(e) the following definitions were inserted into clause 31.1:

Capacity Allocation Agreement means the agreement of that name entered into between Telstra, PCCW, PCCW Singapore and RGNL on or about [date],

Reach Network Services Agreement means the agreement of that name entered into between Telstra, PCCW, Reach, RNHK and RGSL on or about [date],

and such agreements were included in the definition of Transaction Documents in the Details and in clause 31.1;

(f) clause 27.5 was amended so that each reference in it to "the Transaction Documents" was a reference to "the Transaction Documents (other than the Capacity Allocation Agreement and the Reach Network Services Agreement, except in relation to the issue of a Default Notice under either of them)";

(g) the definition of Final Maturity date in clause 31.1 were deleted and replaced with:

Final Maturity Date means the date on or after 31 December 2010 as the Financiers may notify the Borrower by not less than 6 months written notice;

(h) the definition of "Security Documents" in clause 31.1 were amended to include each of the following Security Documents:

(i) from Reach to Telstra, PCCW and PCCW Singapore:

- (A) a floating charge;
- (B) a share charge over its shares in RFL; and
- (C) a share charge over its shares in RGNL;

(ii) from RGNL to Telstra, PCCW and PCCW Singapore :

- (A) a floating charge; and
- (B) a (limited) share charge over its shares in RNA;

(iii) from RIH to Telstra, PCCW and PCCW Singapore:

- (A) a floating charge;
- (B) a share charge over its shares in RCN; and

- (C) a share charge over its shares in RNHK;
- (iv) a floating charge from RCN to Telstra, PCCW and PCCW Singapore (which may be in the form of separate securities over its Korean and other assets);
- (v) a floating charge from RNHK to Telstra, PCCW and PCCW Singapore ;
- (vi) a (limited) floating charge from RNA to Telstra, PCCW and PCCW Singapore .

16.2 Confirmation

Each party confirms that, except as set out in clause 16.1 ("Amendments to Term Loan Facility Agreement"), the Term Loan Facility Agreement remains in full force and effect.

16.3 Representations

Each of the Borrower and the Guarantors repeats each of the representations and warranties set out in clause 11.1 ("Representations and warranties") of the Term Loan Facility Agreement by reference to the facts and circumstances then existing on:

- (a) the date of this deed; and
- (b) the Effective Date

and they also make each of the representations and warranties set out in paragraphs (b), (c), (d), (f), (i), (j) and (r) of clause 11.1 ("Representations and warranties") of the Term Loan Facility Agreement by reference to the facts and circumstances then existing on:

- (c) the date of this deed; and
- (d) the Effective Date,

but as if references in clause 11.1 ("Representations and warranties") of the Term Loan Facility Agreement to the "Transaction Documents" were instead to this deed.

16.4 RCN's acceptance of terms

RCN accepts the terms of the Term Loan Facility Agreement and undertakes to each of the other parties to that agreement to be bound by its terms as a Guarantor under that agreement, as if this deed were a New Guarantor Deed Poll under the Term Loan Facility Agreement. RCN acknowledges its obligations under clause 16.12 ("Becoming a New Guarantor") of the Term Loan Facility Agreement.

16.5 Other parties' acknowledgement of RCN

The parties to the Term Loan Facility Agreement (except RCN) accept RCN as a Guarantor under that agreement with all the rights and obligations that

RCN has as a Guarantor under that agreement as if this deed were a New Guarantor Deed Poll under the Term Loan Facility Agreement.

RCN may comply with its obligations to grant the security referred to in clause 16.12(a) of the Term Loan Facility Agreement by granting the Financiers and PCCW Singapore a first ranking floating charge over its assets other than its Korean assets as required by clause 16.12(a) and within 30 days of the date of this deed granting the Financiers and PCCW Singapore a second ranking floating charge (or equivalent) over its Korean assets.

16.6 Guarantors' acknowledgement of security

Each Guarantor acknowledges and accepts that its guarantee under the Term Loan Facility Agreement and each Security to which it is or becomes a party secures all of the Guaranteed Money as defined in the Term Loan Facility Agreement (as amended by this deed) including:

- (a) the Obligors' obligations to the Financiers under the Term Loan Facility Agreement; and
- (b) Reach's obligations to the Financiers under the Working Capital Facility Agreement; and
- (c) any member of the Reach Group's obligations under or in connection with the Capacity Allocation Agreement and the Reach Network Services Agreement including, without limitation, any obligations to pay damages or other compensation of any kind for breach of or failure to perform obligations under or in connection with those documents.

16.7 Shareholders' acknowledgement of extension to guarantee

Each member of the REACH Group which is a shareholder of a Guarantor accepts and consents to the Guarantor's guarantee under the Term Loan Facility Agreement being extended to secure each of the obligations set out in clause 16.6 ("Guarantors' acknowledgement of security").

16.8 PCCW Singapore and new securities

PCCW Singapore agrees with Telstra and PCCW that:

- (a) it may not exercise any right or discretion under or in connection with the Transaction Documents (other than the Capacity Allocation Agreement), without Telstra's and PCCW's consent; and
- (b) all actions it may take under or in connection with the Transaction Documents (other than the Capacity Allocation Agreement) must be exercised jointly with Telstra and PCCW.

16.9 Agreement about rights under Security Documents

Each party agrees that, despite anything to the contrary in any of the Transaction Documents and although the Security Documents are given to the Financiers and the Secured Parties jointly, to the maximum extent permissible

by law, following a joint decision to enforce the Security Documents in accordance with the Transaction Documents:

- (a) the Secured Party to which Allocated Capacity in respect of any item of Secured Property has been granted under the Capacity Allocation Agreement may, but is not obliged to, direct (to the exclusion of the other Secured Parties) the enforcement of the Security Document to the extent to which it affects that Secured Property (including the power of sale and any foreclosure) as if the Security Document were a separate Security Document in favour of that Secured Party alone;
- (b) any proceeds of enforcement of the Security Document in respect of Secured Property in respect of which Allocated Capacity has been granted to a Secured Party under the Capacity Allocation Agreement must be paid to that Secured Party (to the exclusion of the other Secured Parties) as if the Security Document were a separate Security Document in favour of that Secured Party alone;
- (c) despite anything to the contrary in any of the Transaction Documents or any contrary appropriation by a Chargor or Chargee, and despite the order of creation of the Security Documents, all amounts received or recovered by a Chargee or any Delegate in exercise of their rights under a Security Document must be applied in the following order (subject to any claims having priority under mandatory provisions of applicable laws):
 - (i) to discharge all rent, Taxes, rates and other outgoings due and affecting the relevant asset;
 - (ii) unless the relevant asset is sold subject to any applicable prior Security Interest, in discharge of that prior Security Interest;
 - (iii) in or towards the payment of all costs, losses, liabilities, expenses and remuneration of and incidental to the appointment of, any Receiver or Delegate and the exercise of any of their rights, including their remuneration and all outgoings paid by them;
 - (iv) in or towards the payment (or payment in lieu of performance) of the amounts secured by the Security Document as follows (and PCCW Singapore shall transfer amounts received by it to PCCW if necessary for this purpose):
 - (A) if the amount is received or recovered in respect of, or in respect of the disposal of, or other dealing with, an Allocated Asset, then first to the Financier to whom (or to whose Associate) those Allocated Assets are allocated, to be applied that Financier in reduction of all amounts owing to that Financier under or in connection with the Term Loan Facility Agreement and the Working Capital Facility Agreement, and once those amounts are fully and finally repaid, to the Associate of that Financier, to be applied in reduction of all other amounts owing to that Associate or

Financier which are secured by the Security Documents and, as to any residue, to be dealt with as if the amount was received or recovered in respect of or in respect of the disposal of or other dealing with, Unallocated Assets;

- (B) if the amount is received or recovered in respect of or in respect of, the disposal of, or other dealing with, an Unallocated Asset, then to be divided equally between the Financiers (each Associate of a Financier being regarded for the purposes of the equal division as the same person as the Financier of whom it is an Associate) to be applied first in reduction of all amounts owing to that Financier under or connection with the Term Loan Facility Agreement and the Working Capital Facility Agreement and, once those amounts are fully and finally repaid, to the Associate of that Financier (if applicable) or to that Financier, to be applied in reduction of all other amounts owing to that Associate or Financier which are secured by the Security Documents,

and any residue must be paid to the person who, immediately before the sale or other dealing, was entitled to the relevant asset or authorised to give a receipt for the proceeds of sale of it;

- (d) each Financier need not resort to enforcement of the Security Documents in respect of any particular asset or to any other Security Interest it holds for the payment of amounts secured under a Security Interest held by it before that Financier resorts to enforcement of the Security Documents in respect of any other asset any other Security Interest it holds for the payment of the same amounts or the performance of the same obligations; and
- (e) each Secured Party must co-operate with each other in the enforcement of the Security Documents in the manner contemplated by this deed and in the distribution in accordance with the entitlements under this deed to the proceeds of enforcement of the Security Documents.

16.10 Consent of Guarantors

The Guarantors:

- (a) consent to the arrangements set out in clause 16.9 ("Agreement about rights under Security Documents"); and
- (b) acknowledge that those arrangements do not affect the obligations undertaken by it in the Transaction Documents.

17 CPP Release

Immediately upon clauses 10 and 14.1(b) taking effect, each of Telstra, PCCW, RNHK, RGSL, PCCW-HK Telephone, Reach and RFL:

- (a) terminate the Capacity Prepayment Agreement; and
- (b) release each other from all Claims arising from, or relating to, the Capacity Prepayment Agreement.

18 Consequence of Transactions Contemplated by this Deed

The parties acknowledge that

as a consequence of the transactions contemplated by this deed and upon them taking effect:

- (a) the Amount Owning by RFL to Telstra is \$155,000,000 and to PCCW is \$155,000,000;
- (b) RFL's liability in relation to the Telstra Accrued Interest and the PCCW Accrued Interest is settled in full;
- (c) the principal balance of Reach Debt To RFL is \$223,727,344;
- (d) the principal balance of RGNL Debt to RFL is \$62,243,000;
- (e) Reach will own an additional 155,000,000 fully paid ordinary shares in RIH;
- (f) RIH will own an additional 120,876,750 fully paid ordinary shares in RNHK;
- (g) Reach owes RNHK \$68,461,325;
- (h) RGNL owns the RNHK International Cable Assets;
- (i) Reach owes RGNL \$155,000,000;
- (j) Reach will own an additional 155,000,000 fully paid ordinary shares in RGH;
- (k) Reach will own an additional 68,461,325 fully paid ordinary shares in RGNL;
- (l) RGH will own an additional 1,208,783,000 fully paid ordinary shares in RGSL;
- (m) each of Telstra Shareholder and PCCW Shareholder will own an additional 445,000,000 fully paid ordinary shares in Reach; and
- (n) PCCW Shareholder will have mortgaged its additional 445,000,000 fully paid ordinary shares in Reach.

19 Issuing Companies' Warranties

Each Issuing Company represents and warrants to the Subscribing Company to which it issues shares pursuant to this deed that, in relation to those shares that it issues, each Warranty is true and accurate and not misleading in any material respect on the date of this deed.

20 Confidentiality

The parties agree that they will not disclose, or authorise disclosure of, the terms of this deed or any matter relating to it to any other person except:

- (a) to their professional advisers or auditors;
- (b) with the consent of all of the other parties;
- (c) for the purpose of legal proceedings relating to this deed; or
- (d) as required to do so by law or under the rules of a relevant stock exchange.

21 Assignment

A party to this deed may not assign or otherwise deal with its rights under this deed or allow any interest in them to arise or be varied in each case, without the consent of all other parties.

22 Entire agreement

This deed constitutes the entire agreement of the parties about its subject matter and supersedes all previous agreements, understandings and negotiations on that subject matter.

23 Existing agreements

Except to the extent that they are expressly amended by this deed, the Term Loan Facility Agreement and the terms of the Reach Debt To RFL and the RGNL Debt to RFL remain in full force and effect.

24 Further steps

The parties agree to do anything necessary (such as obtaining consents, signing and producing documents and getting documents completed and signed) to bind the parties and any other person intended to be bound under this deed and to give effect to the transactions contemplated by this deed.

25 No undisclosed principals or undisclosed trusts

Except as expressly stated in writing in this deed, no person enters into this deed as an agent for any other person or as trustee of any trust or on behalf or for the benefit of any other person.

26 Notices

26.1 Form

Unless expressly stated otherwise in this deed, all notices, certificates, consents, approvals, waivers and other communications in connection with this deed must be in writing, signed by the sender (if an individual) or an Authorised Officer of the sender and marked for the attention of the person identified in the Details or, if the recipient has notified otherwise, then marked for attention in the way last notified.

26.2 Delivery

They must be:

- (a) left at the address set out or referred to in the Details;
- (b) sent by prepaid ordinary post (airmail if appropriate) to the address set out or referred to in the Details;
- (c) sent by fax to the fax number set out or referred to in the Details; or
- (d) given in any other way permitted by law.

However, if the intended recipient has notified a changed postal address or changed fax number, then the communication must be to that address or number.

26.3 When effective

They take effect from the time they are received unless a later time is specified.

26.4 Receipt - post

If sent by post, they are taken to be received three days after posting (or seven days after posting if sent to or from a place outside Hong Kong).

26.5 Receipt - fax

If sent by fax, they are taken to be received at the time shown in the transmission report as the time that the whole fax was sent.

26.6 Receipt - general

Despite clauses 26.4 ("Receipt - post") and 26.5 ("Receipt - fax"), if they are received after 5.00pm in the place of receipt or on a non-Business Day, they are to be taken to be received at 9.00am on the next Business Day.

27 No representations or warranties

Each party acknowledges that in entering into this deed it has not relied on any representations or warranties about its subject matter except as expressly provided by the written terms of this deed.

28 General

28.1 Publicity

A party may not make press or other announcements or releases relating to this deed and the transactions the subject of this deed without the approval of the other party to the form and manner of the announcement or release unless and to the extent that the announcement or release is required to be made by the party by law or by a stock exchange.

28.2 Prompt performance

If this deed specifies when the party agrees to perform an obligation, the party agrees to perform it by the time specified. Each party agrees to perform all other obligations promptly.

28.3 Time of the essence

Time is of the essence in this deed in respect of a party's obligations to give effect to the transactions contemplated by it.

28.4 Construction

No rule of construction applies to the disadvantage of a party because that party was responsible for the preparation of, or seeks to rely on, this deed or any part of it.

28.5 Costs

The parties agree to pay their own legal and other costs and expenses in connection with the preparation, execution and completion of this deed and other related documentation except for stamp duty.

28.6 Stamp duty

To the extent that stamp duty is payable in respect of a transaction contemplated by this deed and:

- (a) Telstra but not PCCW is a party to the transaction, Telstra;
- (b) PCCW but not Telstra is a party to the transaction, PCCW;

(c) Telstra and PCCW are parties to the transaction, both Telstra and PCCW equally,

shall pay that stamp duty (including fines and penalties).

In all other circumstances, Reach shall pay all stamp duty (including fines and penalties) and capital duty payable and assessed on this deed and in respect of a transaction in connection with it.

28.7 Counterparts

This deed may be executed in counterparts. All counterparts when taken together are to be taken to constitute one instrument.

28.8 Third party rights

A person who is not a party to this deed has no rights under the Contracts (Rights of Third Parties) Act 1999 (UK) to enforce any term or condition of this deed.

29 Governing law

29.1 Governing law

This deed is governed by the law in force in the place specified in the Details.

29.2 Jurisdiction

Each party submits to the non-exclusive jurisdiction of the courts of the place specified in the Details and courts of appeal from them. Each party waives any right it has to object to an action being brought in those courts including, without limitation, by claiming that the action has been brought in an inconvenient forum or that those courts do not have jurisdiction.

29.3 Serving documents

Without preventing any other method of service, any document in an action may be served on a party by being delivered or left:

- (a) at that party's address in the Details; or
- (b) with that party's Process Agent with a copy delivered or left at that party's address in the Details.

29.4 Appointment of Process Agent

The parties irrevocably appoint the relevant Process Agent as their process agent to receive any document in an action in connection with this deed.

If for any reason a Process Agent ceases to be able to act as process agent, the appointing party must promptly appoint another person in the place as process agent.

Each party agrees that the service of documents on its Process Agent or any other person appointed under this clause will be sufficient service on it.

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EXECUTED as a deed

Schedule 1 - Warranties

1.1 Incorporation

The Issuing Company is validly incorporated.

1.2 Compliance with constituent documents

The business and affairs of the Issuing Company have at all times been and continue to be conducted in accordance with its constitution.

1.3 Proportion of capital

The shares will, upon issue, be fully paid.

1.4 No restriction

There is no restriction on issue of the shares to the Subscribing Company.

1.5 Consents

The Issuing Company has obtained all consents necessary to enable it to issue the shares.

1.6 No breach

The issue of the shares does not breach any obligation or agreement binding on the Issuing Company or its members.

1.7 Encumbrances

There are no Encumbrances over the shares.

1.8 Issued shares

All of the issued shares in the capital of the Issuing Company are validly allotted and issued and were not allotted or issued or transferred in breach of any:

- (a) pre-emptive or similar rights of any person; or
- (b) contract which is binding on the Issuing Company.

1.9 All shares fully paid

All shares in the capital of the Issuing Company are fully paid.

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Signing page

DATED: _____

SIGNED, SEALED AND DELIVERED by)
)
 SIMON BROOKES, as attorney for TELSTRA)
 CORPORATION LIMITED under power)
 of attorney dated 13 April 2005)
 in the presence of:)
)
)
)
 Signature of witness)
)
)
 JOSHUA COLE)
) By executing this agreement
) the attorney states that the
) attorney has received no
) notice of revocation of the
) power of attorney

SIGNED, SEALED AND DELIVERED by)
)
 SIMON BROOKES as attorney for TELSTRA)
 HOLDINGS PTY LIMITED under)
 power of attorney dated 13)
 April 2005 in the presence of:)
)
)
)
 Signature of witness)
)
)
 JOSHUA COLE)
) By executing this agreement
) the attorney states that the
) attorney has received no
) notice of revocation of the
) power of attorney

SIGNED, SEALED AND DELIVERED by)
SIMON BROOKES as attorney for TELSTRA)
HOLDINGS (BERMUDA) No. 1)
LIMITED under power of attorney)
dated 13 April 2005 in the)
presence of:)

.....)
Signature of witness)
JOSHUA COLE)
.....)
Name of witness (block letters))

.....)
By executing this agreement)
the attorney states that the)
attorney has received no)
notice of revocation of the)
power of attorney)

THE COMMON SEAL of PCCW LIMITED)
was affixed in the presence of:)

.....)
Signature of Director)
ALEXANDER ARENA)
.....)
Name of Director(block letters))

.....)
Signature of Director/Secretary)
HUBERT CHAK)
.....)
Name of Director/Secretary)
(block letters))

THE COMMON SEAL of PACIFIC)
CENTURY CABLE HOLDINGS LIMITED)
was affixed in the presence of:)

.....)
Signature of Director)
DANIEL LOVATT)
.....)
Name of Director (block letters))

.....)
Signature of Director/Secretary)
PHILANA POON)
.....)
Name of Director/Secretary)
(block letters))

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THE COMMON SEAL of PCCW-HKT)
TELEPHONE LIMITED was affixed)
in the presence of:)
)
)
.....)

Signature of Director)
)
ALEXANDER ARENA)
.....)
Name of Director (block letters))

.....)
Signature of Director/Secretary)
)

PHILANA POON)
.....)
Name of Director/Secretary)
(block letters)

THE COMMON SEAL of PCCW)
COMMUNICATIONS (SINGAPORE)PTE)
LIMITED was affixed in the)
presence of:)
)
)
.....)

Signature of Director)
)
.....)
Name of Director (block letters))

.....)
Signature of Director/Secretary)
)

.....)
Name of Director/Secretary)
(block letters)

SIGNED, SEALED AND DELIVERED by)
)
as attorney for REACH FINANCE)
LIMITED under power of attorney)
dated in the)
presence of:)
)
)
.....)

Signature of witness)
)
CUONG HOANG)
.....)
Name of witness (block letters))

.....)
By executing this agreement)
the attorney states that the)
attorney has received no)
notice of revocation of the)
power of attorney)

Reach Shareholders
(Variation) Agreement No. 6

between

TELSTRA CORPORATION LIMITED
as Telstra

TELSTRA HOLDINGS (BERMUDA) NO 1 LIMITED
as Telstra Shareholder

TELSTRA HOLDINGS PTY LIMITED
as Telstra Holding

PCCW LIMITED
as PCCW

PACIFIC CENTURY CABLE HOLDINGS LIMITED
as PCCW Shareholder

and

REACH LTD.
as Reach

relating to

Reach Shareholders' Agreement dated 13 October 2000

Simmons & Simmons

35th Floor Cheung Kong Center 2 Queen's Road Central Hong Kong
T (852) 2868 1131 F (852) 2810 5040 DX 009121 Central 1

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THIS AGREEMENT is dated 16 April 2005 and made

BETWEEN:

- (1) TELSTRA CORPORATION LIMITED (ABN 33 051 775 556) of 242 Exhibition Street, Melbourne, Victoria, Australia ("Telstra");
- (2) TELSTRA HOLDINGS (BERMUDA) NO 1 LIMITED of Clarendon House, 2 Church Street, Hamilton HM11, Bermuda ("Telstra Shareholder");
- (3) TELSTRA HOLDINGS PTY LIMITED (ABN 45 057 808 938) of 242 Exhibition Street, Melbourne, Victoria, Australia ("Telstra Holding");
- (4) PCCW LIMITED (formerly Pacific Century CyberWorks Limited) of 39th Floor, PCCW Tower, TaiKoo Place, 979 Kings Road, Quarry Bay, Hong Kong ("PCCW");
- (5) PACIFIC CENTURY CABLE HOLDINGS LIMITED of Clarendon House, 2 Church Street, Hamilton HM11, Bermuda ("PCCW Shareholder"); and
- (6) REACH LTD. (formerly known as Joint Venture (Bermuda) No. 1 Limited) of Clarendon House, 2 Church Street, Hamilton HM11, Bermuda ("Reach").

together the "Parties" and each a "Party"

Background:

- (A) The Parties entered into the Reach Shareholders' Agreement dated 13 October 2000 ("Original Agreement"), pursuant to which Telstra and PCCW agreed to form Reach as a joint venture into which Telstra and PCCW combined their respective global wholesale businesses.
- (B) The Original Agreement was varied pursuant to the IP Backbone Company Shareholders (Variation) Agreement dated 31 January 2001, the IP Backbone Shareholders (Variation) Agreement No. 2 dated 8 March 2001, the IP Backbone Shareholders (Variation) Agreement No. 3 dated April 2002, the Reach Shareholders (Variation) Agreement No. 4 dated 26 June 2002 and the Reach Shareholders (Variation) Agreement No. 5 dated 15 April 2003 referred to in this Agreement as the "Previous Variation Agreements".
- (C) The Parties now wish to further vary the terms of the Original Agreement and have agreed to vary and restate the Original Agreement in the manner provided for in this Agreement.

NOW IN CONSIDERATION FOR THE MUTUAL COVENANTS CONTAINED HEREIN IT IS HEREBY AGREED as follows:

1. INTERPRETATION

1.1 Previously defined terms

Terms defined in the Original Agreement shall, save to the extent that the context otherwise requires, bear the same respective meanings in this Agreement.

2. VARIATION OF ORIGINAL AGREEMENT

2.1 Variations

With effect from the date of this Agreement, the Original Agreement (as amended by the Previous Variation Agreements) shall be amended and restated as set out in the Schedule to this Agreement.

2.2 Original Agreement confirmed

Save as varied by this Agreement, the Original Agreement (as amended by the Previous Variation Agreements) is confirmed and shall remain in full force and effect.

3. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT

No person who is not a party to this Agreement shall have any rights under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Agreement.

4. COUNTERPARTS

4.1 Execution of counterparts

This Agreement may be executed in any number of counterparts which together shall constitute one agreement. Each Party may enter into this Agreement by executing a counterpart and this Agreement shall not take effect until it has been executed by all Parties.

5. LAW AND JURISDICTION

5.1 English Law

This Agreement shall be governed by, and construed in accordance with, English law.

5.2 Submission to jurisdiction

Each Party submits to the non-exclusive jurisdiction of the courts of England and courts of appeal from them. Each Party waives any right it has to object to an action being brought in those courts including, without limitation, by claiming that the action has been brought in an inconvenient forum or that those courts do not have jurisdiction.

IN WITNESS whereof the Parties have caused this Agreement to be duly executed on the day and year first written.

SCHEDULE

Dated 2000

Reach Shareholders Agreement
-
Amended and Restated 16 April 2005
Telstra Corporation Limited
("Telstra")

Telstra Holdings Pty Limited
("Telstra Holding")

Telstra Holdings (Bermuda) No 1 Limited
("Telstra Shareholder")

PCCW Limited
("PCCW")

Pacific Century Cable Holdings Limited
("PCCW Shareholder")

Reach Ltd.
("Company")

Mallesons Stephen Jaques
Solicitors

Governor Phillip Tower
1 Farrer Place
Sydney NSW 2000
Tel: 9296 2000
Fax: 9296 3999
DX: 113 Sydney
Ref: DAW/LMW

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Reach Shareholders Agreement - as amended
and restated on 16 April 2005

Date: 13 October 2000

Parties: TELSTRA CORPORATION LIMITED
(ABN 33 051 775 556) of
242 Exhibition Street,
Melbourne, Victoria, Australia ("Telstra")

TELSTRA HOLDINGS (BERMUDA) NO 1 LIMITED of
Clarendon House, 2 Church Street, Hamilton
HM11, Bermuda ("Telstra Shareholder")

TELSTRA HOLDINGS PTY LIMITED (ABN 45 057 808
938) of 242 Exhibition Street, Melbourne,
Victoria, Australia ("Telstra Holding")

PCCW LIMITED (formerly known as Pacific
Century CyberWorks Limited) of 39/F, PCCW
Tower, TaiKoo Place, 979 King's Road, Quarry
Bay, Hong Kong ("PCCW")

PACIFIC CENTURY CABLE HOLDINGS LIMITED of
Clarendon House, 2 Church Street, Hamilton
HM11, Bermuda ("PCCW Shareholder")

REACH LTD. (formerly known as
Joint Venture (Bermuda) No 1
Limited) of Clarendon House, 2 Church Street,
Hamilton HM11, Bermuda ("Company")

Recitals:

- A. Telstra and PCCW have agreed to form the
Company as a joint venture into which Telstra
and PCCW will combine their respective global
wholesale businesses.
- B. The Parties agree to regulate the management
of the Company and related operational issues
on the terms set out in this agreement.

Operative provisions:

1 Interpretation

Definitions

- 1.1 In this agreement, these meanings apply
unless the contrary intention appears:

2005 Agreements means the Reach Debt and
Asset Restructure Deed together with the
agreements listed in clause 3 of that deed.

20% Shareholder means a Founder Shareholder
that holds 20% or more of the total issued
Shares.

25% Shareholder means a Founder Shareholder that holds 25% or more of the total issued Shares and is not a defaulting Shareholder (as defined in clause 13.1).

35% Shareholder means a Founder Shareholder that holds 35% or more of the total issued Shares and is not a defaulting Shareholder (as defined in clause 13.1).

Agreed Scope, in relation to the Business, means the scope and activities of the Business set out in clause 4 as from time to time changed by or in accordance with resolutions of the Board made in conformity with clause 5.31.

Agreed Uncommitted Capex is defined in the Capacity Allocation Agreement.

Approved Business Plan is the Business Plan that has most recently been adopted by the Board pursuant to clauses 7.13 to 7.15 as from time to time revised by the Board.

Associated Company of Mr Li means a body corporate where individually or collectively,

- (a) PCCW, and/or
- (b) Mr Li, and/or
- (c) one or more Family Interests of Mr Li, and/or
- (d) one or more Trust Interests of Mr Li,

directly or indirectly:

- (e) owns or own 35% or more of the issued capital of,
- (f) is or are entitled to 35% or more of the economic interest in,
- (g) can exercise or control the exercise of 35% or more of the votes that may be cast at general meetings of members of, or
- (h) can control the composition of a majority of the board of directors of,

the body corporate.

Associated Company of PCCW means a body corporate where, individually or collectively,

- (a) PCCW, and/or
- (b) Mr Li, and/or
- (c) one or more Family Interests of Mr Li, and/or

(d) one or more Trust Interests of Mr Li,
directly or indirectly:

- (e) owns or own 35% or more of the
issued capital of,
 - (f) is or are entitled to 35% or more of
the economic interest in,
 - (g) can exercise or control the exercise of
35% or more of the votes that may be cast
at general meetings of members of, or
 - (h) can control the composition of a majority
of the board of directors of,
- the body corporate.

Associated Company of Telstra means a body
corporate where Telstra directly or
indirectly,

- (a) owns 35% or more of the issued capital
of,
 - (b) is entitled to 35% or more of the
economic interest in,
 - (c) can exercise or control the exercise of
35% or more of the votes that may be cast
at general meetings of members of, or
 - (d) can control the composition of a majority
of the board of directors of,
- the body corporate.

Associated Company of the Company means a
body corporate where the Company directly or
indirectly:

- (e) owns 35% or more of the issued capital
of,
 - (f) is entitled to 35% or more of the
economic interest in,
 - (g) can exercise or control the exercise of
35% or more of the votes that may be cast
at general meetings of members of, or
 - (h) can control the composition of a majority
of the board of directors of,
- the body corporate.

Authorised Officer means a person appointed
by a party to act as an Authorised Officer
for the purposes of this agreement.

Board means all or some of the Directors
acting as a board.

Budget in relation to a Financial
Year, means a detailed operating budget for
the Company Group for the Financial Year
containing:

- (a) projections as at the end of each month of:
- (i) consolidated income, expenses, cashflow and balance sheet for the Company and its subsidiaries ("reporting entity");
 - (ii) income, expenses, cashflow and balance sheet of each Company Entity; and
- (b) forecasts of capital expenditure and working capital requirements for the reporting entity and each Company Entity during each month and whether any additional funds will be required.

Business means the business carried on by the Company Group at any time in accordance with the terms of this agreement (as amended from time to time).

Business Day means a day not being a Saturday, Sunday or public holiday in Sydney or Hong Kong.

Business Plan means, a business plan for the conduct, operations, administration and development of the Company Group and the business, investments and affairs of the Company Group.

Capacity Allocation Agreement means the agreement entitled "Capacity Allocation Agreement" between the Founders, Reach Global Networks Ltd, and PCCW Communications (Singapore) Pte Ltd.

CEO means the chief executive officer of the Company.

CFO means the chief financial officer of the Company.

Chairman means the Director who is chairman of the Board and meetings of the members of the Company.

Commencement Date means the date of this agreement (13 October 2000).

Committed Capex is defined in the Capacity Allocation Agreement

Companies Ordinance means the Companies Ordinance, Chapter 32 of the Laws of Hong Kong.

Company Entity means the Company or a subsidiary of the Company.

Company Group means the Company and its subsidiaries and a reference to the Company Group includes a reference to any one or more of the Company and its subsidiaries.

Company Information is information of any kind (including financial data and information that is Confidential Information of the Company as defined in clause 19.1(f)) relating to or produced or used for or in

connection with the Company Group or the Business or assets, liabilities or other affairs of the Company Group.

Completion means Completion as defined in the Completion Agreement.

Completion Agreement means the Project Five Star Completion Agreement between the Founders and others dated the same day as this agreement.

Completion Date or date of Completion is the date on which Completion occurs.

Connectivity means capacity and connectivity for the carriage of Telecommunications Traffic.

Connectivity Infrastructure means telecommunications networks, infrastructure and facilities, and related systems for providing Connectivity for Connectivity Services.

Connectivity Service is a telecommunications service that provides Connectivity.

Constitution means the memorandum of association and bye laws of the Company.

controlled corporation of Telstra means a body corporate where, individually or collectively,

- (a) Telstra, and/or
- (b) one or more Associated Companies of Telstra, and/or
- (c) one or more Telstra Trust interests, directly or indirectly:
- (d) owns or own 35% or more of the issued capital of,
- (e) is or are entitled to 35% or more of the economic interest in,
- (f) may exercise or control the exercise of 35% or more of the votes that may be cast at general meetings of members of, or
- (g) may control the composition of the majority of the board of directors of,

the body corporate.

controlled corporation of PCCW means a body corporate, where individually or collectively,

- (a) PCCW, and/or

-
- (b) one of more Associated Companies of PCCW, and/or
 - (c) one or more PCCW Trust Interests, and/or
 - (d) one or more Family Interests of Mr Li, and/or
 - (e) one or more Associated Companies of Mr Li,

directly or indirectly:

- (f) owns or own 35% or more of the issued capital of,
- (g) is or are entitled to 35% or more of the economic interest in,
- (h) may exercise or control the exercise of 35% or more of the votes that may be cast at general meetings of members of, or
- (i) may control the composition of the majority of the board of directors of,

the body corporate.

controlled corporation of Mr Li means a body corporate where, individually or collectively,

- (a) Mr Li, and/or
- (b) one or more Family Interests of Mr Li, and/or
- (c) one or more Trust Interests of Mr Li, and/or
- (d) one or more Associated Companies of Mr Li, and/or
- (e) PCCW; and/or
- (f) one or more Associated Companies of PCCW; and/or
- (g) one or more PCCW Trust Interests,

directly or indirectly:

- (h) owns or own 35% or more of the issued capital of,
- (i) is or entitled to 35% or more of the economic interest in,
- (j) may exercise or control the exercise of 35% or more of the votes that may be cast at general meetings of members of, or
- (k) may control the composition of the majority of the board of directors of,

the body corporate.

controlled corporation of the Company means a body corporate where individually or collectively:

-
- (a) the Company, and/or
 - (b) one or more Associated Companies of the Company,
- directly or indirectly:
- (c) owns or own 35% or more of the issued capital of,
 - (d) is or are entitled to 35% or more of the economic interest in,
 - (e) can exercise or control the exercise of 35% or more of the votes that may be cast at general meetings of, or
 - (f) can control the composition of the majority of the board of directors of,
- the body corporate.

COO means the chief operations officer of the Company.

Corporations Law has the meaning it has in the Corporations Act 1989 of the Commonwealth of Australia.

Deputy Chairman means the Director who is the deputy chairman of the Board and meetings of members of the Company.

Director means a director of the Company.

direct wholly-owned subsidiary, in relation to a body corporate, means a subsidiary of the body corporate where none of the shares (of whatever kind) in the subsidiary are held by a person other than the body corporate or are the subject of any Security Interest except a Security Interest created and subsisting as permitted pursuant to clause 9 for that subsidiary.

dispose of, in relation to a security, means any dealing with the security including a sale, transfer, assignment, creation of a trust or option or Security Interest over or in respect of or swap or alienation of all or any part of the rights attaching to the security, or any legal or equitable interest in the security.

economic entity includes a body corporate, trust, joint venture, partnership or other economic entity.

Embargoed PCCW Shareholder Securities means all PCCW Shareholder Securities except for any that have been transferred in accordance with clause 9.9 or 9.11.

Embargoed Telstra Shareholder Securities means all Telstra Shareholder Securities except for any that have been transferred in accordance with clause 9.10 or 9.12.

Existing Business means the existing business entities, investments, assets and businesses that are acquired by the Company Group upon Completion pursuant to the Establishment Agreements.

Family Interest of Mr Li means Mr Li's spouse and/or any child or step-child under the age of 18 years of Mr Li or his spouse.

Financial Year is a period of 12 consecutive months ending on 31 December, provided that the first Financial Year will begin on the Completion Date and end on 31 December 2001.

Founder means PCCW or Telstra.

Founder Group means Telstra Group or PCCW Group.

Founder Shareholder means the PCCW Shareholder or the Telstra Shareholder.

Government Agency means any Minister, governmental, semi-governmental, regulatory, administrative, fiscal, judicial or quasi-judicial body, department, commission, authority, tribunal, agency or official.

Hong Kong means the Hong Kong Special Administrative Region of the Peoples Republic of China.

A body corporate is Insolvent if:

- (a) an order is made or an effective resolution has been passed for it to be wound up, or dissolved without winding-up (otherwise than for the purposes of reconstruction or amalgamation) and that order or resolution has been in effect for a continuous period of more than 30 days;
- (b) a receiver, receiver manager, judicial manager, liquidator, provisional liquidator, official manager, administrator, trustee or like official has been appointed over the whole or any material part of its undertaking or property and the appointment has been in effect for a continuous period of more than 30 days;
- (c) an encumbrancer or other holder of a Security Interest has taken possession of the whole or any material part of its undertaking or property and has been in possession for a continuous period of more than 30 days;
- (d) any distress, execution, sequestration or other similar process has been levied or enforced upon or sued out against the whole or any material part of its property and has remained undischarged for a continuous period of more than 30 days;
- (e) it has made an assignment for the benefit of creditors (including a class of creditors) generally;

-
- (f) it is subject to any arrangement, assignment, moratorium or composition, protected from creditors under any statute or dissolved (in each case, other than to carry out a reconstruction or amalgamation while solvent on terms approved in writing by the Founders); or
 - (g) a situation substantially analogous to any of (a) to (f) exists in connection with the body corporate under the law of any jurisdiction.

Establishment Agreements means:

- (a) the agreements included in the definition of "Establishment Agreements" in the Completion Agreement;
- (b) the Completion Agreement; and
- (c) any agreements entered into pursuant to clause 10.10 or 10A (as those clauses have operated from time to time)

Mr Li means Richard Li Tzar Kai.

Party means a Founder, a Founder Shareholder and in accordance with clauses 1.4 and 1.5, the Company and Telstra Holding.

PCCW Entity means PCCW or a subsidiary of PCCW.

PCCW Group means PCCW, and its subsidiaries and a reference to the PCCW Group includes a reference to any one or more of PCCW and its subsidiaries but does not include a reference to the Company or any of its subsidiaries.

PCCW Interest means,

- (a) Mr Li,
- (b) a controlled corporation of PCCW;
- (c) a controlled corporation of Mr Li;
- (d) a Family Interest of Mr Li, or
- (e) a Trust Interest of Mr Li.

PCCW Parties means PCCW and the PCCW Shareholder.

PCCW Shareholder Security means an issued share in the capital, or other security, of the PCCW Shareholder.

PCCW Shares means all Shares:

- (a) held by the PCCW Shareholder at the time of Completion; or

(b) from time to time issued to the PCCW Shareholder after Completion;

except Shares that the PCCW Shareholder has transferred as provided in clause 9.5(a).

PCCW Trust Interest means the trustees, acting in their capacity as trustees, of a trust of which PCCW and/or an Associated Company of PCCW:

(a) is a beneficiary, or

(b) in the case of a discretionary trust, is a discretionary object.

PCCW's international assets are the economic entities, businesses and assets that under the Establishment Agreements will be transferred on Completion from the PCCW Group to the Company Group. To avoid doubt a reference to PCCW's international assets includes businesses and assets that are at the time of Completion businesses and assets of an economic entity that on Completion becomes a PCCW Entity.

Process Agent means:

(a) for the Telstra Parties: Telstra Europe Limited, Telstra House, 21 Tabernacle Street, London EC2A 4DE;

(b) for the PCCW Parties: Simmlaw Services Limited, c/o Simmons & Simmons, CityPoint, One Ropemaker Street, London EC2Y 9SS;

(c) for the Company: Reach Europe Limited, 50-52 Paul Street, London EC2A 4LB.

Reach Debt and Asset Restructure Deed means the deed entitled "Reach Debt and Asset Restructure Deed" between, amongst others, the Founders and Reach.

Reach Network Services Agreement means the agreement entitled "Reach Network Services Agreement" between certain members of the Founder Groups and Company Group.

Representative of a person includes an employee, agent, officer, director, auditor, legal, accounting, tax or financial adviser or other consultant of that person.

securities has the same meaning as in the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong and includes Shares; and "security" shall be construed accordingly.

Security Interest, over a security or other asset means, a mortgage, assignment, charge, trust, pledge, lien, hypothecation, power, title retention arrangement, or other encumbrance or third party right over or in respect of:

- (i) the security or asset,
- (ii) a legal or equitable interest in the security or asset, or
- (iii) a right attaching to the security or asset.

Share means an ordinary voting share in the capital of the Company and Shareholding means a holding of Shares.

Shareholder means a person that holds the legal interest in a Share.

Tax means taxes (direct and indirect), levies, imposts, deductions, charges, withholdings and duties, together with any related interest, penalties, fines and other statutory charges whether accruing before or after Completion.

Telecommunications Traffic is communications of all descriptions including voice, data and signals of all kinds and whether carried by means of switched or unswitched telephony, data transmission (including ATM or frame relay), leased or dedicated lines, circuits or satellite slots, over the Internet, or by other means of transmission.

Telstra Entity means Telstra or a subsidiary of Telstra.

Telstra Group means Telstra, and its subsidiaries and a reference to the Telstra Group includes a reference to any one or more of Telstra and its subsidiaries but does not include a reference to the Company or any of its subsidiaries.

Telstra Parties means Telstra, Telstra Holding and the Telstra Shareholder.

Telstra Shareholder Security means an issued share in the capital, or other security, of the Telstra Shareholder.

Telstra Shares means all Shares:

- (a) held by the Telstra Shareholder at the time of Completion; or
- (b) from time to time issued to the Telstra Shareholder after Completion,

except Shares that the Telstra Shareholder has transferred as provided in clause 9.6(a) or replacement clause 9.6(a).

Telstra Trust Interest means the trustees acting in their capacity as trustees, of a trust of which Telstra and/or an Associated Company of Telstra:

- (a) is a beneficiary, or
- (b) in the case of a discretionary trust, is a discretionary object.

Telstra's international assets are the economic entities, businesses and assets that under the Establishment Agreements will be transferred on Completion from the Telstra Group to the Company Group. To avoid doubt a reference to Telstra's international assets includes businesses and assets that at the time of Completion are businesses and assets of an economic entity that on Completion becomes a Telstra Entity.

Trust Interest of Mr Li means the trustees, acting in their capacity as trustees, of a trust of which Mr Li or an Associated Company of Mr Li:

- (a) is a beneficiary, or
- (b) in the case of a discretionary trust, is a discretionary object and in relation to which Mr Li and/or an Associated Company of Mr Li is involved in the management.

References to certain general terms

1.2 Unless the contrary intention appears, in this agreement:

- (a) a reference to a document (including this agreement) includes any variation or replacement of it;
- (b) a reference to a clause, annexure or schedule is a reference to a clause in or annexure or schedule to this agreement;
- (c) except in relation to the Corporations Law and the Companies Ordinance a reference to a statute, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them;
- (d) the singular includes the plural and vice versa;
- (e) a reference to a "person" includes a reference to an individual, a firm, a body corporate, a partnership, joint venture, an unincorporated body or association, or any Government Agency;
- (f) a reference to a particular person includes a reference to the person's executors, administrators, successors, substitutes (including persons taking by novation) and assigns;
- (g) a reference to a
 - (i) subsidiary; or
 - (ii) holding company; or
 - (iii) a wholly owned subsidiary; or
 - (iv) ultimate holding company.

of a body corporate, is to be construed in accordance with the Corporations Law.

- (h) a reference to a "related entity" of a body corporate is a reference to:
 - (i) a subsidiary of the body corporate;
 - (ii) a holding company of the body corporate; or
 - (iii) another body corporate that is a subsidiary of a holding company of the body corporate,other than the Company or a subsidiary of the Company.
- (i) a reference to a "related person" of a Shareholder is a reference to a director, officer, employee or other representative of the Shareholder or of a related entity of the Shareholder,
- (j) an agreement, undertaking, warranty or indemnity in favour of two or more persons is for the benefit of them jointly and each of them individually;
- (k) an agreement, undertaking or warranty by two or more persons binds them jointly and each of them individually;
- (l) a reference to a "share" or a "debenture" is to be construed in accordance with the Companies Ordinance;
- (m) if a period of time dates from a given day or the day of an act or event, it is to be calculated exclusive of that day;
- (n) a reference to a day is to be interpreted as the period of time commencing at midnight and ending 24 hours later;
- (o) the words "include", "including", "for example" or "such as" are not used as, nor are they to be interpreted as, words of limitation, and, when introducing an example, do not limit the meaning of the words to which the example relates to that example or examples of a similar kind;
- (p) if an act under this agreement to be done by a party (including the Company) on or by a given day is done after 5.30pm on that day, it is taken to be done on the next day;
- (q) if an event under this agreement must occur on a stipulated day which is not a Business Day then the stipulated day will be taken to be the next Business Day;
- (r) a reference to a month is to a calendar month;
- (s) all currency references are to lawful currency of the United States of America;

-
- (t) a reference to the transfer of a Share is a reference to the transfer of the Share free of any Security Interest;
 - (u) to avoid doubt, a subsidiary
 - (i) of PCCW is a controlled corporation of PCCW;
 - (ii) of Telstra is a controlled corporation of Telstra; and
 - (iii) of the Company is a controlled corporation of the Company.

Headings

- 1.3 Headings are for convenience only and do not affect the interpretation of this agreement.

Company/Telstra Holding as a Party

- 1.4 A reference to a "Party" or the "Parties" includes a reference to the Company only in and for the purposes of clauses 10, 10.A, 10.B, 14, 15 and 21 through 29.
- 1.5 A reference to a "Party" or the "Parties" includes a reference to Telstra Holding for the purposes of clauses 21 through 29.

2 Commencement and Completion

Effect

- 2.1 This agreement takes effect and is operative upon and from the Commencement Date.

3 [Intentionally blank]

4 Business of the Company Group

- 4.1 [Intentionally blank]

Scope of the business of the Company

- 4.2 It is recognised that, prior to 1 March 2005, the Company Group was a supplier of Connectivity Services to third parties such as telecommunications carriers and service providers, and Internet service providers.
- 4.3 Effective from 1 March 2005, the Business was transformed to be one under which, for the most part, the Company Group provides services to the PCCW Group and the Telstra Group pursuant to the 2005 Agreements. The scope and activities of the Business are to be within and in accordance with the following description, business objectives and parameters:

- (a) The principal objective of the Business will be for the Company Group to be a provider of data services to the PCCW Group and the Telstra Group and voice, satellite and data centre services to third parties and the PCCW Group and the Telstra Group.
- (b) The Business will be operated as a global business with its headquarters in Hong Kong and a set of worldwide points of presence.
- (c) The Connectivity Services supplied by the Business will provide Connectivity through both terrestrial and non-terrestrial delivery platforms.
- (d) The focus of the Business and its development in relation to Connectivity Infrastructure will be on the construction, ownership, management and operation of Cross Border Connectivity Infrastructure.
- (e) Outside Australia and Hong Kong the Connectivity Services supplied by the Business will be predominantly city to city services that provide Connectivity between markets and networks rather than simply between international gateways in different countries.
- (f) The commercial relationships between on the one hand the Company Group and Business and on the other hand:
 - (i) Telstra Entities and their domestic wholesale and retail operations in markets in Australia; and
 - (ii) PCCW Entities and their domestic wholesale and retail operations in markets in Hong Kong,will be the subject of the Establishment Agreements and the 2005 Agreements.
- (g) The Business will be built on the base of the relevant staff from both Telstra Group and PCCW Group. Generally staff entering the Company Groups service will sever their ties with PCCW Group and Telstra Group, with the exception of staff with specific skills who may be seconded from Telstra Group and PCCW Group while permanent resources are being found. Staff in headquarters functions may be spread across various sites where the Business is operated worldwide, to ensure a balanced cultural and expertise mix, but with the majority being located in Hong Kong and Australia initially. Management incentives will be flexibly structured to reflect the priorities and strategic direction set by the Board from time to time, with particular emphasis on enhancement of shareholder value.

Definitions used in this clause 4

4.4 Certain capitalised terms used in this clause 4 are defined in clause 10.15.

5 Board of Directors and management

Scope

5.1 This clause 5 has effect from the Commencement Date and is subject to clause 13.

Appointment of Directors

5.2 Each Founder Shareholder is entitled to appoint Directors in accordance with this clause 5, to remove any Director appointed by it, and (subject to clauses 5.6 and 5.7) to replace a Director appointed by it who dies, resigns or is removed from or otherwise vacates office.

5.3 Each appointment, removal or replacement of a Director by a Founder Shareholder must be made by notice to the Company and each of the other Shareholders.

First Board

5.4 The Board will consist of the number of Directors that the Founder Shareholders between them are entitled to appoint pursuant to this clause 5. The Board may act notwithstanding any vacancy in its numbers.

5.5 Subject to clause 5.6, the Board will be comprised as follows:

- (a) 2 Directors appointed by the Telstra Shareholder; and
- (b) 2 Directors appointed by the PCCW Shareholder.

Subsequent Boards

5.6

The number of Directors that each Founder Shareholder may appoint will be determined in accordance with the following table:

| Percentage of total issued Shares held by the Founder Shareholder | Number of Directors the Founder Shareholder is entitled to appoint |
|---|--|
| Less than 15% | 0 |
| 15% to less than 25% | 2 |
| 25% to less than 35% | 3 |
| 35% or more | 4 |

5.7 If the number of Directors in office appointed by a Founder Shareholder becomes greater than the number that the Founder Shareholder is entitled to appoint pursuant to clause 5.6, the Founder Shareholder must immediately remove as many of those Directors as required to reduce their number to the number that the Founder Shareholder is entitled to appoint pursuant to clause 5.6.

Chairman

5.8 The Chairman:

- (a) must be a Director,
- (b) will be entitled to preside as Chairman at meetings of the Board and of members of the Company, and
- (c) will not be entitled to a second or casting vote at any meeting of the Board or of members of the Company

Appointment of Chairman

5.9 Subject to clauses 5.11, 5.12 and 5.12A,

- (a) from Completion the Chairman will be appointed by the 35% Shareholders alternately during successive periods of 2 years, and
- (b) the Chairman for the first 2 years from Completion will be appointed by the Telstra Shareholder.

5.10 A 35% Shareholder has the right, after consultation with the other Founder Shareholder ("appointing Shareholder") to remove a Chairman appointed by the appointing Shareholder. If this occurs the appointing Shareholder, if it is a 35% Shareholder, will appoint another Chairman for the remainder of the applicable period of 2 years.

5.11 If either Founding Shareholder ceases to be a 35% Shareholder, the other Founder Shareholder if it is a 35% Shareholder, will be entitled to appoint the Chairman.

5.12 If neither of the Founding Shareholders is a 35% Shareholder, the Chairman will be appointed by the Board.

5.12A The term of office of a Chairman appointed by a 35% Shareholder will terminate when that Shareholder ceases to be entitled to appoint the Chairman.

Deputy Chairman

5.13 The Deputy Chairman

- (a) must be a Director,
- (b) in the absence of the Chairman will be entitled to preside as Chairman at meetings of the Board and of members of the Company, and

- (c) will not be entitled to a second or casting vote at any meeting of the Board or of members of the Company.

Appointment of Deputy Chairman

- 5.14 Subject to clauses 5.16 and 5.17, from Completion, the 35% Shareholder that is not the one by which the Chairman is to be appointed will appoint the Deputy Chairman.
- 5.15 A 35% Shareholder has the right, after consultation with the other Founding Shareholder ("appointing Shareholder") to remove a Deputy Chairman appointed by the appointing Shareholder. If this occurs the appointing Shareholder, if it is a 35% Shareholder, will appoint another Deputy Chairman.
- 5.16 If either Founding Shareholder ceases to be a 35% Shareholder, the Deputy Chairman will be appointed and removed by the Board.
- 5.17 The term of office of a Deputy Chairman appointed by a 35% Shareholder will terminate when that Shareholder ceases to be entitled to appoint the Deputy Chairman.
- 5.17A In clauses 5.9 to 5.17:
- (a) a reference to appointment of the Chairman includes a reference to removal or replacement of the Chairman; and
 - (b) a reference to appointment of the Deputy Chairman includes a reference to removal or replacement of the Deputy Chairman.

Alternate Director

- 5.18 A Director may appoint an alternate director as provided in the Constitution ("alternate").

Quorum

- 5.19 Subject to clauses 5.20 and 12.4 the quorum for a meeting of the Board will be attendance of four Directors including at any time when there is a 35% Shareholder at least one Director appointed by each 35% Shareholder.
- 5.20 At a meeting that has been postponed in accordance with the Constitution on one previous occasion for lack of a quorum the attendance of any two Directors will be a quorum.

Voting - General

- 5.21 Decisions of the Board are to be made by a simple majority of votes.
- 5.22 Subject to clauses 5.23, 5.24 and 12.1 each Director will have one vote.
- 5.23 At any meeting of the Board at which any Director appointed by a Shareholder is not in attendance, if another Director appointed by the Shareholder is in attendance that other Director or if two or more other Directors are appointed by the Shareholder are in attendance those

other Directors collectively, may exercise the vote of the absent Director.

- 5.24 At any meeting of the Board held at a time when there is a vacancy on the Board that a Shareholder is entitled to appoint a Director to fill, if a Director appointed by the Shareholder is in attendance that Director, or if two or more Directors appointed by the Shareholder are in attendance those Directors collectively, may exercise the vote that a Director appointed by the Shareholder to fill the vacancy would be able to exercise.

Meetings - general

- 5.25 Unless and except as otherwise agreed between the Founder Shareholders a meeting of the Board may be called by any Director by not less than 7 Business Days written notice and whenever a meeting is postponed for lack of a quorum the date to which it is postponed must be at least 5 Business Days later provided that the period of notice or postponement may be abridged or waived with the consent of at least one Director appointed by each Shareholder that has appointed one or more Directors.
- 5.26 Subject to clause 5.27 meetings of the Board will be convened and held at such times as may be determined by the Board, and in any event not less than quarterly, in Hong Kong or such other places as the Board from time to time determines.
- 5.27 Board meetings may be held by telephone or audio visual means provided each participant can hear the other participants.
- 5.28 A resolution of the Board may be passed by identical circular resolutions signed by all Directors.
- 5.29 A resolution cannot be voted upon at a Board meeting unless the general subject matter of the resolution is set out in the agenda sent with the notice of meeting, or all Directors in attendance at the meeting including at least one Director appointed by each 35% Shareholder agree to the resolution being considered and voted on at the meeting.
- 5.30 For the purpose of applying the foregoing provisions of this clause:
- (a) a reference to the attendance of a Director at a meeting is a reference to the Director being present or participating by telephone or audiovisual means in accordance with clause 5.27 in person or by alternate; and
 - (b) any act that may be performed by a Director may be performed in the Director's absence by the Director's alternate or representative.

Voting at Board meetings - special requirements

- 5.31 An act, matter or decision of any of the following kinds may not be undertaken or made except by or in accordance with a resolution of the

Board made by a majority of votes that includes the affirmative vote of at least one Director appointed by each 35% Shareholder:

- (a) a material change to the Agreed Scope of the Business (including any extension of the Business beyond, or the Company Group otherwise commencing or engaging in any business or activities outside or not in accordance with the scope and activities of the Business set out in clause 4);
- (b) a decision to approve a proposed Business Plan;
- (c) a decision materially revising an Approved Business Plan including by incorporating into the Approved Business Plan any new or increased investment, operating expenditure, capital raising or borrowing during a Financial Year that exceeds 20% of the annual amount for that category for that Financial Year budgeted in the Approved Business Plan;
- (d) unless clause 12.1 applies the Company Group entering into, extending, renewing, terminating or materially amending an agreement (other than the entry into of an agreement entered into pursuant to and in accordance with clause 10.10) with a Shareholder, a Founder or a controlled corporation of a Founder or a controlled corporation of Mr Li, where the amount to be expended or received by the Company Group under the agreement exceeds 2% of the consolidated operating revenue of the Company Group in the current Financial Year as projected in the Approved Business Plan;
- (e) the Company Group incurring aggregate indebtedness which is in excess of US\$50 million other than in accordance with the Approved Business Plan;
- (f) the Company Group acquiring or disposing of:
 - (i) a business or asset; or
 - (ii) through one transaction or a series of similar transactions or two or more transactions that are related, businesses and assets in aggregate having a book value exceeding 5% of the book value of the consolidated net assets of the Company Group;
- (g) the Company Group incurring indebtedness to a Shareholder, a Founder or a controlled corporation of a Founder, or a controlled corporation of Mr Li other than in accordance with the Approved Business Plan;
- (h) the Company Group acquiring or disposing of securities of or any other economic interest in the Company Group after Completion except where the acquisition or disposal is in accordance with the Approved Business Plan;

- (i) the creation, offering or issue of Shares or other securities of the Company Group after Completion otherwise than in accordance with the Approved Business Plan;
- (j) the listing of securities of the Company on any stock exchange.
- (k) in any month the Company Group incurring capital expenditure other than Agreed Uncommitted Capex or Committed Capex in excess of \$10,000 except to the extent set out in an Approved Business Plan;
- (l) in any month the Company Group incurring expenses in connection with product development in excess of \$5,000 except to the extent set out in an Approved Business Plan; and
- (m) a decision to approve a disaster recovery plan in respect of the telecommunications network operated by the Company Group.

Shareholder consents

5.32 Despite any contrary provision of this agreement, an act, matter or decision of any of the following kinds may not be undertaken or made except with the prior consent of each 35% Shareholder:

- (a) the Company Group conferring upon any lender or prospective lender as a condition or term of a loan or advance a right to participate in the share capital of the Company Group or any business of the Company Group;
- (b) reduction or return of capital of the Company;
- (c) a decision to put the Company Group into voluntary liquidation;
- (d) a change to the Constitution;
- (e) merger or amalgamation of the Company Group with any other person (except that the consent of a 35% Shareholder will not be required pursuant to this clause where the 35% Shareholder or its related entity has directly or indirectly in excess of a 5% economic interest in the person with whom the Company Group proposes to merge or amalgamate or a related entity of that person);
- (f) a call for the provision by the Shareholders of additional equity capital other than as specified in the Approved Business Plan;
- (g) the offering or issue of new Shares to a person other than a Shareholder.

Disputes

5.33 The agenda for all meetings of the Board shall include a discussion of all disputes between: (A) the Company Group and any member of a Founder Group and (B) the Company Group and any other party where

the amount in dispute is in excess
of US\$10,000 (or where such amount is
unquantifiable).

5AA Boards of subsidiaries

Boards of subsidiaries

- 5AA.1 Subject to clause 13, from Completion, the following provisions will apply and will be given effect with respect to each subsidiary of the Company unless and except as otherwise mutually agreed between the Founders before Completion, or determined by the Board after Completion:
- (a) each Founder Shareholder will be entitled to appoint to the board of directors of the subsidiary (and replace) a number of directors equal to the number of Directors that it is entitled to appoint; and
 - (b) the board of directors of the subsidiary will consist of the number of directors that collectively the Founders are entitled to appoint; and
 - (c) the provisions of clauses 5.7 to 5.30 will apply mutatis mutandis.

5A Deadlock Procedures

Vetoed resolutions

- 5A.1 Where:
- (a) a resolution relating to the undertaking or making of an act, matter or decision of any of the kinds specified in clause 5.31 is proposed and considered by the Board at a meeting of the Board; and
 - (b) all Directors except Directors appointed by one 35% Shareholder ("dissenting 35% Shareholder") vote in favour of the resolution; and
 - (c) the proposed resolution is not made for the reason that it requires and does not receive the vote of at least one Director appointed by a dissenting 35% Shareholder
- the other Founder Shareholder may give to the dissenting 35% Shareholder a notice calling for the deadlock procedures set out in clause 5A.3 to be applied in relation to the subject matter of the proposed resolution.
- 5A.2 Where:
- (a) the undertaking or making of an act, matter or decision of any of the kinds specified in clause 5.32 is proposed; and

(b) the undertaking or making of the proposed act, matter or decision is not consented to by a 35% Shareholder that is not a defaulting Shareholder pursuant to clause 13 ("dissenting 35% Shareholder"),

the other Founder Shareholder may give to the dissenting 35% Shareholder a notice calling for the deadlock procedures set out in clause 5A.3 to be applied in relation to the subject matter of the proposal.

5A.3 From the time a notice pursuant to clause 5A.1 or 5A.2 is given, the following dispute resolution procedures apply in relation to the subject matter of the proposed resolution ("Deadlock Subject Matter"):

- (a) within 5 Business Days, the chief executive officers of the Founders (or their respective nominees of appropriate seniority) must, within 5 Business Days of the expiry of that period, meet to discuss the Deadlock Subject Matter and endeavour in good faith to resolve the Deadlock Subject Matter within 20 Business Days following their first meeting;
- (b) if the Deadlock Subject Matter is not resolved within the 20 Business Days referred to in paragraph (a) either Founder may give a notice ("mediation notice") to the other Founders referring the Deadlock Subject Matter to mediation in accordance with this clause 5A.3. Once received, a mediation notice requires the Founders to follow the mediation process set out in paragraphs (c) to (f).
- (c) The Founders must, within 5 Business Days after a mediation notice is given, jointly appoint a mediator from:
 - (i) if the mediation notice is given by PCCW, the panel of mediators kept by the Australian Commercial Disputes Centre Limited; or
 - (ii) if the mediation notice is given by Telstra, from the panel of mediators kept by the Hong Kong International Arbitration Centre;(each a "Mediation Centre").
- (d) If the Founders do not agree on a mediator within 3 Business Days after the expiry of the 5 Business Days referred to in paragraph (c), then either Founder may ask the applicable Mediation Centre to appoint a mediator and determine the mediator's remuneration. The appointment of the applicable Mediation Centre will be binding on the Founders.

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- (e) If the Founders do not agree within 5 Business Days after the mediator is appointed pursuant to paragraphs (c) or (d), as to:
 - (i) the mediation procedures to be adopted; and
 - (ii) the timetable for all steps in those procedures,the Mediation will be conducted in accordance with the mediation rules of the applicable Mediation Centre.
 - (f) The mediation must take place in:
 - (i) if the mediation notice is given by Telstra, Hong Kong; or
 - (ii) if the mediation notice is given by PCCW, Sydney.
 - (g) The costs of mediation must be shared equally by each Founder.

5A.4 To avoid doubt, a mediator appointed pursuant to clause 5A.3 will act as a mediator, not an arbitrator or expert, and will have no power to make a decision that is binding.

6 Responsibilities of the Board

Business and affairs of the Company

- 6.1 Subject to this agreement, the Board is to be responsible for directing and supervising the management of the Company Group including:
- (a) determining the general corporate and business policies of the Company Group;
 - (b) determining the strategic priorities and objectives of the Company Group;
 - (c) determining the financial objectives and accounting policies of the Company Group;
 - (d) determining the external communications policies of the Company Group;
 - (e) determining matters of a major or unusual nature which are not in the ordinary course of business of the Company Group;
 - (f) reviewing, requiring revisions to and adopting proposed Business Plans and reviewing, revising the Approved Business Plan and considering at least annually the actual and projected cash position of the Company and deciding how it may be applied;

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- (g) monitoring and reviewing the performance and financial results of the operations of the Company Group throughout and after the end of each Financial Year;
 - (h) appointing, removing and determining the remuneration and terms and conditions of engagement of the CEO, CFO and COO;
 - (i) determining the management authorisations and responsibilities of the CEO and other executives of the Company Group including in relation to the incurring of expenditure and liabilities on behalf of the Company Group;
 - (j) appointing directors of subsidiaries of the Company and supervising and establishing policies in relation to the appointment, remuneration and performance of senior executives and the conduct and management of the businesses and affairs of the Company Group; and
 - (k) determining the dividend policy of the Company and declaring the payment of dividends by the Company.

6.2 Each Party agrees to take all reasonable steps within its power to procure that:

- (a) the operations of the Company are undertaken, developed and conducted in conformity with this agreement and the Establishment Agreements and the Approved Business Plan; and
- (b) there is a quorum at each duly convened meeting of the Board.

6.3 Subject to clause 6.2, to the extent permitted by law:

- (a) a Director appointed by a Shareholder (when exercising powers, performing duties or otherwise acting in the capacity of a Director); and
- (b) a related person of a Shareholder holding office as a director of a subsidiary of the Company (when exercising powers, performing duties or otherwise acting in that capacity)

may represent and act in accordance with the directions and requirements of the Shareholder and consider and vote in the interests of the Shareholder to the exclusion of the interests of the Company Group.

6.4 The Founder Shareholders ratify and approve the execution by the Company of those Establishment Agreements executed on or prior to the date of this agreement to which the Company is a party.

7 Management and operations

Appointment of the CEO

- 7.1 The CEO will be appointed by the Board.
- 7.2 The CEO is to be responsible to the Board for the management of the Company Group and for coordinating and supervising the day to day businesses operations and affairs of the Company Group.
- 7.3 The CEO is to be empowered to incur and authorise the incurring of expenditure and liabilities on behalf of the Company Group within the limits established by the Board.
- 7.4 The Board must require the CEO to implement the Approved Business Plan and endeavour to ensure that the businesses operations and affairs of the Company Group are managed and conducted so as to achieve timely fulfilment of the business objectives set out in and otherwise in all material respects consistently with the Approved Business Plan.

Senior executives and employees

- 7.5 The CFO and COO will be appointed by the Board unless otherwise determined by the Board.
- 7.6 The CFO is to be responsible to the CEO and the Board for the implementation and coordination of the fiscal and accounting policies and financial administration of the Company Group.
- 7.7 The COO is to be responsible to the CEO and Board for the day to day implementation of the operating policies and business operations administration of the Company Group.
- 7.8 [Intentionally blank]

Employee terms and conditions

- 7.9 The Board will determine and cause to be implemented
 - (a) suitable terms and conditions for employment of personnel of the Company Group, and
 - (b) when appropriate an employees share option/equity plan aimed at incenting management behaviour towards achieving the focus and objectives for the Business set out in clause 4.

Business Plans

- 7.10 [Intentionally blank]
- 7.11 [Intentionally blank]
- 7.12 [Intentionally blank]
- 7.13 The Board must procure that:
 - (a)

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- (i) the CEO prepares and submits to the Board a proposed Business Plan for the next Financial Year and the two following Financial Years; and
 - (ii) the proposed Business Plan is reviewed and revised in accordance with the Board's requirements and is then adopted by the Board on or prior to 30 November in the year preceding the first Financial Year to which such plan relates;
- (b) if for any reason a Business Plan for a Financial Year and the two following Financial Years ("requisite Plan") is not adopted by the Board on or prior to 30 November in the year preceding the first Financial Year to which such plan relates, as provided in paragraph (a), the requisite Plan is adopted by the Board as soon as practicable thereafter and in any event prior to the commencement of the relevant Financial Year;
- (c) the CEO prepares and submits to the Board:
- (i) monthly management accounts and reports relating to the Company Group in the form and manner required by the Board; and
 - (ii) promptly after the end of each quarter in each Financial Year:
 - (A) reports detailing the performance of the Company Group for the quarter and for the Financial Year to the end of the quarter, compared with the Approved Business Plan; and
 - (B) forecasts detailing the projected quarterly performance of the Company Group for the remainder of the Financial Year, compared with the Approved Business Plan.

7.14 Each Approved Business Plan must incorporate:

- (a) suitably detailed descriptions of the current and planned activities and objectives of the Company Group and including:
 - (i) a detailed description of the objectives and strategies of the Business for each of the Financial Years covered by the Approved Business Plan,
 - (ii) a detailed description of the operations which will be conducted and the services it will offer in each of those Financial Years,

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- (iii) a detailed marketing plan including pricing policies for at least the first Financial Year covered by the Approved Business Plan, and
 - (iv) a suitably detailed description of the human resources policy for the first 2 Financial Years covered by the Approved Business Plan, including the forecast numbers of full time employees and part time employees, and the number and the proposed secondees from Telstra Group and PCCW Group;
- (b) a Budget for the first Financial Year covered by the Approved Business Plan;
 - (c) forecasts in as much detail as practicable for:
 - (i) capital expenditure;
 - (ii) operating expenditure;
 - (iii) other expenditure of any kind that may be planned or required to be provided for; and
 - (iv) cashflowsfor each of the next two Financial Years;
 - (d) a funding plan in as much detail as practicable:
 - (i) setting out for each of the three years covered by the Approved Business Plan, the amount, timing and kind of funding or credit support required and proposed to be procured to meet all expenditure budgeted or forecast or otherwise contemplated in the Approved Business Plan; and
 - (ii) specifying any additional equity capital that is to be contributed by Shareholders in the first Financial Year covered by the Approved Business Plan including the amount and timing of each contribution.

7.15 Unless otherwise determined by the Board, the business objectives, projected activities and funding proposals for the Company Group

- (a) which are incorporated in each Business Plan adopted by the Board pursuant to this clause 7 must reflect and give effect to the description of, and business objectives and parameters for, the Business which are outlined in clause 4, and
- (b) [Intentionally blank]
- (c) which are incorporated in each Business Plan adopted by the Board pursuant to clause 7.13, so far as they relate to the first two Financial Years covered by the Business Plan must also be

substantially consistent with those that immediately before the adoption of the Business Plan are incorporated in the Approved Business Plan.

Shareholders to procure performance

7.16 Without limiting the generality of clause 11, each Shareholder agrees to take individually and collectively with the other Shareholders, all reasonable steps within its power to procure that all of the requirements and provisions of clauses 7.1 to 7.15 are duly and fully performed, implemented and observed.

8 Capital and Funding

Gearing

- 8.1 [Deleted: Variation Agreement No.5]
- 8.2 [Deleted: Variation Agreement No.5]
- 8.3 [Deleted: Variation Agreement No.5]
- 8.3A [Deleted: Variation Agreement No.5]
- 8.3B [Deleted: Variation Agreement No.5]
- 8.3C [Deleted: Variation Agreement No.5]

Initial Capital

- 8.3D [Intentionally blank]
- 8.3E [Intentionally blank]
- 8.3F [Intentionally blank]
- 8.3G [Intentionally blank]
- 8.4 [Intentionally blank]

Dividend policy

- 8.5 [Intentionally blank]

Funding of Business Plans

- 8.6 The Company Group will arrange bank facilities and other borrowings for working capital, capital expenditure, acquisitions and other funding requirements in the manner and on the terms the Board approves and authorises and nothing in this clause 8 will restrict the freedom of the Company Group to borrow funds from a financial institution, a Shareholder, a Founder, a controlled corporation of a Founder or other lender in such manner and on such terms and conditions as the Board may determine or authorise.
- 8.7 Except as expressly provided in this agreement or an Establishment Agreement, no Shareholder, Founder or subsidiary of a Founder is obliged to provide any financial accommodation to the Company

Group or to guarantee or secure any obligations of the Company Group.

- 8.8 From the Commencement Date Shareholders will fund the Company by providing additional equity capital:
- (a) as specified in the Approved Business Plan; and
 - (b) otherwise, if and to the extent that calls for the provision of additional equity have been authorised or approved in accordance with clause 5.32(f),
- and the provisions of clauses 8.9 to 8.12 will apply.
- 8.9 If, pursuant to clause 8.8, additional equity capital is required to be provided then the Board must give notice ("subscription notice") to each Shareholder specifying:
- (a) the total number of additional Shares that are to be issued ("specified number") and the amount per Share (including any premium) that is to be subscribed ("issue price");
 - (b) in respect of each Shareholder:
 - (i) the number of additional Shares allocated for subscription by the Shareholder ("allocated number") being the number that bears to the specified number the same proportion as the Shareholder's existing Shareholding bears to the total number of issued Shares; and
 - (ii) the amount of additional capital required to be provided by the Shareholder ("required amount") being the product of the allocated number multiplied by the issue price; and
 - (c) the date for payment by each Shareholder of its required amount ("due date").
- 8.10 If each Shareholder provides to the Company in cleared funds the whole of its required amount of additional capital on or before the due date then each Shareholder will be issued its allocated number of additional Shares as fully paid up Shares.
- 8.11 If any Shareholder ("declining Shareholder") does not provide the whole of its required amount to the Company in cleared funds on or before the due date:
- (a) the Board must promptly appoint a valuer to determine the fair market price per Share;
 - (b) the valuer is to complete the valuation process within 30 days from appointment and provide the valuation and supporting reasons to the Company and each of the Shareholders;

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- (c) the price per Share determined by the valuer will constitute the fair market price unless within 14 days a declining Shareholder requires a second valuer to be appointed by the Board;
 - (d) if a second valuer is appointed the fair market price will be the mean of the price per Share determined by the first valuer and the price per Share determined by the second valuer;
 - (e) the declining Shareholder will be taken to have subscribed for the number of additional shares obtained by dividing the fair market price into the amount of additional capital (if any) that it has provided;
 - (f) each Shareholder that has provided its required amount of additional capital ("accepting Shareholder") will be taken to have subscribed for the number of additional Shares obtained by dividing that required amount by the fair market price and will be issued that number of Shares as fully paid up Shares;
 - (g) each accepting Shareholder will also have the right to apply for a further number of additional Shares ("further number") determined in accordance with the following formula:

$$\frac{(R-S)}{P} \times \frac{10}{9} = F$$

where

"R" is the required amount of additional capital specified for the declining Shareholder,

"S" is the amount of additional capital (if any) that the declining Shareholder has provided,

"P" is the fair market price, and

"F" is the further number

and at a discounted price per Share equal to 90% of the fair market price ("discounted price"); and

- (h) subject to clause 8.11(i), an accepting Shareholder upon:

- (i) applying; and

- (ii) paying to the Company in cleared funds, the subscription price, calculated at the discounted price,

for the further number of additional Shares pursuant to paragraph (g), will be issued that number of Shares as fully paid up Shares; and

-
- (i) if two or more accepting Shareholders apply pursuant to paragraph (g) for the further number of additional Shares:
 - (i) the further number will be allocated between those Shareholders proportionately to their respective existing Shareholdings; and
 - (ii) each of those Shareholders upon paying to the Company in cleared funds the subscription price, calculated at the discounted price, for the number of Shares so allocated to it, will be issued that number of Shares as fully paid up Shares.

8.12 Without derogating from clause 8.11, if a Shareholder is required to contribute a required amount of additional equity capital as provided in clauses 8.8, 8.9 and 8.10 and does not do so, the Shareholder will not for that reason be taken to be in breach of this agreement.

9 Restrictions on disposal of Shares etc.

Scope

- 9.1 This clause 9 has effect from Completion.
- 9.1A To avoid doubt, the Parties acknowledge and agree that nothing in this clause restricts, prohibits or otherwise affects the exercise by Telstra of any of its rights pursuant to the Establishment Agreement entitled Equitable Mortgage of Shares.

General prohibition for Telstra

- 9.2 The Telstra Parties must procure that at all times after Completion:
 - (a) all Telstra Shares are held by the Telstra Shareholder;
 - (b) all Embargoed Telstra Shareholder Securities are held by Telstra Holding; and
 - (c) Telstra Holding is a direct wholly owned subsidiary of Telstra.

General prohibition for PCCW

- 9.3 The PCCW Parties must procure that at all times after Completion:
 - (a) all PCCW Shares are held by the PCCW Shareholder; and
 - (b) all Embargoed PCCW Shareholder Securities are held by PCCW.

General prohibition for Shareholders

- 9.4 Subject to clauses 9.5 and 9.6 (and without limiting clause 9.2 or 9.3) a Shareholder must not:
 - (a) dispose of or agree or attempt to dispose of Shares that it holds; or

- (b) create or allow to subsist or agree or attempt to create or to allow to subsist any Security Interest over Shares that it holds.

Permitted transfers and Security Interests for PCCW Shares

9.5 The PCCW Shareholder may:

- (a) transfer Shares pursuant to and in accordance with:
 - (i) clause 9.15;
 - (ii) clause 9.16;
 - (iii) clauses 9.19(c), (d) and (e); and
 - (iv) clause 9.19(f); and
- (b) pursuant to and in accordance with clause 9.7 or 9.16 create and allow to subsist a Security Interest over Shares that it holds.

Permitted transfers and Security Interests for Telstra Shares

9.6 The Telstra Shareholder may:

- (a) transfer Shares pursuant to and in accordance with:
 - (i) clause 9.15;
 - (ii) clause 9.16;
 - (iii) clauses 9.19(c), (d) and (e); and
 - (iv) clause 9.19(f); and
- (b) pursuant to and in accordance with clause 9.7 or 9.16 create and allow to subsist a Security Interest over Shares that it holds.

Permitted Security Interests

- 9.7 A Founder Shareholder ("Borrowing Shareholder") may create and allow to subsist a Security Interest over Shares that it holds if:
- (a) the Security Interest secures indebtedness created pursuant to an arms length bona fide arrangement with a financial institution that is not a related entity of that Founder Shareholder; and
 - (b) if the Borrowing Shareholder is the PCCW Shareholder the indebtedness is indebtedness of the PCCW Group; or
 - (c) if the Borrowing Shareholder is the Telstra Shareholder the indebtedness is indebtedness of the Telstra Group.

General Prohibition for PCCW Shareholder Securities and Telstra Shareholder Securities

- 9.8 Subject to clauses 9.9, 9.10, 9.10A, 9.10B, 9.11 and 9.13:

- (a) PCCW must not:
- (i) dispose of or agree or attempt to dispose of any PCCW Shareholder Security; or
 - (ii) create or allow to subsist or agree or attempt to create or allow to subsist any Security Interest over a PCCW Shareholder Security that it holds; and
- (b) Telstra Holding must not:
- (i) dispose of or agree or attempt to dispose of any Telstra Shareholder Security; or
 - (ii) create or allow to subsist or agree or attempt to create or allow to subsist any Security Interest over a Telstra Shareholder Security that it holds.

Disposals and creation of Security Interests for PCCW and Telstra Shareholder Securities with consent

- 9.9 With the prior written approval of Telstra, PCCW may:
- (a) dispose of PCCW Shareholder Securities; or
 - (b) create a Security Interest over PCCW Shareholder Securities that it holds and allow that Security Interest to subsist;
- if the disposal of the PCCW Shareholder Securities or creation and subsistence of the Security Interest in all respects conforms with the terms of the approval and any conditions or requirements to which the approval is stated to be subject are fully performed or observed.
- 9.10 With the prior written approval of PCCW, Telstra Holding may:
- (a) dispose of Telstra Shareholder Securities; or
 - (b) create a Security Interest over Telstra Shareholder Securities that it holds and allow that Security Interest to subsist;
- if the disposal of the Telstra Shareholder Securities or creation and subsistence of the Security Interest in all respects conforms with the terms of the approval and any conditions or requirements to which the approval is stated to be subject are fully performed or observed.
- 9.10A Telstra Holding may create and allow to subsist a Security Interest over Telstra Shareholder Securities if the Security Interest secures indebtedness of the Telstra Group created pursuant to an arms length bona fide arrangement with a financial institution that is not a related entity of Telstra Holding.
- 9.10B PCCW may create and allow to subsist a Security Interest over PCCW Shareholder Securities if the Security Interest secures indebtedness of the PCCW Group created pursuant to an arms length bona fide

arrangement with a financial institution that is not a related entity of PCCW.

Permitted disposal of less than 30% of PCCW Shareholder Securities after 12 months

9.11 PCCW may transfer PCCW Shareholder Securities that are ordinary shares having full voting rights ("PCCW Shareholder voting shares") if:

- (a) the transfer is after the first anniversary of the Completion Date;
- (b) the transfer is not by way of or in connection with a public offering;
- (c) the transferee is a body corporate that is not a related entity or controlled corporation of PCCW or a controlled corporation of Mr Li;
- (d) the transferee does not hold and is not entitled to any Shares or any Security Interest over any Shares; and
- (e) the number of PCCW Shareholder voting shares transferred does not exceed the PCCW permitted number.

9.12 For the purpose of applying clause 9.11(e) in relation to a transfer of PCCW Shareholder Securities, the PCCW permitted number will be the value of "N" in the formula:

$$\left(\frac{30}{100} \times S \right) - T = N$$

where:

"S" is the total number of issued PCCW Shareholder voting shares;

"T" is the aggregate number of PCCW Shareholder voting shares (if any) that PCCW has previously transferred pursuant to clause 9.11; and

"N" is the PCCW permitted number.

Permitted disposal of less than 30% of Telstra Shareholder Securities after 12 months

9.13 Telstra Holding may transfer Telstra Shareholder Securities that are ordinary shares having full voting rights ("Telstra Shareholder voting shares") if:

- (a) the transfer is after the first anniversary of the Completion Date;
- (b) the transfer is not by way of or in connection with a public offering;

- (c) the transferee is a body corporate that is not a related entity or controlled corporation of Telstra;
- (d) the transferee does not hold and is not entitled to any Shares or any Security Interest over any Shares; and
- (e) the number of Telstra Shareholder voting shares transferred does not exceed the Telstra permitted number.

9.14 For the purpose of applying clause 9.13(e) in relation to a transfer of Telstra Shareholder Securities, the Telstra permitted number will be the value of "N" in the formula:

$$\left(\frac{30}{100} \times S \right) - T = N$$

where:

"S" is the total number of issued Telstra Shareholder voting shares;

"T" is the aggregate number of Telstra Shareholder voting shares (if any) that Telstra has previously transferred pursuant to clause 9.13; and

"N" is the Telstra permitted number.

Permitted transfers of Shares with consent

9.15 Each Founder Shareholder may transfer Shares to the other Founder Shareholder on such terms and conditions, including as to price, as may be agreed between them.

9.16 A Founder Shareholder, with the prior approval of the other Founder Shareholders may or a Shareholder, with the prior approval of the Founder Shareholders may:

- (a) dispose of Shares; or
- (b) create a Security Interest over Shares that it holds and allow that Security Interest to subsist,

if the disposal of the Shares or creation and subsistence of the Security Interest in all respects conforms with the terms of the approval and any conditions or requirements to which the approval is stated to be subject are fully performed or observed.

Pre-emption regime

9.17 At any time after the first anniversary of the Completion Date a Founder Shareholder ("intending transferor") proposing to transfer Shares that it holds may give notice in writing to the other Founder Shareholder of its intention to do so ("transfer notice") specifying:

- (a) the number of Shares proposed to be disposed of ("offered number") being a number which does not exceed the permitted number;

- (b) the price per Share (in cash) for which and terms and conditions upon which the intending transferor proposes to transfer the Shares; and
- (c) the identity of a person to whom the intending transferor wishes to transfer the Shares ("proposed transferee").

9.18 For the purpose of clause 9.17 the permitted number will be determined in accordance with the formula:

$$\left(\frac{15}{100} \times S \right) - T = N$$

where:

"S" is the total number of issued Shares.

"T" is the aggregate number of Shares (if any) that the intending transferor has previously transferred pursuant to clause 9.19 to persons other than Founder Shareholders; and

"N" is the permitted number.

9.19 If a transfer notice is given in accordance with clause 9.17:

- (a) The transfer notice will constitute an irrevocable offer by the intending transferor to transfer to the other Founder Shareholder at the price per Share and upon the terms and conditions specified, the offered number of Shares ("offer").
- (b) The other Founder Shareholder may accept the offer in respect of the offered number (but not less than the offered number) of Shares by giving to the intending transferor within 30 days after the transfer notice is given a notice in writing ("acceptance notice") accepting the offer.
- (c) If the offer is accepted by the other Founder Shareholder in accordance with paragraph (b) then the intending transferor must on payment of the purchase price in cleared funds and fulfilment of terms and conditions specified in the transfer notice, transfer the offered number of Shares to the other Founder Shareholder;
- (d) The completion of the transfer of the offered number of Shares is to take place on or before the 30th day after the acceptance notice is given.
- (e) If the intending transferor fails to transfer the offered number of Shares pursuant to paragraphs (c) and (d) then the intending transferor is taken to have appointed any of the Directors or the secretary of the Company as agent to receive the purchase price and execute the transfer and on receipt of the purchase price and execution of the transfer to hold the purchase price in

trust for the intending transferor. A receipt given by a Director or the secretary of the Company for the price is good discharge to the Founder Shareholder paying it and the Company is empowered to enter the name of that Founder Shareholder in the Company's shareholders' register as the holder in place of the intending transferor of the offered number of Shares.

(f) Within 30 days after the end of the period of 30 days referred to in paragraph (b), if the proposed transferee is an eligible transferee (but not otherwise) and the offer has not been accepted in accordance with paragraph (b) within the period of 30 days referred to in that paragraph, then the intending transferee may transfer to the proposed transferee the offered number (but not more or less than the offered number) of Shares provided that the offered number does not exceed the eligible number and at a price per Share that does not exceed the price per Share specified in the offer and on terms and conditions not more favourable than the terms and conditions specified in the offer.

(g) For the purpose of applying paragraph (f):

(i) the proposed transferee will be an eligible transferee if and only if the proposed transferee is a body corporate that is not:

(A) if the intending transferor is the PCCW Shareholder, a related entity or controlled corporation of PCCW or a controlled corporation of Mr Li; or

(B) if the intending transferor is the Telstra Shareholder, a related entity or controlled corporation of Telstra,

and

(ii) the eligible number will be a number that does not exceed the whole number nearest to the value of "N" in the formula

$$\left(\frac{15}{100} \times S \right) - T = N$$

where "S" is the total number of issued Shares; and

"H" is the aggregate of the number of Shares (if any) which are held by the proposed transferee plus the number of Shares (if any) over which the proposed transferee is entitled to any Security Interests.

10 Related Party Operations Principles and Arrangements

10.1 [Intentionally blank]

10.2 [Intentionally blank]

10.3 [Intentionally blank]

10.4 [Intentionally blank]

10.5 [Intentionally blank]

10.6 [Intentionally blank]

10.7 [Intentionally blank]

10.8 [Intentionally blank]

10.9 [Intentionally blank]

10.10 [Intentionally blank]

10.11 [Intentionally blank]

10.12 [Intentionally blank]

10.12A The parties acknowledge that the Founders and one or more members of the Company Group have agreed to enter into the Capacity Allocation Agreement and the Reach Network Services Agreement.

10.13 [Intentionally blank]

10.14 [Intentionally blank]

10.15 In clause 4, these meanings apply unless the contrary intention appears:

Cross Border Connectivity means Connectivity for the carriage of Telecommunications Traffic between a place in a territory and a place outside the territory.

Cross Border Connectivity Infrastructure means Connectivity Infrastructure providing Cross Border Connectivity and includes Cross-over Connectivity Infrastructure but does not include Domestic Connectivity Infrastructure that is not Cross-over Connectivity Infrastructure. To avoid doubt Cross Border Connectivity Infrastructure includes:

- (a) a Cross Border (submarine or land) cable, a Cross Border satellite, a landing station of a Cross Border cable or an earth station of a Cross Border satellite; and

- (b) Connectivity Infrastructure that is comprised in or otherwise forms part of the PCCW international assets or the Telstra international assets.

Cross Border Connectivity termination point means a switch, router or similar equipment in a territory that is closely associated with and physically located at or close to:

- (a) the landing station in the territory of a Cross Border cable; or
- (b) an earth station in the territory of a Cross Border satellite.

Cross Border Service is a Connectivity Service providing Cross Border Connectivity whether or not it also provides Domestic Connectivity.

Cross-over Connectivity Infrastructure means Connectivity Infrastructure in a territory:

- (a) providing Connectivity between:
- (i) the landing station in the territory of a Cross Border cable, or
- (ii) the earth station in the territory of a Cross Border satellite, and
- a Cross Border Connectivity termination point in the territory that is associated with and physically located at or reasonably proximate to (and distances of less than 15 kilometres and not significantly more than 15 kilometres are to be generally regarded as reasonably proximate) the landing station or earth station, and
- (b) consisting of:
- (i) a line between the landing station or earth station and the Cross Border Connectivity termination point that is used solely for the purpose of providing Cross Border Connectivity; and
- (ii) switches, routers, multiplexing equipment and other facilities that are not lines and are located at or in the immediate vicinity of the Cross Border Connectivity termination point and are reasonably required in accordance with good engineering practice for the predominant purpose of providing Cross Border Connectivity.

Domestic Connectivity means Connectivity for the carriage of Telecommunications Traffic between places in the same territory.

Domestic Connectivity Infrastructure means Connectivity Infrastructure providing Domestic Connectivity and includes Cross-

over Connectivity Infrastructure. To avoid doubt Domestic Connectivity Infrastructure includes switches, routers and other associated facilities and equipment used for the purpose of or otherwise in connection with providing Domestic Connectivity.

Domestic Service is a Connectivity Service providing Domestic Connectivity and not providing Cross Border Connectivity.

a reference to a "Cross Border cable" or "Cross Border satellite" is a reference to a cable or satellite providing Cross Border Connectivity.

references to "line" and "facilities" have the same meanings respectively as in the Telecommunications Act 1997 of the Commonwealth of Australia.

a reference to a "relevant entity" is a reference to a corporation, trust, partnership, or other economic entity that is engaged or is involved in building, owning, managing operating and/or investing in Cross Border Connectivity Infrastructure.

territory means:

- (a) each of mainland China and Hong Kong and Taiwan (which for the purposes of this agreement are different territories);
- (b) Australia;
- (c) any country that is not and not a part of:
 - (i) Australia; or
 - (ii) mainland China, Hong Kong and Taiwan.]

10.16 In this clause 10, a reference to Australia:

- (a) includes a reference to:
 - (i) the geographic areas comprised in:
 - (A) the Commonwealth of Australia;
 - (B) the Territory of Christmas Island ("Christmas Island"); and
 - (C) the Territory of Cocos Island ("Cocos Island"),each as defined in the Acts Interpretation Act 1901 of Australia, at the date of this agreement, and
 - (ii) the geographic areas comprised in the Australian Antarctic Territory ("Antarctica") as defined in the Antarctic Treaty Act 1960 of Australia at the date of this agreement, and

-
- (b) also is to be taken to include a reference to the geographic area known as East Timor

to the intent that, for the purposes of applying this clause 10, Connectivity for the carriage of Telecommunications Traffic between places in any one or more of those geographic areas is to be taken:

- (a) to be Domestic Connectivity, and
- (b) not to be or include Cross Border Connectivity.

and references to Domestic Connectivity Infrastructure and Cross Border Connectivity apply accordingly.

10A [Intentionally blank]

10AA [Intentionally blank]

11 Performance and relationship

Performance

11.1 Telstra undertakes to the PCCW Parties:

- (a) duly to perform and observe all of Telstra's obligations under or arising out of this agreement,
- (b) to procure that the Telstra Shareholder duly performs and observes all its obligations under or arising out of this agreement,
- (c) to procure that Telstra Holding duly performs and observes all its obligations under or arising out of this agreement, and
- (d) to procure that all provisions and requirements that under this agreement are stated to be required to be performed or observed on the part of Telstra Group are duly performed and observed as so stated.

11.2 PCCW undertakes to the Telstra Parties:

- (a) duly to perform and observe all of PCCW's obligations under or arising out of this agreement,
- (b) to procure that the PCCW Shareholder duly performs and observes all its obligations under or arising out of this agreement ,and
- (c) to procure that all provisions and requirements that under this agreement are stated to be required to be performed or observed on the part of PCCW Group are duly performed and observed as so stated.

11.3 The Telstra Shareholder undertakes to the PCCW Parties:

- (a) duly to perform and observe all of the Telstra Shareholder's obligations under or arising out of this agreement, and
- (b) to procure that all provisions and requirements that under this agreement are stated to be required to be performed or observed on the part of Telstra Group are duly performed and observed as so stated.

11.4 The PCCW Shareholder undertakes to the Telstra Parties:

- (a) duly to perform and observe all of the PCCW Shareholder's obligations under or arising out of this agreement;
- (b) to procure that all provisions and requirements that under this agreement are stated to be required to be performed or observed on the part of PCCW Group are duly performed and observed as so stated.

11.4A Telstra Holding undertakes to the PCCW Parties:

- (a) duly to perform and observe all of Telstra Holding's obligations under or arising out of this agreement;
- (b) to procure that all provisions and requirements that under this agreement are stated to be required to be performed or observed on the part of Telstra Group are duly performed and observed as so stated.

11.5 Each Shareholder must except to any extent not permitted by law:

- (a) exercise its voting and other rights as a Shareholder;
- (b) procure that each Director appointed by it (when exercising powers, performing duties or otherwise acting in the capacity of a Director) acts and votes;
- (c) procure that any person appointed or nominated by it and holding office as a director of the Company Group (other than the Company) (when exercising powers, performing duties or otherwise acting in that capacity) acts and votes; and
- (d) generally take all reasonable steps within its power,

so as to procure and ensure that the provisions and requirements of this agreement are observed and that the businesses, operations and affairs of the Company Group are undertaken, developed and conducted in conformity with this agreement and the Approved Business Plan.

11.6 Each Shareholder must, except to any extent not permitted by law, at all times:

- (a) exercise its voting power and other rights as a Shareholder; and

(b) generally take all reasonable steps
within its power

to procure and ensure that the provisions and
requirements of this agreement are observed.

Good faith

11.7 Each Party agrees and declares that it will
at all times act in good faith in relation to
the other Parties with respect to all matters
relating to the Company Group and this
agreement.

12 Related party agreements

Rights and remedies

12.1 Subject to clause 12.4, if at any time a
right or remedy (including termination) under
or in connection with this agreement or
another Establishment Agreement or other
agreement or arising however at law is
exercisable or enforceable by the Company
Group against or in respect of a Shareholder
or a related entity of a Shareholder:

(a) clause 5.31 will not apply to and a
Director appointed by the Shareholder
("Interested Shareholder") may not vote
on any proposed resolution of the Board
relating to the exercise or enforcement
of the right or remedy by the Company
Group; and

(b) any director of a subsidiary of the
Company who is a related person of the
Interested Shareholder may not vote on
any proposed resolution of the board of
directors of the subsidiary relating to
the exercise or enforcement of the right
or remedy by the Company Group.

12.2 A Director referred to in clause 12.1(a) must
be given

(a) notice of; and

(b) the opportunity to attend and (subject to
that clause) participate in any meeting
of the Board at which a proposed
resolution of the kind referred to in
that clause is considered.

12.3 A director referred to in clause 12.1(b) must
be given:

(a) notice of; and

(b) the opportunity to attend and (subject to
that clause) participate in any meeting
of the board of directors of the
subsidiary at which the proposed
resolution is considered.

12.4 For the purpose of considering and voting on
a proposed resolution of the kind referred to
in clause 12.1(a), a quorum for a meeting of
the Board will be the attendance of two
Directors including, if a Shareholder that is
not the Interested Shareholder is a 35%
Shareholder, at least one Director appointed
by that 35% Shareholder.

13 Default

Event of Default

13.1 For the purposes of this Agreement, a Shareholder is a "defaulting Shareholder" if the Shareholder or a holding company of the Shareholder is Insolvent.

Loss of rights

13.2 If a Shareholder becomes a defaulting Shareholder:

- (a) each Director appointed by the defaulting Shareholder will automatically cease to be a Director;
- (b) each related person of the defaulting Shareholder who is a director of a subsidiary of the Company will automatically cease to be a director of that subsidiary;
- (c) the defaulting Shareholder will not have any rights pursuant to this agreement to appoint:
 - (i) Directors pursuant to clause 5; or
 - (ii) directors of subsidiaries of the Company pursuant to clause 5AA;
- (d) a quorum for a meeting of the Board will be the attendance of two directors;
- (e) if the defaulting Shareholder is a Founder Shareholder, clause 12 will not apply;
- (f) the defaulting Shareholder will not have any rights under clause 18 (but, to avoid doubt, without prejudice to any rights it may have at law);

but otherwise this agreement will remain in full force and effect in accordance with its terms.

13.3 Clauses 13.2 (c), (d), (e) and (f) apply for so long as the defaulting Shareholder or a holding company of the defaulting Shareholder is Insolvent.

13.4 If a Shareholder becomes a defaulting Shareholder, a Founder Shareholder that is not a defaulting Shareholder may notify the secretaries of the Company Group that clauses 13.2(a) and (b) are in effect and, on receipt of the notice, the secretaries must immediately remove the names of the directors affected by clauses 13.2(a) and (b) from the registers of directors and officers of the Company Group.

Holding Company

13.5 For the purposes of clause 13.1 and 13.3, a holding company:

- (a) of the PCCW Shareholder, does not include any body corporate that is a holding company of PCCW;

- (b) of the Telstra Shareholder, does not include any body corporate that is a holding company of Telstra.

14 Regulatory issues

- 14.1 Each Party must take reasonable steps to consult with the others and coordinate any significant discussions with any Government Agency in relation to a material aspect of the Business or regulations or laws affecting the Company. The Parties acknowledge that nothing contained in this clause will prevent any Party from having individual discussions with a Government Agency.

15 Constitution of Company and subsidiaries

Conforming constitutions

- 15.1 Subject to clause 15.1A, the Parties will consult together in good faith to agree and together and individually implement or cause to be implemented as appropriate, all actions that may be required or expedient to procure that the Constitution and the constituent documents of each subsidiary of the Company at all times reflect and in all other material respects are consistent with this agreement as amended from time to time (including clauses 5, 5AA and 13).
- 15.1A In any case where either Founder Shareholder reasonably requires the constituent documents of any subsidiary of the Company to be amended in accordance with clause 15.1, such documents will not be required to include provisions corresponding to clauses 5.8 to 5.17A.

15.1B [Intentionally blank]

Inconsistency

- 15.2 The Parties intend that if an inconsistency arises between:
- (a) the Constitution and this agreement; or
 - (b) the constituent documents of a subsidiary of the Company and this agreement,
- this agreement prevails to the extent of the inconsistency and each Shareholder agrees to take any steps which for the time being are within its power and are necessary to procure that the Constitution or the constituent documents of the subsidiary are promptly altered to eliminate the inconsistency.

16 Warranties and Undertakings

- 16.1 As at 13 October 2000, Telstra warrants to PCCW that:
- (a) the Company is duly incorporated by registration and in existence under the Companies Act 1981 of Bermuda,

-
- (b) since its registration the Company has not traded or received any income or made any gains or incurred losses or liabilities in excess of US\$10,000,
 - (c) the Company has no assets or liabilities (whether actual, contingent or otherwise),
 - (d) the issued and allotted share capital of the Company consists of 12,000 fully unpaid Shares of which:
 - (i) 6,000 Shares are duly registered in the name of the PCCW Shareholder as holder,
 - (ii) 6000 Shares are duly registered in the name of the Telstra Shareholder, and
 - (iii) and the Company has not issued or created any other security,
 - (e) except for or as contemplated by the Establishment Agreements there is no agreement in force which grants the right to any person to call for the issue or allotment of any Share or to require the issue or creation by the Company of any other security,
 - (f) the Company has conducted and is conducting its affairs (including the establishment and maintenance of its books and records and notifications to the relevant authorities) in all respects in accordance with all applicable laws;
 - (g) the Directors are:
 - (i) Alexander Anthony Arena ; and
 - (ii) Christopher Garrod;
 - (h) the secretary of the Company is Maye Coye.

16.2 Telstra indemnifies PCCW against all liability and loss arising directly or indirectly from, and any costs, charges and expenses incurred in connection with, any inaccuracy in or breach of any of the warranties given by Telstra in clause 16.1.

16.3 As at 13 October 2000, PCCW warrants and undertakes to the Telstra Parties that:

- (a) PCCW:
 - (i) is a company duly incorporated by registration and in existence under the Companies Ordinance; and
 - (ii) has full corporate power to own property; and
- (b) the PCCW Shareholder:

-
- (i) is a company duly incorporated by registration and in existence under the Companies Act 1981 of Bermuda; and
 - (ii) has full corporate power to own property;
 - (c) PCCW Shareholder is and will be immediately after Completion a direct wholly owned subsidiary of PCCW;
 - (d) each of the PCCW Parties has the power to enter into and perform this agreement and has obtained or on or prior to Completion will have obtained all necessary consents to enable it to do so;
 - (e) the entry into and performance of this agreement by the PCCW Parties or either of them does not constitute a breach of any obligation (including but not limited to any statutory contractual or fiduciary obligation) or default under any agreement or undertaking by which either of the PCCW Parties is bound;
 - (f) where a PCCW Entity is a party to an Establishment Agreement:
 - (i) that PCCW Entity has the power to enter into and perform that Establishment Agreement and has obtained or on or prior to Completion will have obtained all necessary consents to enable it to do so; and
 - (ii) the entry into and performance of that Establishment Agreement by that PCCW Entity does not constitute a breach of any obligation (including but not limited to any statutory contractual or fiduciary obligation) or default under any agreement or undertaking, by which that PCCW Entity is bound;
 - (g) the PCCW Shareholder is the legal and beneficial owner of the PCCW Shares and no Security Interest has been created or subsists in relation to any of the PCCW Shares;
 - (h) immediately after Completion:
 - (i) the PCCW Shareholder will be the legal and beneficial owner of the PCCW Shares and no Security Interest will have been created or subsist over any of the PCCW Shares other than:
 - (A) pursuant to and in accordance with the Establishment Agreement entitled Equitable Mortgage of Shares; or
 - (B) a Security Interest that:

(aa) secures indebtednesses created pursuant to an arms length bona fide arrangement with a financial institution that is not a related entity of the PCCW Shareholder; and

(ab) the indebtedness is indebtedness of the PCCW Group; and

(ii) PCCW will be the legal and beneficial owner of all PCCW Shareholder Securities and no Security Interest will have been created or subsist over any PCCW Shareholder Securities other than a Security Interest that:

(A) secures indebtednesses created pursuant to an arms length bona fide arrangement with a financial institution that is not a related entity of the PCCW Shareholder; and

(B) the indebtedness is indebtedness of the PCCW Group.

16.4 PCCW indemnifies the Telstra Parties against all liability or loss arising directly or indirectly from, and any costs, charges and expenses incurred in connection with, any inaccuracy in or breach of any of the warranties and undertakings given by it in clause 16.3.

16.5 As at 13 October 2003, Telstra represents and warrants to the PCCW Parties that:

(a) Telstra:

(i) is duly incorporated and in existence under the Corporations Law;

(ii) has full corporate power to own property; and

(b) each of the Telstra Parties has the power to enter into and perform this agreement and has obtained all necessary consents to enable it to do so;

(c) the entry into and performance of this agreement by the Telstra Parties or either of them does not constitute a breach of any obligation (including, but not limited to, any statutory, contractual or fiduciary obligation), or default under any agreement or undertaking, by which either of the Telstra Parties is bound;

(d) where a Telstra Entity is a party to an Establishment Agreement:

- (i) that Telstra Entity has the power to enter into and perform that Establishment Agreement and has obtained all necessary consents to enable it to do so; and
 - (ii) the entry into and performance of that Establishment Agreement by that Telstra Entity does not constitute a breach of any obligation (including, but not limited to, any statutory, contractual or fiduciary obligation), or default under any agreement or undertaking, by which that party is bound; and
- (e) Telstra Holding:
- (i) is duly incorporated by registration and in existence under the Corporations Law; and
 - (ii) is and will be immediately after Completion a direct wholly owned subsidiary of Telstra;
- (f) the Telstra Shareholder:
- (i) is a company duly incorporated by registration and in existence under the Companies Act 1981 of Bermuda; and
 - (ii) is and will be immediately after Completion a direct wholly owned subsidiary of Telstra Holding;
 - (iii) the Telstra Shareholder is the legal and beneficial owner of the Telstra Shares and no Security Interest has been created or subsists over any of the Telstra Shares;
- (g) immediately after Completion:
- (i) the Telstra Shareholder will be legal and beneficial owner of the Telstra Shares and no Security Interest will have been created or subsist over any of the Telstra Shares (other than a Security Interest that:
 - (A) secures indebtednesses created pursuant to an arms length bona fide arrangement with a financial institution that is not a related entity of the Telstra Shareholder; and
 - (B) the indebtedness is indebtedness of the Telstra Group); and
 - (ii) Telstra Holding will be the legal and beneficial owner of all Telstra Shareholder Securities and no Security Interest will have been created or subsist over any

Telstra Shareholder Securities
(other than a Security Interest that:

- (A) secures indebtednesses created pursuant to an arms length bona fide arrangement with a financial institution that is not a related entity of the Telstra Shareholder; and
- (B) the indebtedness is indebtedness of the Telstra Group).

16.6 Telstra indemnifies the PCCW Parties against all liability or loss arising directly or indirectly from, and any costs, charges and expenses incurred in connection with, any inaccuracy in or breach of any of the warranties given by it in clause 16.5.

17 Indemnities

If for any reason an amount received by an indemnified party under any of the indemnities in this agreement is subject to Tax, the other party agrees to pay the indemnified party an additional amount so that, after deducting from that amount all Tax paid or payable in respect of the receipt, the balance remaining is equal to the amount due under the relevant indemnity.

18 Company information

Accounting Records: Accounting Principles: Access

18.1 The Company must:

- (a) make and keep books, records and accounts, which, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company Group; and
- (b) devise and maintain an adequate system of internal accounting controls which shall, among other things, be sufficient to provide reasonable assurances that:
 - (i) transactions are executed in accordance with management's general or specific authorisation;
 - (ii) transactions are recorded as necessary:
 - (A) to permit preparation of financial statements in conformity with the GAAP requirements of each Founder and US GAAP or any other criteria applicable to such statements; and
 - (B) to maintain accountability for assets;
 - (iii) access to assets is permitted only in accordance with management's general or specific authorisation; and

- (iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.
- 18.2 The financial accounts of the Company will be closed at the end of each financial year. The financial statements of the Company will be audited each year by the auditor of the Company to the extent:
- (a) required by statute or regulation;
 - (b) required by the auditors of either Founder Shareholder in order to report on the financial statements of such Founder Shareholder;
 - (c) necessary to meet either Founder Shareholder's tax reporting requirements; or
 - (d) mutually agreed by the Founder Shareholders.
- 18.3 Each Founder Shareholder, for so long as it is a 20% Shareholder, or its representatives shall have the right to inspect any of the properties and financial and other books and records of the Company and make copies of such financial and other books and records, at reasonable times and upon reasonable notice, as often as such Shareholder may request. All expenses associated with such inspections and copying will be at the requesting Founder Shareholder's expense.
- 18.4 The Company must prepare and give to a Founder Shareholder in a timely and accurate manner on request all Company Information that the Founder Shareholder or any related entity of the Founder Shareholder must have or reasonably requires for or in connection with any of the following purposes:
- (a) to prepare and lodge accurate and complete tax returns and comply with all applicable tax reporting requirements in any relevant jurisdiction;
 - (b) to comply with disclosure or reporting or other applicable requirements of:
 - (i) any stock exchange on which shares of the Founder Shareholder or a related entity of the Founder Shareholder are listed or proposed to be listed; or
 - (ii) any securities commission, stock exchange or regulatory authority concerning prospectus or other requirements in relation to any financing or capital raising to be undertaken by a Founder Shareholder or a related entity of the Founder Shareholder; or

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- (iii) any applicable statutory, governmental or similar obligation or direction to report or provide information to a Government Agency;
 - (c) for purposes of this clause 18.4, Company Information shall include, without limitation:
 - (i) a financial reporting package including a balance sheet, income statement, other financial data reasonably specified by a Founder Shareholder, in a format necessary for such Shareholder's reporting requirements, on a monthly, quarterly and annual basis, which shall be prepared and submitted to the Founder Shareholder within ten business days after each month, quarter or year end;
- 18.5 The Company shall give, within ten days after first becoming aware thereof, written notice to the Founder Shareholders of the following:
- (a) any development that has resulted in, or could reasonably be anticipated to result in, a material adverse change or effect on the Business;
 - (b) the filing or commencement of, or notice of intention by any person to file or commence, any material action, suit or proceeding, whether at law or in equity or before any governmental authority, against the Company Group or any director or executive officer thereof;
 - (c) all complaints, claims, or adverse reactions arising from, or in connection with, the manufacture, distribution, handling, sale, administration or use of the products and services provided by the Company Group; and
 - (d) the receipt of any notice of any violation of any environmental law or of any potential responsibility for any environmental liability.
- 18.6 The Company undertakes to Telstra to procure that the Company Group gives to Telstra Group and PCCW undertakes to Telstra to procure that the PCCW Group gives to Telstra in each case in a timely and accurate manner on request all information relating to PCCW's international assets, prior to Completion, that the Company or PCCW (as the case may be) has or is able to provide and Telstra must have or reasonably requires for the purposes of preparing disclosing or otherwise providing historical proforma financial statements and other historical or reconstructed information in order to be able to comply with any requirements of any Government Agency or stock exchange applicable to or in connection with offering or issuing bonds, debentures or other debt or equity securities or otherwise raising or procuring debt or equity fundings.

18.7 The Company undertakes to PCCW to procure that the Company Group gives to PCCW Group and Telstra undertakes to PCCW to procure that Telstra Group gives to PCCW Group in each case in a timely and accurate manner on request all information relating to Telstra's international assets, prior to Completion, that the Company or

Telstra (as the case may be) has or is able to provide and PCCW must have or reasonably requires for the purposes of preparing disclosing or otherwise providing historical proforma financial statements and other historical or reconstructed information in order to be able to comply with requirements of any government agency or stock exchange applicable to or in connection with offering or issuing bonds, debentures or other debt or equity securities or otherwise raising or procuring debt or equity funding.

18.8 The Company Information to which clause 18.4 applies includes:

(a) in the case of the Telstra Shareholder, information required by Telstra Group for any of the following purposes:

- (i) to enable Telstra to comply with the continuous disclosure and other applicable requirements of the listing rules of the Australian Stock Exchange Limited; and
- (ii) to enable the Telstra Group to prepare, lodge and process tax returns and observe all applicable requirements under the Australian tax regime; and
- (iii) to enable the Telstra Group to observe any requirements of Division 3 of Part 2 of the Telstra Corporation Act 1991; and
- (iv) to enable the Telstra Group to comply with the periodic and annual reporting requirements and any disclosure or prospectus requirements of:
 - (A) the Securities and Exchange Commission of the United States or the New York Stock Exchange under the Securities Act of 1933 or the Securities Exchange Act of 1934; and
 - (B) any other stock exchange on which its securities are listed;

(b) in the case of the PCCW Shareholder, information required by PCCW Group for any of the following purposes:

- (i) to enable PCCW Group to comply with the disclosure and other applicable requirements of:
 - (A) the listing agreement between PCCW and The Stock Exchange of Hong Kong Limited;

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- (B) the disclosure and other applicable requirements of any stock exchange on which its securities are listed;
 - (ii) to enable the PCCW Group to prepare, lodge and process tax returns and observe all applicable requirements under the Hong Kong tax regime; and
 - (iii) to enable PCCW to comply with the periodic and annual reporting requirements and any disclosure or prospectus requirements of the Securities and Exchange Commission of the United States or the New York Stock Exchange under the Securities Act of 1933 or the Securities Exchange Act of 1934.
- 18.9 In addition to the other reporting requirements set out in this clause 18, each Founder Shareholder and the Company shall provide all financial and other information as is reasonably requested by the other Founder Shareholder including information relating to the other Shareholder, the Company Group or intercompany transactions to meet the requesting Shareholder's reasonable requirements for such information for any of the purposes set out in clauses 18.4 and 18.8.
- 18.10 Subject to law and the provisions of clause 19 a related person of a Founder Shareholder may disclose to and discuss with the Founder Shareholder and any related person of the Founder Shareholder, any information, including Company Information, obtained in the course of acting or as otherwise in the capacity of:
- (a) a Director; or
 - (b) a director of a subsidiary of the Company.

19 Confidentiality

Definitions

- 19.1 For the purposes of this clause 19:
- (a) a recipient of information is a person that receives or obtains the information;
 - (b) a discloser of information is a person from whom a recipient receives or obtains the information;
 - (c) the permitted purposes are:
 - (i) with respect to Confidential Information of the Company and/or Confidential Information of a Founder:
 - (A) the performance, observance, implementation or enforcement of rights or obligations arising under this agreement and/or an Establishment

Agreement and/or any future agreement between the Company Group and the Founder Group;

(B) the direction, management and/or conduct of the Company Group and/or the Business;

(ii) also with respect to Confidential Information of the Company that a Founder Group or a Representative of a Founder Group is given by the Company or otherwise receives or obtains from the Company Group or a Representative of the Company Group:

(A) where the Founder Group is Telstra Group, the purposes referred to in clauses 18.4, 18.6 and 18.8(a) and 18.9; and

(B) where the Founder Group is the PCCW Group, the purposes referred to in clauses 18.4, 18.6 and 18.8(b) and 18.9;

(iii) also with respect to Confidential Information of Telstra Group that PCCW Group or Representative of PCCW Group is given by the Company or Telstra or otherwise receives or obtains from, or from a Representative of, the Company Group or Telstra Group, the purposes referred to in clauses 18.4, 18.6, 18.8(b) and 18.9; and

(iv) also with respect to Confidential Information of PCCW Group that Telstra Group or a Representative of Telstra Group is given by the Company or PCCW or otherwise receives or obtains from or from a representative of the Company Group or PCCW Group, the purposes referred to in clauses 18.4, 18.6, 18.8(a) and 18.9.

(d) Discloser Group means:

(i) if the discloser is:

(A) the Company Group, or

(B) a Representative of the Company Group,

the Company Group,

(ii) if the discloser is:

(A) a Founder Group, or

(B) a Representative of a Founder Group,

that Founder Group.

(e) Receiver Group means:

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- (i) if the receiver is:
 - (A) the Company Group, or
 - (B) a Representative of the Company,the Company Group,
 - (ii) if the receiver is:
 - (A) a Founder Group, or
 - (B) a Representative of a Founder Group,that Founder Group.
 - (f) Confidential Information of the Company means Company Information in whatever form, however provided or stored and in whatever manner obtained or received that:
 - (i) is confidential non public or proprietary information, and
 - (ii) is not Excluded Information.
 - (g) Information of a Founder Group is information of any kind (including financial data and information) relating to produced or used for or in connection with the Founder Group the business carried on by or assets liabilities or other affairs of the Founder Group.
 - (h) Confidential Information of a Founder Group is Information of the Founder Group that:
 - (i) is confidential non public or proprietary information in whatever form, however provided or stored and in whatever manner obtained or received, and
 - (ii) is not Excluded Information.
 - (i) Excluded Information means information that:
 - (i) is in or becomes part of the public domain other than through breach of this agreement or an obligation of confidence owed to the Discloser Group or another person; or
 - (ii) the Receiver Group can prove by contemporaneous written documentation was already known to the Receiver Group at the time it was received or obtained from the discloser by the recipient (unless such knowledge arose from disclosure of information in breach of an obligation of confidentiality).

19.2 The Company must not and must procure other Company Group Entities and Representatives of Company Group Entities do not disclose or use Confidential Information of a Founder Group received and/or obtained from that Founder Group or a Representative of that Founder Group, except in accordance with clauses 19.3 and 19.4.

19.3 Confidential Information of Telstra Group that the Company Group or a Representative of the Company Group receives and/or obtains from the Telstra Group or a Representative of the Telstra Group:

(a) may be used by the Company Group and its Representatives for or in connection with permitted purposes; and

(b) for and in connection with permitted purposes may be disclosed:

(i) between the Company, other Company Entities and/or Representatives of the Company Group; and

(ii) between the Company Group and Representatives of the Company Group and the Telstra Group and Representatives of the Telstra Group,

if and as the Company Group or Representatives of the Company Group in their discretion consider to be expedient or desirable for or in connection with permitted purposes;

(c) may be disclosed by the Company Group or a Representative of the Company Group:

(i) to any person with the prior consent of Telstra Group;

(ii) as required to enable the Company Group to pursue or defend legal proceedings or any arbitration;

(iii) to any person (including to or to a Representative of PCCW Group) if and to the extent that is necessary or reasonably required for or in connection with permitted purposes.

19.4 Confidential Information of PCCW Group that the Company Group or a Representative of the Company Group receives and/or obtains from PCCW Group or a Representative of PCCW Group:

(a) may be used by the Company Group and its Representatives for or in connection with permitted purposes; and

(c) for and in connection with permitted purposes may be disclosed:

(i) between the Company, other Company Entities and/or Representatives of the Company Group; and

- (ii) between the Company Group and Representatives of the Company Group and PCCW Group and Representatives of PCCW Group,

if and as the Company Group or Representatives of the Company Group in their discretion consider to be expedient or desirable for or in connection with permitted purposes;

- (d) may be disclosed by the Company Group or a Representative of the Company Group:
 - (i) to any person with the prior consent of PCCW Group;
 - (ii) as required to enable the Company Group to pursue or defend legal proceedings or any arbitration;
 - (iii) to any person (including to or to a Representative of Telstra Group) if and to the extent that is necessary or reasonably required for or in connection with permitted purposes.

19.5 The Company must use all reasonable endeavours to procure that where the Company Group or a Representative of the Company Group discloses information that is Confidential Information of a Founder Group to any person as permitted under clause 19.3(c) or 19.4(c), the recipient does not use or further disclose the information except for or in connection with relevant permitted purposes.

19.6 Telstra must not and must procure that other Telstra Entities and the Representatives of Telstra Entities do not disclose or use:

- (a) Confidential Information of the Company Group received and/or obtained from either:
 - (i) the Company Group or a Representative of the Company Group; or
 - (ii) the PCCW Group or a Representative of the PCCW Group; or
- (b) Confidential Information of PCCW Group received and/or obtained from either:
 - (i) the PCCW Group or a Representative of the PCCW Group; or
 - (ii) the Company Group or a Representative of the Company Group,

except in accordance with clauses 19.7 and 19.8.

19.7 Confidential Information of the Company Group that Telstra Group or a Representative of Telstra Group receives and/or obtains from the Company Group or a Representative of the Company Group:

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- (a) may be used by Telstra Group and its Representatives for or in connection with permitted purposes; and
 - (b) for or in connection with the relevant purposes may be disclosed:
 - (i) between Telstra, other Telstra Entities and/or Representatives of Telstra Group; and
 - (ii) between Telstra Group and Representatives of Telstra Group and the Company Group and Representatives of the Company Group,

if and as Telstra Group or Representatives of Telstra Group in their discretion consider to be expedient or desirable for or in connection with permitted purposes;
 - (c) may be disclosed by Telstra Group or a Representative of Telstra Group:
 - (i) to any person with the prior consent of the Company Group;
 - (ii) as required to enable Telstra Group to pursue or defend legal proceedings or any arbitration;
 - (iii) to any person (including to or to a Representative of PCCW Group) if and to the extent that is necessary or reasonably required for or in connection with permitted purposes.

- 19.8 Confidential Information of PCCW Group that Telstra Group or a Representative of Telstra Group receives and/or obtains from the PCCW Group or a Representative of the PCCW Group or the Company Group or a Representative of the Company Group:
- (a) may be used by Telstra Group and its Representatives for or in connection with permitted purposes; and
 - (b) for and in connection with permitted purposes may be disclosed:
 - (i) between Telstra, other Telstra Entities and/or Representatives of Telstra Group; and
 - (ii) between Telstra Group and Representatives of Telstra Group and the Company Group and Representatives of the Company Group,

if and as Telstra Group or Representatives of Telstra Group in their discretion consider to be expedient or desirable for or in connection with permitted purposes;

- (c) may be disclosed by Telstra Group or a Representative of Telstra Group:
- (i) to any person with the prior consent of PCCW Group;
 - (ii) as required to enable the Telstra Group to pursue or defend legal proceedings or any arbitration;
 - (iii) to any person if and to the extent that is necessary or reasonably required for or in connection with any of the permitted purposes.

19.9 Telstra must use all reasonable endeavours to procure that where Telstra Group or a Representative of Telstra Group discloses information that is Confidential Information of the Company or of the PCCW Group to any person as permitted under clauses 19.7(c) or 19.8(c), the recipient does not use or further disclose the information except for or in connection with relevant permitted purposes.

19.10 PCCW must not and must procure that other PCCW Entities and the Representatives of PCCW Entities do not disclose or use:

- (a) Confidential Information of the Company Group received and/or obtained from either:
- (i) the Company Group or a Representative of the Company Group; or
 - (ii) the Telstra Group or a Representative of the Telstra Group; or
- (b) Confidential Information of the Telstra Group received and/or obtained from either:
- (i) PCCW Group or a Representative of the PCCW Group; or
 - (ii) the Company Group or a Representative of the Company Group;

except in accordance with clause 19.11 and 19.12.

19.11 Confidential Information of the Company that PCCW Group or a Representative of PCCW Group receives and/or obtains from the Company Group or a Representative of the Company Group:

- (a) may be used by PCCW Group and its Representatives for or in connection with permitted purposes; and
- (b) for and in connection with permitted purposes may be disclosed:
- (i) between PCCW, other PCCW Entities and/or Representatives of PCCW Group; and

(ii) between PCCW Group and Representatives of PCCW Group and the Company Group and Representatives of the Company Group,

if and as PCCW Group or Representatives of PCCW Group in their discretion consider to be expedient or desirable for or in connection with permitted purposes;

(c) may be disclosed by PCCW Group or a Representative of PCCW Group:

(i) to any person with the prior consent of the Company Group;

(ii) as required to enable PCCW Group to pursue or defend legal proceedings or any arbitration;

(iii) to any person (including to or to a Representative of Telstra Group) if and to the extent that is necessary or reasonably required for or in connection permitted purposes.

19.12 Confidential Information of Telstra Group that PCCW Group or a Representative of PCCW Group receives and/or obtains from the Telstra Group or a Representative of the Telstra Group or the Company Group or a Representative of the Company Group:

(a) may be used by PCCW Group and its Representatives for or in connection with permitted purposes; and

(b) for and in connection with permitted purposes may be disclosed:

(i) between PCCW, other PCCW entities and/or Representatives of PCCW Group; and

(ii) between PCCW Group and Representatives of PCCW Group and the Company Group and Representatives of the Company Group,

if and as PCCW Group or Representatives of PCCW Group in their discretion consider to be expedient or desirable for or in connection with any of the permitted purposes;

(c) may be disclosed by PCCW Group or a Representative of PCCW Group:

(i) to any person with the prior consent of Telstra Group;

(ii) as required to enable PCCW Group to pursue or defend legal proceedings or any arbitration;

(iii) to any person if and to the extent that is necessary or reasonably required for or in connection with permitted purposes.

19.13 PCCW Group must use all reasonable endeavours to procure that where PCCW Group or a Representative of PCCW Group discloses

information that is Confidential Information of the Company or of Telstra Group to any person as permitted under clause 19.11(c) or 19.12(c), the recipient does not use or further disclose the information except for or in connection with relevant permitted purposes.

Announcements or releases

19.14 Neither Telstra Group, nor PCCW Group nor the Company shall make press or other announcements or releases relating to this agreement or the transactions the subject of this agreement without the approval of both Founders to the form and manner of the announcement or release unless and except to the extent that the making of the announcement or release is required by law or by a stock exchange.

20 Expiry

20.1 Upon a person that holds Shares transferring all of its Shares and ceasing to be a Shareholder in accordance with the terms of this agreement ("cessation"), that person will cease to have any rights and benefits as a Shareholder or as a party to this agreement and will cease to be bound by the obligations and provisions applicable to it as a Shareholder or as a party pursuant to this agreement except that:

- (a) all its obligations and liabilities to other parties that have accrued and subsist at the date of cessation will be preserved and continue to be enforceable;
- (b) it will continue to be bound by and obliged to perform and observe its obligations pursuant to clauses 18.9 and 19 as if it was still a Shareholder; and
- (c) it will continue to have rights pursuant to clause 18 for a period of 6 months from the date of cessation as if it was still a Shareholder; and
- (d) it will continue to have rights pursuant to clause 19 as if it was still a party.

20.2 If clause 20.1 applies to a Founder Shareholder, then at the date of cessation, the Founder that is a related entity of the Founder Shareholder will cease to have any rights and benefits as a party to this agreement and will cease to be bound by the obligations and provisions applicable to it pursuant to this agreement except that:

- (a) all its obligations and liabilities to other parties that have accrued and subsist at the date of cessation will be preserved and continue to be enforceable; and

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- (b) it will continue to be bound by and obliged to perform and observe its obligations pursuant to clauses 10 and 19 as if it was still a party;
 - (c) it will continue to have rights pursuant to clause 18 for a period of 6 months from the date of cessation as if it was still a party;
 - (d) it will continue to have rights pursuant to clause 19 as if it was still a party.

21 Severability

If the whole or any part of a provision of this agreement is void, unenforceable or illegal in a jurisdiction it is severed for that jurisdiction. The remainder of this agreement has full force and effect and the validity or enforceability of that provision in any other jurisdiction is not affected. This clause has no effect if the severance alters the basic nature of this agreement or is contrary to public policy.

22 Entire agreement

This agreement constitutes the entire agreement of the Parties about its subject matter and supersedes all previous agreements, understandings and negotiations on that subject matter.

23 No representations or warranties

- 23.1 Each Party acknowledges that in entering into this agreement it has not relied on any representations or warranties about the subject matter except as expressly provided by the written terms of this agreement or any other Establishment Agreement or a document referred to in any Establishment Agreement.
- 23.2 A Party is not liable to another Party (in equity, contract or tort, under the Misrepresentation Act 1967 (UK) or in any other way) for a representation that is not set out in this agreement or any other Establishment Agreement or a document referred to in any Establishment Agreement.
- 23.3 Nothing in this clause 23 has the effect of limiting or restricting any liability of a Party arising as a result of fraud.

24 No undisclosed principals or undisclosed trusts

Except as expressly stated in writing in this agreement, no person enters into this agreement as an agent for any other person or as trustee of any trust or on behalf or for the benefit of any other person.

25 No partnerships

Except as expressly stated in writing in this agreement, nothing contained or implied in this agreement constitutes a Party the partner, agent, or legal representative of another Party for any purpose or creates any partnership, agency or trust, and no Party has any authority to bind another Party in any way.

26 Assignment

A Party may not assign or otherwise deal with its rights under this agreement or allow any interest in them to arise or be varied in each case, without the consent of the other Parties.

27 Notices

Form

27.1 Unless expressly stated otherwise in this agreement, any notice, certificate, consent, approval, waiver and other communication in connection with this agreement ("Notification") must be in writing, signed by the person by which it is given or issued ("sender") or an Authorised Officer of the sender and marked for the attention of "the Company Secretary" of each person to whom it is given ("recipient") or, if a recipient has notified otherwise, then marked for attention in the last way notified.

Delivery

27.2 Each Notification must be:

(a) left at the address set out or referred to below; or

(b) sent by prepaid ordinary post (airmail if appropriate) to that address; or

(c) sent by fax to the fax number set out or referred to in the below.

However, if a recipient has notified a changed postal address or changed fax number, then the Notification must be left or sent to that address or number.

(a) For the Telstra Parties:

Address: Telstra Corporation Limited
Level 40
242 Exhibition Street
Melbourne VIC Australia 3000

Fax: +61 3 9632 3215

(b) For the Company:

Address: Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Fax: + 1 441 292 4720

(c) For the PCCW Parties:

Address: 39/F PCCW Tower
TaiKoo Place
979 King's Road
Quarry Bay
Hong Kong

Fax: +852 2962 5725

When effective

27.3 A Notification takes effect from the time it is received unless a later time is specified.

Receipt - post

27.4 If sent by post, a Notification is taken to be received three days after posting (or seven days after posting if sent from a place in Australia to a place outside Australia, or from a place in Hong Kong to a place outside Hong Kong).

Receipt - fax

27.5 If sent by fax, a Notification is taken to be received at the time shown in the transmission report as the time that the whole fax was sent.

Receipt - general

27.6 Despite clauses 27.4 and 27.5, if received after 5.00pm at the place of receipt or on a non-Business Day, a Notification is to be taken to be received at 9.00am on the next Business Day.

28 General

Discretion in exercising rights

28.1 A Party may exercise a right or remedy or give or refuse its consent in any way it considers appropriate (including by imposing conditions), unless this agreement expressly states otherwise.

Partial exercising of rights

28.2 If a Party does not exercise a right or remedy fully or at a given time, the party may still exercise it later.

No liability for loss

28.3 A Party is not liable for loss caused by the exercise or attempted exercise of, failure to exercise, or delay in exercising a right or remedy under this agreement.

Approvals and consents

28.4 By giving its approval or consent a Party does not make or give any warranty or representation as to any circumstance relating to the subject matter of the consent or approval.

Remedies cumulative

28.5 The rights and remedies provided in this agreement are in addition to other rights and remedies given by law independently of this agreement.

Variation and waiver

28.6 A provision of this agreement or a right created under it, may not be waived or varied except in writing, signed by each Party to be bound.

Indemnities

28.7 The indemnities in this agreement are continuing obligations, independent from the other obligations of the Parties under this agreement and continue after this agreement ends. It is not necessary for a Party to incur expense or make payment before enforcing a right of indemnity under this agreement.

Further steps

28.8 Each of the PCCW Parties agree to do anything that any of the Telstra Parties reasonably requests (such as obtaining consents, signing and producing documents and getting documents completed and signed):

- (a) to bind any of the PCCW Parties and their successors under this agreement;
- (b) to give effect to the intentions of the Parties and the objectives of this agreement and the transactions contemplated by it including, without limitation, negotiating in good faith with respect to any matters requested by any of the Telstra Parties to this agreement, and by the execution and delivery of documents and other instruments; and
- (c) to use its best endeavours to cause relevant third persons to do likewise to bind every Party intended to be bound under this agreement.

28.9 Each of the Telstra Parties agree to do anything that any of the Telstra Parties reasonably requests (such as obtaining consents, signing and producing documents and getting documents completed and signed):

- (a) to bind any of the Telstra Parties and their successors under this agreement;
- (b) to give effect to the intentions of the Parties and the objectives of this agreement and the transactions contemplated by it including, without limitation, negotiating in good faith with respect to any matters requested by any of the Telstra Parties to this agreement, and by the execution and delivery of documents and other instruments; and

(c) to use its best endeavours to cause relevant third persons to do likewise to bind every Party intended to be bound under this agreement.

Time of the essence

28.10 Time is of the essence in this agreement in respect of an obligation of a Party to pay money.

Construction

28.11 No rule of construction applies to the disadvantage of a Party because that Party was responsible for the preparation of, or seeks to rely on, this agreement or any part of it.

Costs

28.12 Except as otherwise provided under this agreement, the Parties agree to pay their own legal and other costs and expenses in connection with the preparation execution and completion of this agreement and other related documentation.

Supervening legislation

28.13 Any present or future legislation which operates to vary the obligations of a Party in connection with this agreement with the result that another Party's rights, powers or remedies are adversely affected (including, by way of delay or postponement) is excluded except to the extent that its exclusion is prohibited or rendered ineffective by law.

Counterparts

28.14 This agreement may consist of a number of copies, each signed by one or more Parties to the agreement. If so, the signed copies are treated as making up the one document and the date on which the last counterpart is executed will be the date of the agreement.

Third Party Rights

28.15 A person that is not a party to this agreement has no rights under the Contract (Rights of Third Parties) Act 1999 (UK) to enforce any term or condition of this agreement.

29 Governing law

Governing law

29.1 This agreement is governed by the law in force in England.

Jurisdiction

29.2 Each Party submits to the non-exclusive jurisdiction of the courts England and courts of appeal from them. Each Party waives any right it has to object to an action being brought in those courts including, without limitation, by claiming that the action has been brought in an inconvenient forum or that those courts do not have jurisdiction.

Serving documents

- 29.3 Without preventing any other method of service, any document in an action may be served on a Party by being delivered or left at that Party's address for the purposes of clause 27 or with its Process Agent.

Process Agent

- 29.4 Each Party irrevocably appoint its Process Agent as its process agent to receive any document in an action in connection with this agreement.
- 29.5 If for any reason a Process Agent of a Party ceases to be able to act as a process agent, that Party must promptly appoint another person in England as its process agent.
- 29.6 Each Party agrees that the service of documents on its Process Agent or any other person appointed by it under this clause will be sufficient service on it.

EXECUTED as an agreement

Schedule 1

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Schedule 2

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Schedule 3

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Schedule 4

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Schedule 5

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Schedule 6

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Schedule 7

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EXECUTION PAGE

SIGNED by Dick Simpson)
as authorised representative)
for TELSTRA CORPORATION LIMITED)
in the presence of:)
.....)
Signature of witness)
.....)
Name of witness (block letters))
.....)
Address of witness)
.....)
Occupation of witness)

.....)
By executing this agreement the)
signatory warrants that the)
signatory is duly authorised to)
execute this agreement on behalf of)
Telstra Corporation Limited

SIGNED by)
as authorised representative)
for TELSTRA HOLDINGS (BERMUDA) NO 1)
LIMITED in the presence of:)
.....)
Signature of witness)
.....)
Name of witness (block letters))
.....)
Address of witness)
.....)
Occupation of witness)

.....)
By executing this agreement the)
signatory warrants that the)
signatory is duly authorised to)
execute this agreement on behalf of)
Telstra Holdings (Bermuda))
No 1 Limited

SIGNED by)
as authorised representative)
for TELSTRA HOLDINGS PTY LIMITED)
in the presence of:)
))
.....)
Signature of witness)
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.....)
Name of witness (block letters))
))
.....)
Address of witness)
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.....)
Occupation of witness)
) By executing this agreement the
) signatory warrants that the
) signatory is duly authorised to
) execute this agreement on behalf of
) Telstra Holdings Pty Limited

SIGNED by)
as authorised representative)
for PCCW LIMITED)
in the presence of:)
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.....)
Signature of witness)
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.....)
Name of witness (block letters))
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Address of witness)
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.....)
Occupation of witness)
) By executing this agreement the
) signatory warrants that the
) signatory is duly authorised to
) execute this agreement on behalf of
) PCCW Limited

 SIGNED by)
 as authorised representative)
 for PACIFIC CENTURY CABLE HOLDINGS)
 LIMITED in the presence of:)
)
)
 Signature of witness)
)
)
 Name of witness (block letters))
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 Address of witness)
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)
 Occupation of witness)

.....
 By executing this agreement the
 signatory warrants that the
 signatory is duly authorised to
 execute this agreement on behalf of
 Pacific Century Cable
 Holdings Limited

SIGNED by)
 as authorised representative for)
 for REACH LTD.)
)
 in the presence of:)
)
)
 Signature of witness)
)
)
 Name of witness (block letters))
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 Address of witness)
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)
 Occupation of witness)

.....
 By executing this agreement the
 signatory warrants that the
 signatory is duly authorised to
 execute this agreement on behalf of
 Reach Ltd.

Execution page

SIGNED by SIMON BROOKES)
as an authorised representative of)
TELSTRA CORPORATION LIMITED)
in the presence of:)
.....)
Signature of witness)
.....)
JOSHUA COLE)
.....)
Name of witness (block letters))
.....)
Melbourne)
.....)
Address of witness) By executing this agreement the signatory
.....) warrants that the signatory is duly
Solicitor) authorised to execute this agreement on
.....) behalf of Telstra Corporation Limited
Occupation of witness)

SIGNED by SIMON BROOKES)
as authorised representative)
for TELSTRA HOLDINGS (BERMUDA))
NO 1 LIMITED in the)
presence of:)
.....)
Signature of witness)
.....)
JOSHUA COLE)
.....)
Name of witness (block letters))
.....)
Melbourne)
.....)
Address of witness)
.....)
Solicitor)
.....)
Occupation of witness) By executing this agreement the signatory
.....) warrants that the signatory is duly
.....) authorised to execute this agreement on
.....) behalf of Telstra Holdings (Bermuda) No 1
.....) Limited

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SIGNED by SIMON BROOKES)
as authorised representative)
for TELSTRA HOLDINGS PTY LIMITED)
in the presence of:)
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.....))
Signature of witness)
))
JOSHUA COLE)
.....))
Name of witness (block letters))
))
Melbourne)
.....))
Address of witness)
))
Solicitor)
.....))
Occupation of witness)
) By executing this agreement the signatory
) warrants that the signatory is duly
) authorised to execute this agreement on
) behalf of Telstra Holdings Pty Limited

SIGNED by)
as authorised representative)
for PCCW LIMITED in the presence of:))
))
.....))
Signature of witness)
))
NIGEL JUSTIN DAVIES)
.....))
Name of witness (block letters))
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Simmons 2 Simons)
.....))
Address of witness)
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Solicitor, Hong Kong SAR)
.....))
Occupation of witness)
) By executing this agreement the signatory
) warrants that the signatory is duly
) authorised to execute this agreement on
) behalf of PCCW Limited

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SIGNED by)
as authorised representative)
for PACIFIC CENTURY CABLE HOLDINGS)
LIMITED)
in the presence of:)
.....)
Signature of witness)
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NIGEL JUSTIN DAVIES)
.....)
Name of witness (block letters))
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Simmons 2 Simmons)
.....)
Address of witness)
))
Solicitor, Hong Kong SAR)
.....)
Occupation of witness) By executing this agreement the signatory
) warrants that the signatory is duly
) authorised to execute this agreement on
) behalf of Pacific Century Cable Holdings
) Limited

SIGNED by)
as authorised representative for)
for REACH LTD.)
in the presence of:)
.....)
Signature of witness)
))
CUONG HOANG)
.....)
Name of witness (block letters))
))
Level 37, 2 Park St., Sydney)
.....)
Address of witness)
))
Lawyer)
.....)
Occupation of witness) By executing this agreement the signatory
) warrants that the signatory is duly
) authorised to execute this agreement on
) behalf of Reach Ltd.

List of Subsidiaries

We are a holding company for the following significant subsidiaries as of December 31, 2004:

<TABLE>

| Name of company | Place of incorporation | Equity interest attributable to PCCW |
|--|------------------------|--------------------------------------|
| ----- | ----- | ----- |
| <S> | <C> | <C> |
| PCCW-HKT Limited..... | Hong Kong | 100% |
| PCCW-HKT Telephone Limited..... | Hong Kong | 100% |
| PCCW-HKT Business Services Limited..... | Hong Kong | 100% |
| PCCW-HKT Consumer Services Limited..... | Hong Kong | 100% |
| PCCW-HKT Network Services Limited..... | Hong Kong | 100% |
| PCCW-HKT Products & Services Limited..... | Hong Kong | 100% |
| PCCW Teleservices (Hong Kong) Limited..... | Hong Kong | 100% |
| PCCW-HKT Technical Services Limited..... | Hong Kong | 100% |
| PCCW VOD Limited (now known as PCCW Media Limited)..... | Hong Kong | 100% |
| PCCW Teleservices Operations (Hong Kong) Limited..... | Hong Kong | 100% |
| Cascade Limited..... | Hong Kong | 100% |
| PCCW IMS Limited..... | Hong Kong | 100% |
| Pacific Century Systems Limited..... | Hong Kong | 100% |
| Corporate Access Limited..... | Cayman Islands | 100% |
| BtN Access (HK) Limited..... | Hong Kong | 100% |
| Beyond The Network Limited..... | Hong Kong | 100% |
| PCCW (Beijing) Limited..... | The PRC | 100% |
| Omnalink Technology Limited..... | British Virgin Islands | 76.43% |
| Unihub China Information Technology Company Limited..... | The PRC | 38.22% |
| Unihub Limited..... | Hong Kong | 100% |
| PCCW Business eSolutions Limited..... | Hong Kong | 100% |
| PCCW Powerbase Data Center Services (HK) Limited..... | Hong Kong | 100% |
| Power Logistics Limited..... | Hong Kong | 100% |
| PCCW Directories Limited..... | Hong Kong | 100% |
| ChinaBiG Limited..... | Hong Kong | 62.31% |
| Pacific Century Premium Developments Limited | Bermuda | 51.07% |
| Cyber-Port Limited..... | Hong Kong | 51.07% |
| JALECO LTD. | Japan | 79.80% |
| Taiwan Telecommunication Network Services Co., Ltd. | Taiwan | 56.56% |
| UK Broadband Limited | U.K. | 100% |

</TABLE>

EXECUTIVE OFFICERS' CERTIFICATION PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT

I, Richard Li Tzar Kai, certify that:

1. I have reviewed this annual report on Form 20-F of PCCW Limited;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the company and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Reserved

(c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as at the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: May 12, 2005

By: /s/ Richard Li Tzar Kai

Name: Richard Li Tzar Kai
Title: Chairman

EXECUTIVE OFFICERS' CERTIFICATION PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT

I, Jack So Chak Kwong, certify that:

1. I have reviewed this annual report on Form 20-F of PCCW Limited;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the company and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Reserved

(c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as at the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: May 12, 2005

By: /s/ Jack So Chak Kwong

Name: Jack So Chak Kwong
Title: Deputy Chairman and Group
Managing Director

EXECUTIVE OFFICERS' CERTIFICATION PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT

I, Alexander Anthony Arena, certify that:

1. I have reviewed this annual report on Form 20-F of PCCW Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Reserved
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as at the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: May 12, 2005

By: /s/ Alexander Anthony Arena

Name: Alexander Anthony Arena
Title: Group Chief Financial
Officer

Executive Officers' Certification Pursuant to Section 906 of the Sarbanes-Oxley Act

The certification set forth below is being submitted in connection with the Annual Report on Form 20-F for the year ended December 31, 2004 (the "Report") for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code.

Richard Li Tzar Kai, Chairman, Jack So Chak Kwong, Deputy Chairman and Group Managing Director and Alexander Anthony Arena, Group Chief Financial Officer of PCCW Limited, each certifies that, to the best of his knowledge:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of PCCW Limited.

Date: May 12, 2005

By: /s/ Richard Li Tzar Kai

Name: Richard Li Tzar Kai
Title: Chairman

By: /s/ Jack So Chak Kwong

Name: Jack So Chak Kwong
Title: Deputy Chairman and
Group Managing Director

By: /s/ Alexander Anthony Arena

Name: Alexander Anthony Arena
Title: Group Chief Financial
Officer