香港電訊

Hongkong Telecom

Annual Report 1999

CABLE & WIRELESS
HKT
香港電訊

The world is changing fast. The way we work, trade, learn, communicate and play – all are being reshaped in a revolution driven by the Internet.

We have set out three ambitious targets for Hong Kong, each backed with firm commitments from Cable & Wireless HKT.

BY 2001:

Hong Kong will become a major Asian e-commerce centre.

Internet usage in Hong Kong will be greater than that of the mobile phone today.

Hong Kong will be the preferred Internet hub in Asia.

eVISION

Empowering *Hong Kong* **@ cwhkt**

Cable & Wireless HKT will provide a secure and reliable environment to facilitate e-commerce and Internet trading in confidence. Our website, *www.cwhkt.com*, will become a showcase for how the Internet can be used effectively by businesses.

Cable & Wireless HKT aims to stimulate growth in Internet use in Hong Kong and across Asia. We shall provide greater access to contents and applications that are relevant to Chinese users. And we will extend our broadband access to at least 80 per cent of Hong Kong's households by the Year 2000. We will support adoption of Internet in education and invest in faster wireless data services.

Cable & Wireless HKT will provide the best international connectivity for our customers and integrate more tightly with the Cable & Wireless global Internet Protocol (IP) network. We will grow our Internet presence in Asia's key markets and accelerate Internet traffic growth within Hong Kong, strengthening its position as the leading Information City in Asia.

Contents

For further information,
visit our website **@ www.cwhkt.com**

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A new look for Cable & Wireless in Hong Kong

CABLE & WIRELESS
HKT
香港電訊

Cable & Wireless has been at the heart of Hong Kong for more than 125 years, providing global connectivity and advanced local services. Fully embracing the global Cable & Wireless brand in Hong Kong represents a major step in the Company's ongoing moves to anticipate and respond to global changes and strengthens its ability to compete in the global marketplace.

The Company's new brand name – **Cable & Wireless HKT 香港電訊** – reinforces our identity as a world-leading integrated communications company, helps fortify our goodwill and strong reputation in the telecommunications sector in Hong Kong and supports our expansion into China and the Asia region.

Cable & Wireless is the world's leading provider of integrated communications offering a range of services spanning interactive entertainment and information, broadband data, Internet access and television as well as fixed and mobile voice. With 17 million customers in 70 countries, Cable & Wireless is one of the world's largest carriers of international traffic and provides mobile communications in more than 30 countries.

The communications industry is undergoing dramatic change worldwide driven by new technology, the Internet and global competition. Our customers and the community in Hong Kong are affected by these changes in every aspect of their business and personal lives. This is recognised by the Government of the Hong Kong Special Administrative Region (SAR) which has made a top priority of building on Hong Kong's world-leading communications infrastructure and services in order to enhance Hong Kong's competitiveness in the 21st Century.

As a member of the global Cable & Wireless group of companies, we are uniquely placed to provide global communications services to our customers and to position Hong Kong as one of the leading communications centres in Asia. **Cable & Wireless HKT will continue to innovate and invest to deliver Hong Kong's communication needs – and strengthen our links with the world – as we enter the next millennium and the Internet Age.**

Chairman's Statement

The last year has been a very difficult one for companies operating in Asia. The weak economic environment in Hong Kong and in the region dampened demand for basic telecommunications services throughout the period under review. At the same time, Cable & Wireless HKT has faced intense price competition, particularly in international telephone and mobile services. These developments are reflected in the contraction of the Company's revenues overall.

We have accelerated the pace of change at Cable & Wireless HKT to ensure that we are well prepared for a recovery in the economy and to take advantage of the tremendous growth opportunities developing in Internet and broadband communications. **We have invested for growth in the rapidly developing areas of Internet, high-speed data and interactive services.**

Excluding revenues from international telephone services (IDD), Cable & Wireless HKT's turnover grew by more than 5 per cent during this fiscal year. We have reshaped the cost base to reflect the significant changes in our operating environment – particularly in IDD where a 22 per cent decline in revenues was partially offset by a 24 per cent reduction in costs. **The action we have taken has been highly effective in containing the decline in profit and maintaining returns to shareholders, in what has proved to be an exceptionally challenging period.** The 1999/2000 financial year is likely to present further significant

The Board remains confident of the Company's underlying strength and its longer-term prospects and has recommended a final dividend of 46.6 cents per share, making a total of 85.2 cents for the 1998/99 financial year.

Financial highlights

		1999	1998	Change %
Turnover	$ million	**32,411**	35,041	-7.5
Operating profit	$ million	**11,838**	13,251	-10.7
Profit before taxation and exceptional items	$ million	**13,142**	14,315	-8.2
Exceptional items	$ million	**–**	4,558	–
Profit attributable to shareholders				
– before exceptional items	$ million	**11,507**	12,470	-7.7
– after exceptional items	$ million	**11,507**	17,028	-32.4
Earnings per share				
– before exceptional items	cents	**96.4**	105.3	-8.5
– after exceptional items	cents	**96.4**	143.8	-33.0
Dividend per share	cents	**85.2**	85.2	–
Dividend payout	%	**88.4**	59.3	–

Note: unless otherwise specified, all financial figures in this annual report are expressed in Hong Kong dollars.

challenges for your Company as competition continues in both international telephone and mobile services.

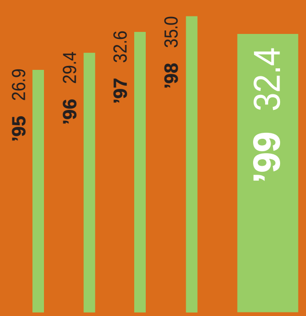
Cable & Wireless HKT has made substantial investments to provide Hong Kong with the world's most advanced digital telecommunications infrastructure. This has been an essential element in Hong Kong's success as a leading communications, trade and commerce centre in Asia and is vital to its future. **We will continue to invest in developing people and technology to reinforce Cable & Wireless HKT's standing as Asia's most successful integrated communications company.**

Cable & Wireless HKT is focused on delivering greater value to its customers through innovation and integrated services and products, underpinned by excellent customer service. We will continue to work more closely with our parent company, Cable and Wireless plc, to build on the competitive position we have established in Hong Kong and to expand into Asia's key markets. Our development plans are designed to maximise shareholder value and the Board remains very confident in the Company's long-term outlook.

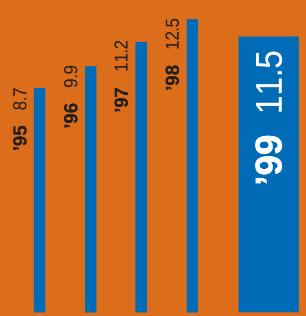
I am delighted to be Chairman of your Company once more, particularly as we go through an exciting transition period both within Cable & Wireless HKT and in Hong Kong as a whole. I shall be working closely with the Board and management team as Cable & Wireless HKT and its employees steer a course into the Internet Age and the next millennium.

Sir Brian Smith
Chairman

Turnover
$ billion

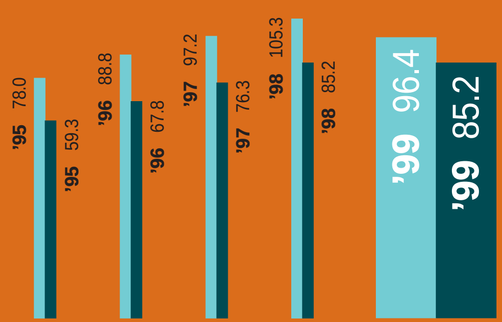


Profit attributable to shareholders
(before exceptional items)
$ billion



Earnings per share **(before exceptional items)**
cents

Dividend per share
cents

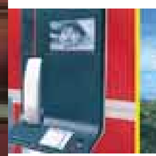


Chief Executive's Review

Ready for the Internet Age

The global telecommunications market is undergoing rapid change driven by new technology and increasing competition. Following the Company's agreement with the Hong Kong SAR Government to surrender its exclusive international licence on 31 March 1998 and the introduction of international services competition with effect from 1 January 1999, Hong Kong has become one of the most liberalised and competitive telecommunications markets in the world.

Cable & Wireless HKT's revenues declined by 7.5 per cent overall last year. This was due to the combined impact of the slowdown in the economy in Hong Kong, together with intense price competition in international telephony, and in mobile services triggered by the introduction of mobile number portability. Through restructuring our cost base, we have been able to secure a competitive position for the Company's core businesses and maintain the operating margin at 37 per cent. We have delivered a very strong performance in an exceptionally challenging period.



We anticipated an increasingly tough operating environment and have taken bold initiatives to embrace competition and adopt a customer-driven, performance culture. We have focused on our customer services, improved productivity and tailored our investment for growth in our interactive broadband services.

We have progressed with our long-term strategy – to rebalance the revenue portfolio to reduce reliance on international telephone services, to invest for growth in new services and drive for greater efficiency. We have moved from being a monopoly provider of basic telecommunications services to become a competitive, fully integrated communications company. Cable & Wireless HKT now offers a comprehensive range of advanced communications solutions, from voice to data, wireless, interactive entertainment and information. We have invested in world-leading broadband capability which is our key to leading Asia in integrated communications.

Our business is about delivering communications solutions that our customers need, want and dream about – backed by the highest quality of service in our industry. We will continue to deliver innovative solutions for our customers – through Internet and e-commerce – and we will invest further in the customer front line and integrate our customer-related activities to deliver greater service and value.

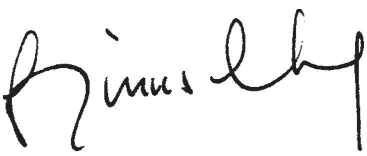
We have set out our eVISION and are committed to support the development of Hong Kong as a leading financial and commercial centre in the Asia region well into the next century. **We are seizing the growth opportunities of the Internet and investing in skills and capabilities to strengthen the Company's position in Hong Kong and achieve a clear lead in Asia.** Cable & Wireless HKT's broadband capabilities will bring e-commerce solutions into reality. This is a crucial component in the development of Hong Kong as a competitive hub for the next generation of electronic trade and commerce in Asia in the 21st Century.

We will drive to capture growth from global Internet and data through closer integration with the worldwide Cable & Wireless Group using international network sharing, traffic management and new service developments. This will ensure we get the benefits of global reach, scale and early

adoption of new technology, all of which are essential to enable Cable & Wireless HKT to remain competitive among global players.

Our performance culture has demanded even more of our employees. We raised performance levels and structured rewards that recognised excellence. Our staff have made a truly tremendous contribution throughout the year and I am delighted that they have embraced the transformation of our business. Performance-related pay has been applied across the entire organisation and in January 1999 a share option scheme was introduced to allow all our employees to become shareholders in the Company. Our employee development programmes continue to encourage learning, stimulate innovation and enhance the Company's effectiveness and flexibility. We are providing the right environment for the development of new skills and this is resulting in improved service to our customers.

Our transformation of the Company will continue. We will further build on our foundation of financial strength, a record of innovation, in-depth knowledge of the local market and technical expertise, along with the backing of the global Cable & Wireless Group. Cable & Wireless HKT has a new look that better reflects our shape and direction. We are ready for the Internet Age and we face our future with great confidence.



Linus W L Cheung
Chief Executive

Operational Review

Asia's Most Successful Integrated Communications Company

We are entering a new era in communications and choice of services. With the advent of Internet Protocol (IP), the traditional voice-based switched telephone network model is being rapidly overtaken by the global expansion of data traffic and advanced new services. **The Internet is reshaping the future of our industry as IP enables us to integrate voice, data and entertainment media on the same network.**

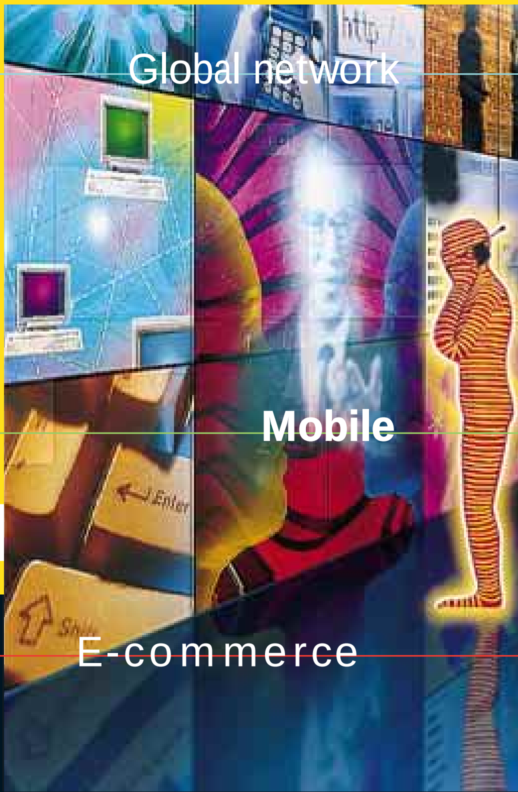
With substantial investments in Internet, high-speed broadband technology and interactive entertainment and information services, Cable & Wireless HKT is already well established in the new communications media in Hong Kong. We will build on this position and expand our presence in Asia's key markets.

Cable & Wireless HKT is harnessing the capabilities of the Internet and IP to deliver innovative communications services that enhance our customers' lifestyle and add value to their businesses. This could mean services as diverse as delivering an e-mail alert through the mobile network for a local customer, providing international video-conferencing for a hospital's tele-medicine facilities or providing a global-managed IP virtual private network for a multinational corporation. Our technological and service developments are customer-driven and are backed by customer service and support of the highest standards in Asia.

To underpin this approach we are developing an entrepreneurial climate within the organisation, building the internal IP skills and capabilities we need and providing the climate for them to flourish. This, combined with the new thrust of all our other activities, represents nothing less than a transformation of our business.

The following review sets out our achievements in each of our principal business areas over the last year and sets the parameters for our future development as Asia's most successful integrated communications company.

- **Cable & Wireless HKT is Hong Kong's leading provider of communications services, locally and globally.**
- **Our services include local and international voice, fax and data services, value-added services, satellite services, telecommunications equipment and network services, mobile services, Internet access and interactive home entertainment.**
- **Our broad service portfolio, global connectivity with Cable & Wireless and a close understanding of the local market enable us to package and integrate services to create tailor-made communications solutions for our customers in Hong Kong and throughout the Asia region.**



China and the Asia Region

A natural extension of our customer services and a key focus for Cable & Wireless HKT is to expand our services into China and the Asia region.

Through facilities management partnerships with the provincial telecommunications authorities in China we are able to ensure that our customers requiring services in China enjoy rapid connectivity and an excellent one-stop-shop quality of service.

During the year we launched our China Global Calling Card services, the world's only international calling card to offer service in Guangdong to over 230 worldwide destinations as well as to anywhere within China. We were the first operator to introduce a GMCC (Guangdong Mobile Communications Corporation) Card for our 1010 mobile customers. This card provides subscription to both Cable & Wireless HKT's dual-band and GMCC networks enabling our customers to be reached at their Hong Kong mobile number in China at the most economical local China call rates.

In January 1999, we completed the first phase of the Shanghai Global System for Mobile (GSM) Optimisation Project in partnership with the Shanghai Posts and Telecommunications Administration. This commercial consultancy project demonstrated our technical and management expertise and we will continue to seek opportunities in similar projects and build upon our strong relationships in China's telecommunications industry.

In Singapore, our associated company MobileOne (Asia) has continued its success as the fastest-growing mobile company in the newly liberalised Singapore market. In just two years of operation it has attained 320,000 customers and 32 per cent market share.

In Taiwan, we recently acquired 85 per cent of FIC Network Service, an Internet services provider with experienced staff and a strong base of customers. We are increasing our role in the expanding telecommunications market in Taiwan by integrating the service capability acquired with FIC Network Service with the advanced network assets to which we already have access through our interest in Taiwan Telecommunications Network Services.

Cable & Wireless HKT will continue to identify similar opportunities throughout the Asia region with a focus on Internet and advanced network services.

International Telecommunications

There were significant changes in the international services (IDD) market during the year following the Company's agreement with the Hong Kong SAR Government to surrender its exclusive international licence on 31 March 1998, and the introduction of competition for international telecommunications services with effect from 1 January 1999.

The weak economic environment affected the overall volume of international telephone traffic throughout 1998, but significant price reductions stimulated an upturn in volumes for the total market in the first three months of 1999, although margins on this traffic were generally lower.

The Company's IDD revenues were 22 per cent lower year-on-year as competitors moved their traffic to leased circuits and international call rates fell in the last quarter.

In preparation for the structural changes in the market, the Company achieved substantial reductions in its international delivery costs. This gives Cable & Wireless HKT a highly competitive cost base as a wholesale carrier of international voice, data and Internet traffic.

IDD rates in Hong Kong are among the lowest in the world. The Company has built on this position to offer a range of highly competitive services to both business and residential customers. **The Company's 001 and 0060 international services are backed by its IDD G-Force money-back guarantee.** And we have developed specially tailored service packages – such as Frequently Called Numbers, Greater China Savings Plan and Volume Savings Plan – to match our customers' international calling patterns and provide sustainable discounts.

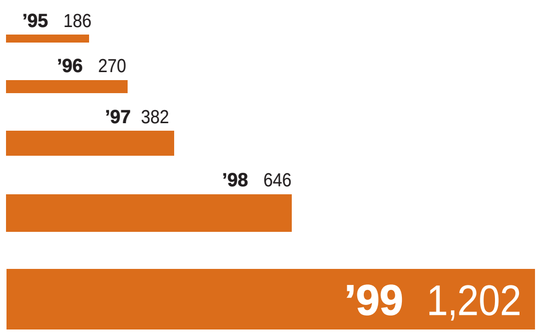
In the corporate market we are strongly positioned with Cable & Wireless Global Markets as a competitive provider of end-to-end managed network services to multinational customers, utilising the extensive Cable & Wireless Global Network.

International leased circuit capacity was increased by 86 per cent as Cable & Wireless HKT expanded bandwidth to 18 countries in the Asia region, principally to support demand for Internet and data services. For those customers with requirements for reliable, high-speed packet switched data services, we successfully launched international Asynchronous Transfer Mode (ATM) to Australia, Japan, Singapore, the United Kingdom and the United States. Revenues from international leased lines grew 18 per cent in the last financial year.

The Cable & Wireless Group of companies has a worldwide communications network spanning the major business centres in Asia, Australia, Europe and the United States and is one of the world's largest carriers of international traffic. Through closer integration with the Cable & Wireless Group using network sharing and traffic management, we aim to capture a share of the global growth in international data and Internet traffic.

International leased circuits capacity

megabits per second



With an investment of more than $2,750 million in its international network infrastructure in the past five years alone, Cable & Wireless HKT enhances Hong Kong's position as the communications hub of Asia. We are serving more than 500 multinational companies operating in Asia to meet their communications hubbing needs.

Local Telecommunications

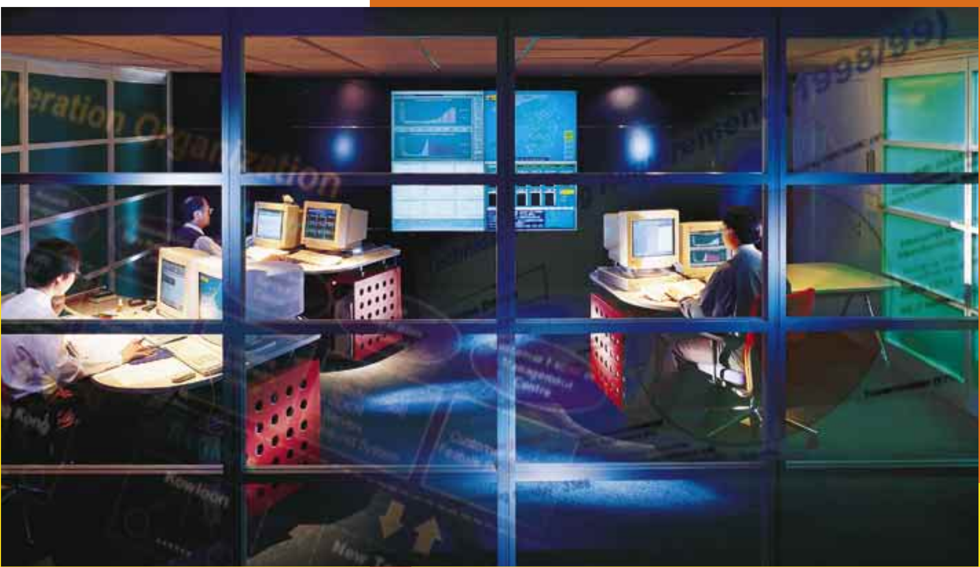
Cable & Wireless HKT has invested in a territory-wide all-digital local network which supports delivery of a wide range of advanced calling features, fax, data, Internet and integrated network services. The breadth and depth of our service portfolio is a key factor in the competitive local market.

Cable & Wireless HKT continues to improve value for customers through innovation and integrated services and products, underpinned by excellent customer service.

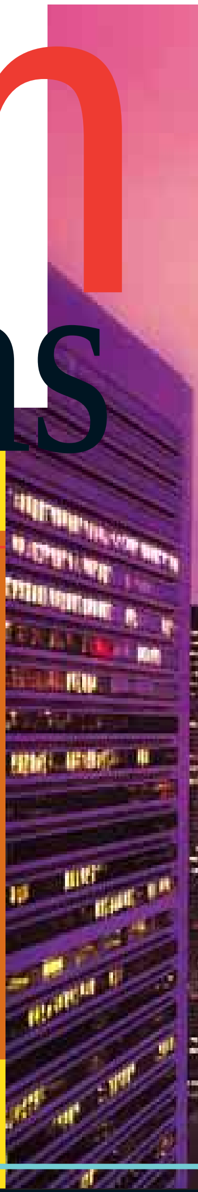
Our new value-added services for residential customers have proved very popular. Take-up of Caller Number/Name Display and the HomeSelect package – which comprises features such as call waiting, call forwarding and call conferencing – has increased significantly during the year. We also introduced tailor-made packages for business customers, leveraging our technical capabilities to help local companies to enhance the efficiency and effectiveness of their operations through total managed solutions.

For small- and medium-sized enterprises we have developed local and wide area network solutions to provide flexible internal and external communications and efficient data sharing. We have also launched sector-specific solutions for the corporate market, including the Business Recovery Service as a reassuring back-up for mission critical communications in the banking and financing sector, total communications packages for hotel guests – including IDD, Internet, fax and mobile services – and electronic data exchange-based services to help streamline operations for the trading and manufacturing sector.

custom total solutions



Our state-of-the-art, fully digital fibre-optic network enables us to provide a wide array of integrated solutions to cater for business communications needs and to deliver lifestyle-enriching services for our residential customers.

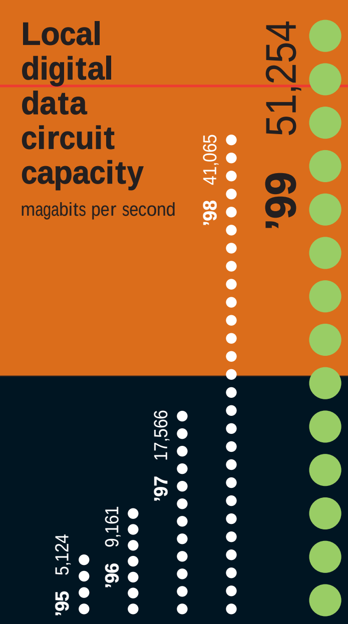


Building on the launch of eVISION, the Company introduced Com[21] to its corporate customers in April 1999. This initiative showcased our capabilities in information and communications technology, including networking, Internet, Intranet, Extranet, e-commerce, on-line and data security and interactive multimedia services, and demonstrated how we apply our IT competence to create commercial communications solutions.

A continual focus on high-quality, reliable links to businesses and other fixed-line, mobile and Internet services providers helped to increase revenues from local data and network services by 11 per cent in the last financial year. We have made substantial investments in our fibre-optic network and we are strongly positioned as the wholesale carrier of choice in the local market.

Building on our capabilities in customer service and system integration, the launch of our new call centre business has been highly successful. This service provides corporate customers with an opportunity to outsource all their call centre functions, such as general information enquiries, help-desk, reservations, as well as telesales, enabling them to focus on running their core business. Now employing around 250 people and operating in 11 languages, Cable & Wireless Teleservices attracted more than 50 clients in its first year of operations. These include significant contracts with Citibank, The Prudential Assurance Company and Cathay Pacific Airways.

er-driven



Mobile Services

The Company's mobile business delivered a solid performance for the last financial year. Significant price competition stimulated growth in the overall market and mobile penetration has risen to some 48 per cent of the population – among the highest of any country. The number of mobile customers switching between operators also increased during the year, particularly since the introduction of mobile number portability from 1 March 1999.

Cable & Wireless HKT has focused on retention and growth of customers in all its three brands through provision of loyalty packages and innovative value-added services. The Company was the first in Asia to achieve a roaming coverage of more than 100 countries, enabling our customers to use their mobile telephone in almost every part of the world.

Our 1010 customers enjoy total service packages that comprise one-price airtime for voice, data and fax transmissions and no local airtime charges for IDD calls. One2Free continues to pioneer integrated mobile Internet applications and recently launched a web-based composer for customising ringing tones and graphic displays. 1+1 was launched in May 1998 to cater for customers seeking simple and practical mobile services.

To further enhance its service quality, the Company has introduced a web-based customer service centre where customers can gain free access to billing information and their service profile, either via their mobile handset or personal computer. At the same time, the Company has refined network quality and coverage and delivered improvements to customer service.

This approach has supported strong gross connections and contained customer churn at one of the lowest levels in the market. Cable & Wireless HKT's success in delivering mobile solutions of quality and value for all segments of the market is proved by the growth of the customer base to 948,000 customers, up 10 per cent year-on-year.

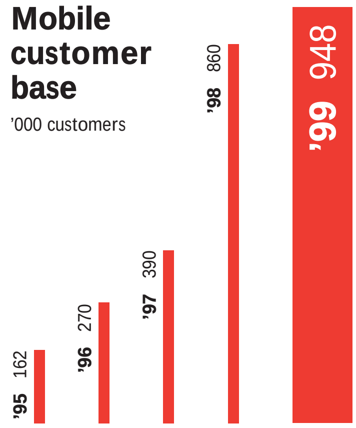
In November 1998, using the radio spectrum obtained through the acquisition of Pacific Link, we launched intelligent dual-band services on our Global System for Mobile

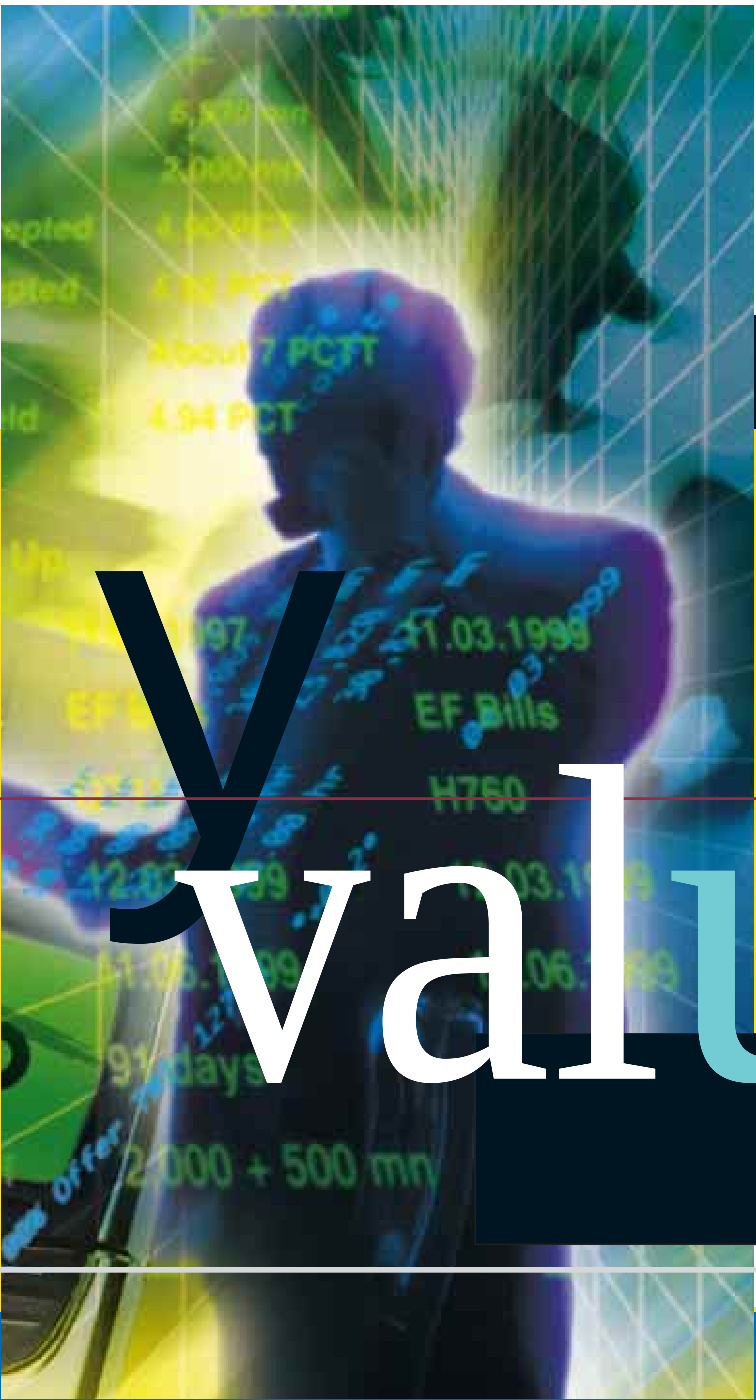
qualit

Our recently introduced dual-band mobile network offers advanced technology, exceptional call service quality and network capacity to 1010 and One2Free customers through Intelligent Frequency Hopping – another 'world first'.

(GSM) network. The overlay configuration has provided us with significant capital and operational expenditure savings, and has helped to further enhance the quality of our network. Cable & Wireless HKT customers enjoy virtually uninterrupted service on our networks with GSM call-drop rates below 1 per cent, which is among the lowest in the world. We back our 1010 service with a 'Call Satisfaction Guarantee' which credits airtime to customers should they experience unsatisfactory call quality.

Future growth in mobile will not come from voice-only services but through advanced data services and further integration with fixed-line services. With our strong commitment to implement General Packet Radio Switching technology early in the year 2000 Cable & Wireless HKT will offer a ten-fold increase in wireless data transmission capacity from current levels. This will be a key step towards development of the so-called 'third generation' of mobile communications through which multimedia applications such as video-conferencing, Internet browsing, e-mail, corporate network access and e-commerce applications will become truly mobile. Cable & Wireless HKT will leverage its existing strong capabilities in Internet and broadband interactive services to lead developments in the wireless market.






Internet and Interactive Multimedia Services (IMS)

Hong Kong's Internet market continued to grow strongly throughout the last year, with total dial-up Internet traffic more than doubling in the period. The Internet is driving growth in a number of Cable & Wireless HKT's revenue streams, including network services, growth of dedicated second lines in the home for Internet access, and expanding local and international traffic.

Network Services: our NETPLUS business provides wholesale services to other Internet Service Providers (ISPs) in Hong Kong and around the Asia region for local traffic consolidation and international connections. The fast-growing revenues from these services are reported respectively under local and international telecommunications.

Customer Access: NETVIGATOR is the Hong Kong market leader with some 311,000 dial-up customers and 11,000 'always on' broadband customers. The customers who joined as part of the Hong Kong Star Internet acquisition in December 1998 now enjoy the benefits of the new range of NETVIGATOR services.

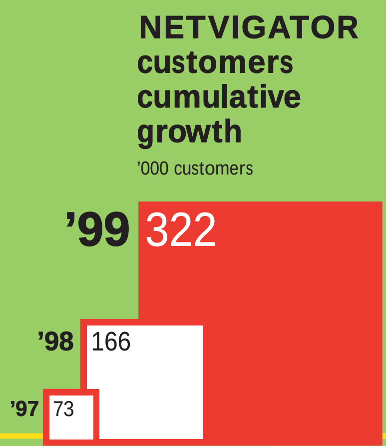
NETVIGATOR dial-up customers spent almost 55 million hours on-line during the year, up 147 per cent on the previous year and representing some 57 per cent of total dial-up Internet traffic in Hong Kong.

In recognition of its excellent connectivity and customer service, NETVIGATOR was elected as Hong Kong's 'Best Internet Service Provider' for 1998 by readers of *PC World Magazine (Hong Kong)* – the second consecutive year we have achieved this accolade.

Our acquisition of 85 per cent of FIC Network Service, an Internet service provider in Taiwan, brought some 42,000 dial-up customers and a number of valuable corporate customers. This is an important step in building the Company's Internet presence in Asia's key markets.

We have captured approximately 30 per cent of the market for corporate access in Hong Kong. Cable & Wireless HKT offers a one-stop Internet solution for the business

integrate



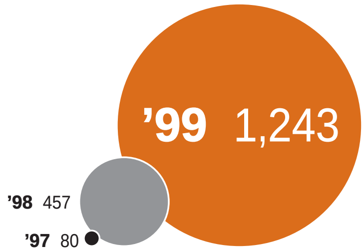
sector through NETVIGATOR@WORK, including dedicated line access services, website hosting as well as Intranet development and e-commerce solutions.

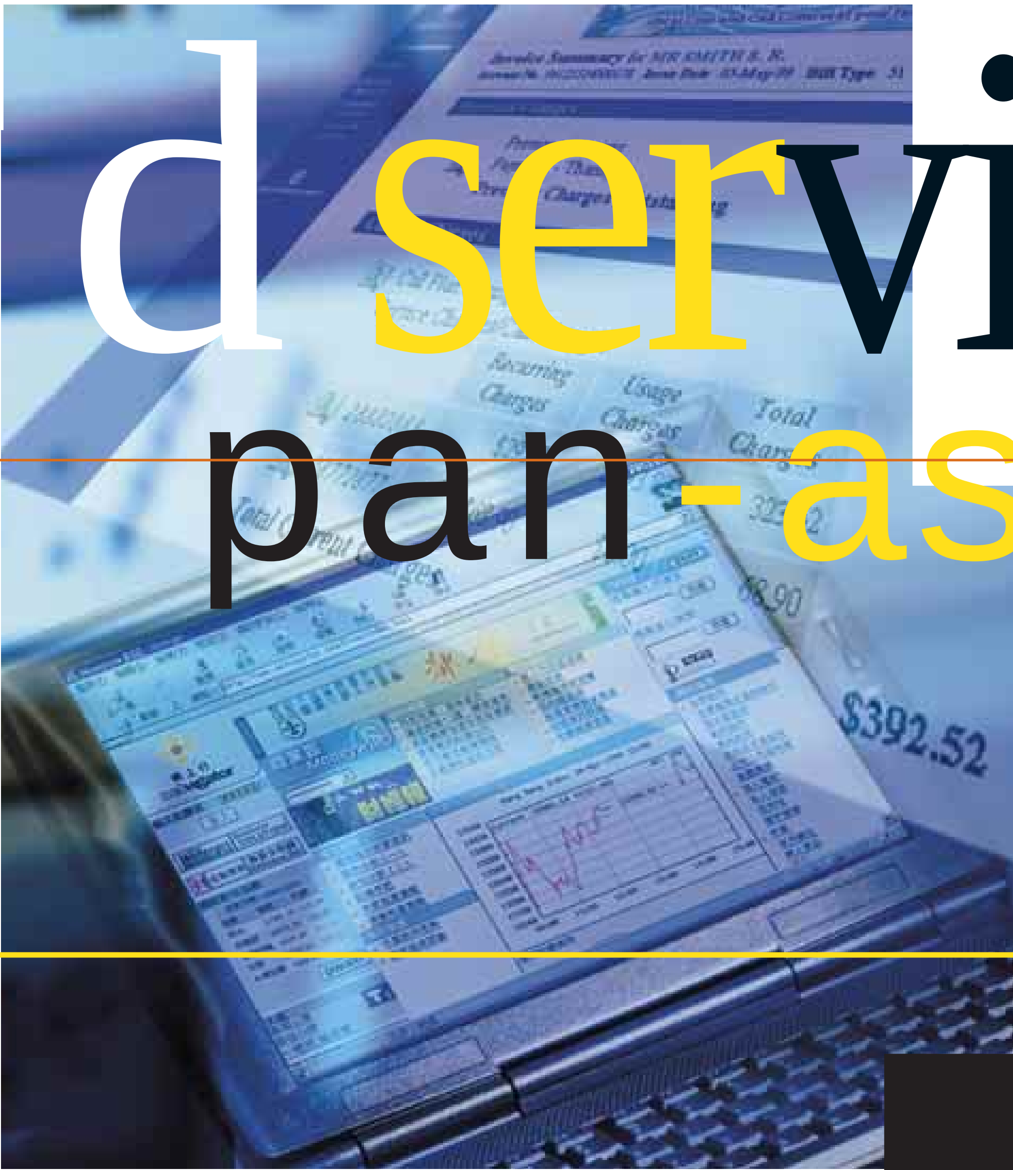
Portal/Contents: in April 1999, our *www.netvigator.com* website was re-launched as a Chinese portal, or Internet gateway. We introduced enhanced features, such as Chinese language search engines and free web-based e-mail as well as comprehensive entertainment and financial information. This development is expected to stimulate growth in Internet traffic between Hong Kong and Chinese-speaking users all over the world. This in turn will bring new advertising opportunities and is critical to the future success of the Company's business-to-consumer e-commerce initiatives.

Our *www.netvigator.com* portal has more than 7,000 webpages of Chinese-language contents and receives over 1,500,000 page views every day. The portal contents will be enhanced for specific markets as we expand our presence in the Asia region. We are also working on portals for business sectors, developing bilingual services, unique Hong Kong- and China-related contents, as well as video-based broadband contents and applications.

Education: given the importance of the Internet for Hong Kong's future as a leading financial, trading and commercial centre in Asia, we are working closely with the Hong Kong SAR Government's Education Department to promote the use of the Internet and help train a local pool of talent in Internet technology. We intend to connect over 70 per cent of secondary schools in Hong Kong with Intranet/Extranet during 1999. We are also working closely with partners such as the Vocational Training Council in developing Internet education programmes for Hong Kong's working population.

Dedicated line Internet access customers





We expect that by 2001 Internet usage in Hong Kong will be greater than that of the mobile phone today. Individuals will be able to access and use the Internet whether at work, school, home or on the move.

Broadband Services

Information technology (IT) is the key to the continued success of Hong Kong as an attractive, modern and competitive service centre. The creation by the Hong Kong Government of a Commission on Innovation and Technology underscores this point. Cable & Wireless HKT is very much a partner in the ongoing development of Hong Kong as an international IT and Internet centre.

Cable & Wireless HKT has invested in the world's largest asynchronous transfer mode (ATM) broadband network and has extended coverage during the year to now reach more than 75 per cent of Hong Kong's households and the major business areas. The high-speed configuration is specifically designed for the transmission of video-streaming services such as the Company's interactive television (iTV) services and can also deliver Internet, data and voice services.

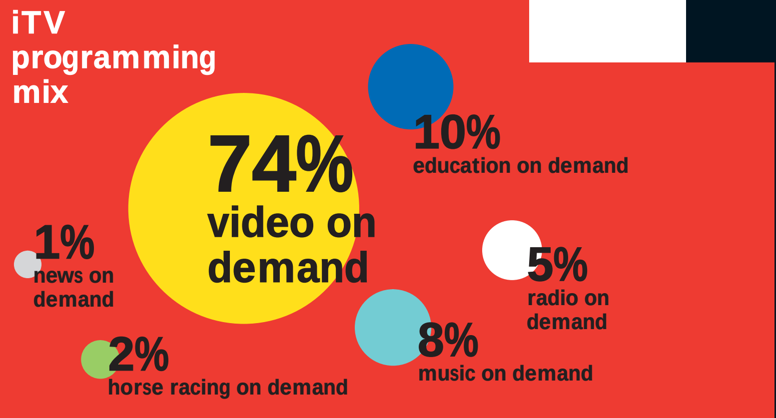
Cable & Wireless HKT's world-leading iTV services, launched in March 1998, have been further extended during the year to include extensive educational contents and a greater selection of international and first-run local movies. Total programming now exceeds 1,100 hours and with new pricing packages and promotional activities the iTV customer base has grown to more than 88,000.

iTV now includes an extensive range of on-demand services: news, education, financial information, videos, music, karaoke, horse-racing information, home shopping and home banking. The Company also launched NETVIGATOR 1.5M Ultra Line in May 1998 to meet growing user demand for high-speed Internet access.

Education and training are key areas of development and we have programmes tailored for the needs of different audiences and their interests. For example, the iMBA post-graduate degree programme was launched earlier this year in partnership with City University of Hong Kong. The delivery mode, utilising iTV, NETVIGATOR 1.5M Ultra Line high-speed Internet access and

broad

world lead



on-campus activities, is a good example of integrating different media to address the unique learning requirements of participants.

The recent review of broadcasting regulations by the Hong Kong SAR Government means that more pay-TV licences will become available, giving greater scope for expanding our iTV portfolio to include digital television services.

iTV forms only one part of our broadband strategy. **The broadband network will be the platform for the launch of new high-speed multimedia and secure e-commerce applications.** In March 1999, Cable & Wireless HKT and Microsoft Corporation announced a strategic co-operation to develop a range of multimedia applications to be delivered to personal computers and televisions via the Cable & Wireless HKT broadband network utilising Microsoft software. The companies are currently conducting internal trials of a package of consumer-oriented services including video on demand, voice-over Internet Protocol (IP), software on demand, on-line news and network games.

Concurrently with this initiative we are developing new services targeted at the business market. We view e-commerce as having enormous potential for the future, not only in Hong Kong but in the Asia region as a whole, using Cable & Wireless HKT's outstanding international and local networks.

We are extending our capabilities in this area to ensure businesses can enjoy a secure platform to develop e-commerce applications. A Memorandum of Understanding was recently signed with Hongkong Post under which Cable & Wireless HKT will become Hongkong Post's first Certificate Authority registry to receive and verify Electronic Certificate applicants' information.

We are also working with various sectors, such as trading, stockbroking and other business groups, to develop industry-specific Intranet and Extranet solutions. We will use *www.netvigator.com* and the corporate website *www.cwhkt.com* to showcase our e-commerce capabilities.

We will invest a further $500 million during 1999 in our world-leading broadband network to extend coverage to at least 80 per cent of Hong Kong's households by the Year 2000.

Customer Service

Nothing has been more important in our drive for leadership in integrated communications than the quality of our service.

Last year the Company again exceeded its performance targets for voice, data and fax installation and restoration. Customer complaints over our local fixed line services decreased by 40 per cent from the previous year, while customer compliments rose. We improved the quality of service on all our customer hotlines. We also rolled out innovative call management solutions for business customers, as well as electronic billing facilities.

We have continued our overall drive to provide the best customer service in the Asia region. During the year we completed a comprehensive customer survey to identify key needs and drivers of the market. In response to the findings, and in parallel with ongoing product and service development, we introduced new competitive packages. We also implemented additional automation on our Customer Services Hotline – 1000.

Our service performance standards were recognised internationally when our MemberNet Service – an interactive Internet-based customer service platform – was nominated to compete in the world-renowned *Computerworld* Smithsonian Awards for business.

Another top international award came recently from *Data Communications*, a major US-based industry magazine, which cited our Company as 'standing out from the rest in delivering good value for money' for our frame relay service and 'the best performer in the Asia-Pacific region' for our international leased circuits service.

The Number One Partners programme continues to recognise our customers' loyalty by offering members a range of exclusive privileges, benefits and services. These include a 24-hour Member Services Hotline, free 'Asia Miles' and many value-added services. More details can be found on our website: *www.cwhkt.com/no1*

Cable & Wireless HKT holds over 30 ISO9000-series quality awards – more than any other company in Hong Kong, and one more indication of our commitment to providing top quality products and services.

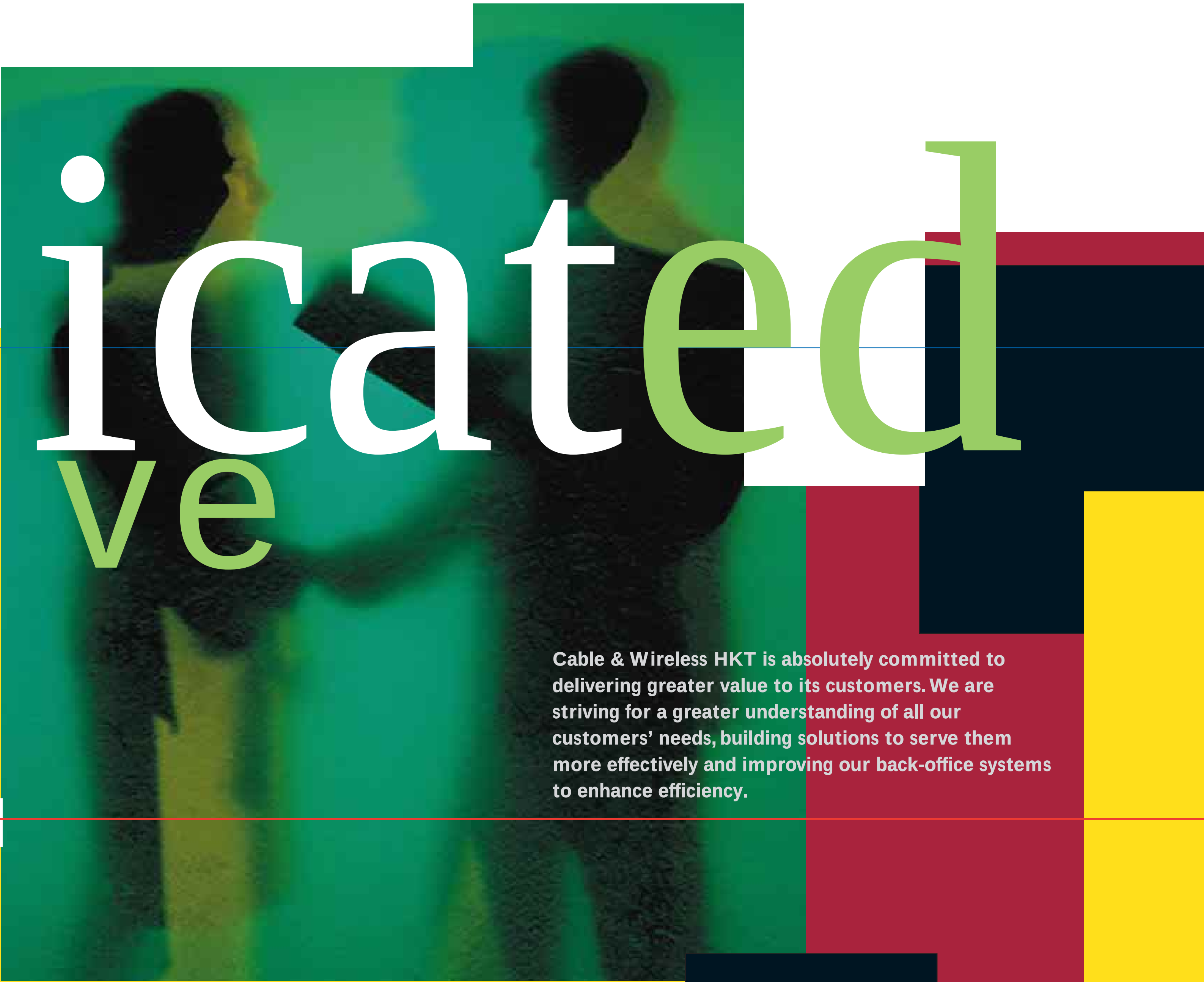
Quality service is vital to maintaining Hong Kong as a major international communications hub. We have enhanced our service commitment through continuous staff development and training and last year we introduced a performance bonus scheme for all managers. Our Customer Front Offices now act as virtual one-stop, high-quality shops for Cable & Wireless HKT.

Developing our People

Career development and on-line training for staff are crucial to improving customer service. As Cable & Wireless HKT harnesses the Internet to achieve its vision for customers we have embarked on an ambitious transformation of staff capability through training in Internet technology, application and design. Programmes include the development of internal trainee schemes in Internet technology, use of Intranet and Internet for self-access learning and a road-map of comprehensive training in relevant skills and knowledge. Training partnerships with external vendors and institutions ensure that we are investing in the development of leading-edge skills and knowledge, while systematic project work and experience-sharing accelerate the transfer and application of those skills for the benefit of our customers.

During the year we continued to identify and advance high-potential staff through conference participation, career management and training programmes.

Performance-related pay has been applied across the entire organisation and in January 1999 a share option scheme was introduced which will enable all employees to become shareholders in the Company. We shall continue to focus on improving productivity and encouraging excellence.



Cable & Wireless HKT is absolutely committed to delivering greater value to its customers. We are striving for a greater understanding of all our customers' needs, building solutions to serve them more effectively and improving our back-office systems to enhance efficiency.

Financial Review

Management Discussion and Analysis

During the financial year ended 31 March 1999 the Company continued to reshape its business in recognition of global developments in liberalisation, rapidly changing technology and an increasingly competitive market.

In anticipation of the significant changes in its operating environment, the Company rapidly progressed with its development plans focused on programmes of *rebalancing* to reduce reliance on international telephone services, *growth* through investments in value-added services, data, Internet and interactive multimedia services and *efficiency* to maintain its competitiveness.

The Company differentiates its products and services through a focus on excellent quality of service, innovation and increasingly an integrated service portfolio.

Against the background of the weak economic environment in Hong Kong and intense price competition in international and mobile services, this approach has been effective in containing the decline in profit and maintaining returns to shareholders in the last financial year.

Performance Highlights

- Turnover declined 7.5 per cent over last year reflecting the impact of the economic downturn in Hong Kong and Asia and intense price competition, particularly in international telephone and mobile services.

Financial summary

	1999 $ million	Change %	1998 $ million	1997 $ million
Turnover	**32,411**	-7.5	35,041	32,578
International telecommunications	15,564	-17.7	18,910	19,392
Local telecommunications	9,401	5.8	8,886	7,661
Mobile services	5,824	-2.9	5,996	4,659
Internet and interactive multimedia services	626	145.8	255	67
Technical and other services	996	0.2	994	799
Operating costs	**20,573**	-5.6	21,790	20,375
Allocations to other telecommunications operators	6,403	-23.7	8,394	8,644
Salaries and related costs	4,113	2.2	4,025	3,917
Depreciation	2,964	21.3	2,443	2,190
Other costs	7,093	2.4	6,928	5,624
Operating profit	**11,838**	-10.7	13,251	12,203
Net interest and other income	**1,304**	22.6	1,064	706
Profit before tax				
Before exceptional items	**13,142**	-8.2	14,315	12,909
After exceptional items	**13,142**	-30.4	18,873	12,909
Profit attributable to shareholders				
Before exceptional items	**11,507**	-7.7	12,470	11,178
After exceptional items	**11,507**	-32.4	17,028	11,178
Capital expenditure	**4,903**	-15.1	5,775	5,026

- A decline in revenues from international telephone services (IDD) of 22 per cent was partially offset by a 24 per cent reduction in related costs.

- Excluding revenues from international telephone services, the Company's turnover grew by 5.3 per cent this year. The Company's non-IDD services now represent some 60 per cent of total revenues.

- The Company's efficiency programmes yielded further benefit during the year through cost reductions and productivity improvements. Overall operating costs fell 5.6 per cent.

- Despite intense price competition in mobile and IDD services, the margin for Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA) was increased to 45.7 per cent, while operating margin narrowed slightly to 36.5 per cent.

- Total dividends were maintained at 85.2 cents per share for the financial year.

Turnover

To better reflect the significant changes in the Company's markets and to provide greater transparency to the development of the business, revenues have been reclassified this year into five new categories: international telecommunications services, local telecommunications services, mobile services, Internet and interactive multimedia services, and technical and other services.

International telecommunications services

Revenues declined 17.7 per cent to $15,564 million (1998: $18,910 million).

This category includes revenues from international telephone and data services as well as international network services.

The most significant change during the year was the introduction of International Simple Resale (ISR) on 1 January 1999. ISR enables the Company's competitors to by-pass the international accounting rate system for certain routes and deliver traffic through international circuit capacity leased from the Company. The majority of competitors' non-China traffic is now carried through leased circuits under ISR, and callback services have essentially been discontinued.

The overall market for international traffic declined throughout 1998 primarily due to the economic downturn. The introduction of voice ISR led to significant price reductions in the market and this stimulated growth in traffic for the total market during the first three months of 1999, although margins on this traffic were generally lower. The Company's total both-way international gateway traffic volumes fell by some 9 per cent year-on-year.

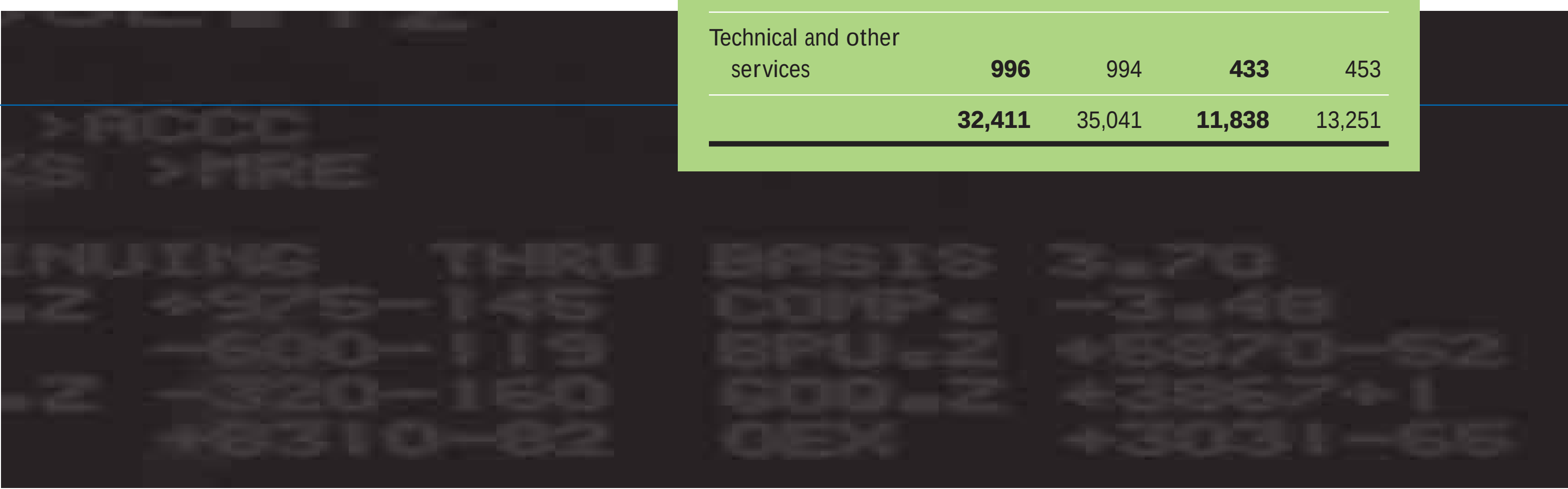
International leased circuit revenues increased 18 per cent, driven by growth in Internet, data and voice ISR traffic.

Revenues from international telephone services (IDD) were 22 per cent lower as competitors moved their traffic to ISR circuits and the Company reduced its international call rates in the last quarter in response to an increasingly price-competitive market.

Analysis of turnover and operating profit

For the year ended 31 March

	Turnover		Operating profit	
	1999 $ million	1998 $ million	**1999 $ million**	1998 $ million
Telecommunications services	**31,415**	34,047	**11,405**	12,798
Technical and other services	**996**	994	**433**	453
	32,411	35,041	**11,838**	13,251



In preparation for the market changes, such as ISR and its expected effect on traffic flows, the Company's international delivery costs were reduced substantially through negotiating significantly reduced accounting rates with overseas correspondent carriers. This gives the Company a highly competitive cost base as a wholesale carrier of international voice, data and Internet traffic.

Hong Kong has some of the lowest IDD rates in the world. The Company has built on this position to offer a range of highly competitive services to both business and residential customers underpinned by guaranteed quality and specially tailored price and service packages.

Local telecommunications services

Revenues increased 5.8 per cent to $9,401 million (1998: $8,886 million).

This category includes revenues from local telephone and value-added services, data and network services and non-mobile equipment sales and rental.

The economic downturn in Hong Kong has reduced the growth of local line connections. The number of business lines contracted by 1 per cent during the year, but this was offset by 2 per cent growth in residential lines, for an overall line growth of 1 per cent.

The Company's new range of value-added local line services have proved very popular with customers and this is driving increased revenue per line. For example, take-up of HomeSelect increased 137 per cent to 259,000 customers, and Caller Display services grew by 60 per cent to 394,000 customers.

The Company is servicing a growing proportion of corporate customers with total Internet-based solutions and is the clear leader in Hong Kong in the provision of local and international Internet backbone services to other Internet service providers.
A competitive service underpinned by high quality, managed end-to-end links to businesses and other telecommunications service providers helped to increase revenues from local data and network services by 11 per cent.

Local equipment sales were up 30 per cent, principally driven by sales of computer and network products packaged with Internet access services and managed network solutions.

The significant changes in the international market mean that local services can no longer be provided by the Company at below cost. This has been agreed with the Hong Kong SAR Government as part of the international licence settlement as it will help support continued investment in advanced local network services for the people and businesses of Hong Kong under a competitive environment. However, the Company has delayed the increase in local tariffs recognising the difficult economic conditions faced by its customers.

Mobile services

Revenues declined 2.9 per cent to $5,824 million (1998: $5,996 million).

This category includes revenues from mobile operational services and handset sales.

The Company's mobile business has delivered a solid performance. Significant price competition has stimulated growth in the overall market while the number of customers switching networks has increased, particularly since the introduction of mobile number portability from 1 March 1999.

The Company has focused on retention and growth in its customer base through provision of loyalty packages and innovative

Rebalancing the revenue portfolio

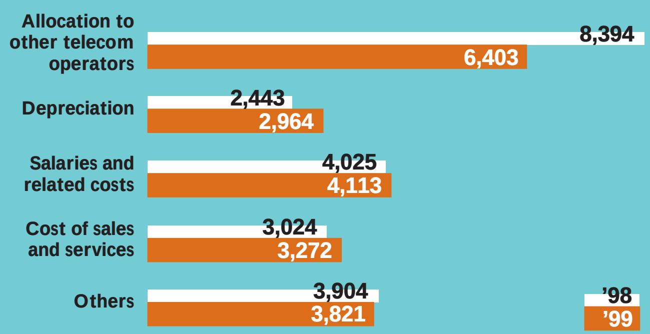
$ million

Excluding IDD, FY99 Revenues Grew 5.3 per cent
- International leased circuits
- Local telecommunications
- Mobile
- Internet and IMS
- Technical and others

= 60 per cent of total revenues

Analysis of operating costs

$ million



value-added services. This approach has supported strong gross connections and contained customer churn at an average of 3 per cent per month for the last financial year, one of the lowest levels in the market. The Company's customer base grew to 948,000 customers, up 10 per cent year-on-year, and this helped to increase revenues from mobile operational services.

While mobile handset sales volumes were strong throughout the period under review, mobile equipment sales revenue fell by some 40 per cent. Average selling prices were lower by some 60 per cent due to a higher proportion of lower-priced models sold and the increased subsidies on handset prices offered as part of the Company's marketing programmes to attract and retain customers.

Internet and interactive multimedia services (IMS)

Revenues grew 145.8 per cent to $626 million (1998: $255 million).

This category includes revenues from subscription and usage charges for the Company's Internet access and interactive television services and associated advertising and transaction revenues.

Hong Kong's Internet market has grown strongly during the year. The Company has expanded its lead in the dial-up market by acquiring the business of the second-placed operator, Hong Kong Star Internet, which brought some 80,000 customers in December 1998. Combined with 46 per cent growth in NETVIGATOR dial-up customers and the connection of some 11,000 broadband Internet customers during the year, the customer base has risen to some 322,000. Dial-up customers spent almost 55 million hours on-line during the year, up 147 per cent and representing some 57 per cent of total dial-up Internet traffic in Hong Kong.

The Company has expanded into the Asia region, acquiring 85 per cent of FIC Network Service, an Internet service provider in Taiwan with some 42,000 dial-up customers and a number of valuable corporate customers.

The Company's world-leading interactive television services (iTV) were launched in March 1998 and the Company now has some 88,000 customers. During the year, the iTV services have been further enhanced with new contents and applications. The Company experienced some initial problems with the services which led to high customer churn. However, these issues were resolved quickly and the introduction of revised pricing packages and promotional activities has been successful in reducing customer churn and improving the average revenue per customer.

Technical and other services

Revenues grew 0.2 per cent to $996 million (1998: $994 million).

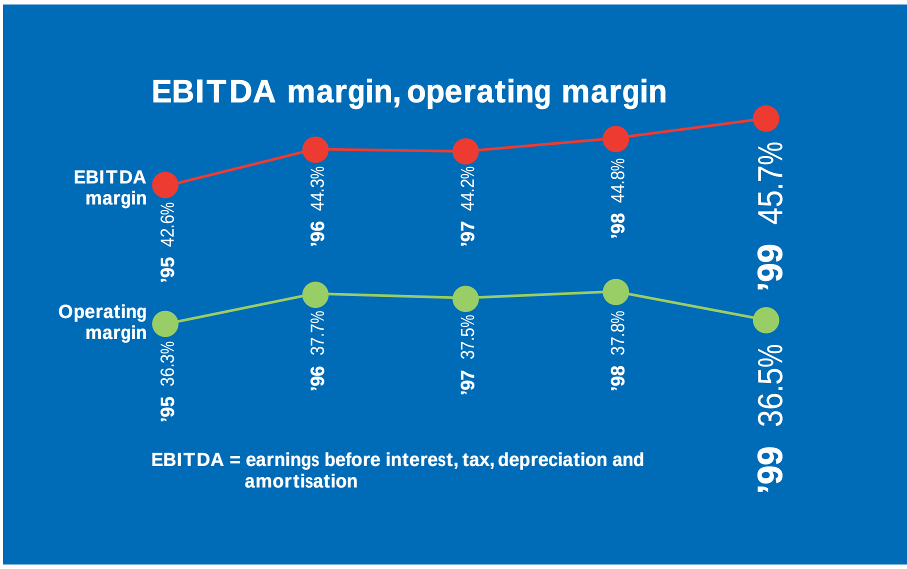
This category includes revenues derived by the Company's non-telecommunications activities.

The Company has continued to provide technical expertise to the Hong Kong SAR Government, has grown revenues from investment properties and commenced operation of a new regional call centre business. Directory advertising revenues declined during the year, principally due to the economic downturn.

Operating Costs

Building a competitive cost base remains a critical programme. Overall operating costs were reduced by 5.6 per cent to $20,573 million this year.

With lower international traffic volumes, substantially reduced accounting rates, together with changes to the structure of delivery fees, payments made to other telecommunications operators were reduced by 24 per cent year-on-year. In addition, the Company is no longer required to make royalty payments to the Hong Kong SAR Government based on revenues from international telephone services.



Growth in staff costs was contained at 2 per cent and the total amount of $4,113 million includes $114 million relating to redundancy costs incurred during the period. Performance-related pay has been applied across the entire organisation. In January 1999 a share option scheme was introduced which will enable all employees to become shareholders in the Company.

Depreciation charges have risen this year primarily as a result of investments made to enhance the Company's mobile network, the acquisition of Pacific Link in January 1998, the roll-out of the broadband network and commencement of operations of iTV.

Costs of sales and services have increased, principally as a result of higher sales of mobile handsets and the inclusion of costs relating to the new arrangements that commenced during the year with Cable and Wireless plc for the provision of telecommunications services to global customers through Cable & Wireless Global Markets (CWGM). Management fees payable to Cable and Wireless plc were lower this year as a result of the CWGM arrangement.

Other operating costs rose due to the increased scale of the Company's mobile network and operations, and the amortisation of programme costs for iTV.

Capital Expenditure

Capital expenditure for the year amounted to $4,903 million, and principally comprised investments in the local and international networks to meet increased demand, expansion of the mobile networks, roll-out of the broadband network, enhancements to the iTV service and set-top boxes to support iTV customer growth.

Finance

Cash management

Net interest increased by 24 per cent year-on-year to $1,236 million. At 31 March 1999 the Group had cash, bank deposits and short-term interest bearing notes of $17,240 million. The overall cash balance increased during the year with the receipt on 30 June 1998 of the second and final payment from the Hong Kong SAR Government in respect of the agreement to surrender the Company's exclusive international licence. Outstanding borrowings were $2,088 million.

Financial policies

The Group's principal financial objective is to maximise long-term cashflows resulting in an increase in the total returns to shareholders.

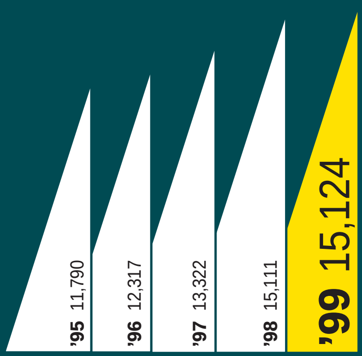
The investment of our surplus cash is managed on a conservative basis. Investment of surplus funds is restricted to institutions with a high credit rating and funds are invested with a maximum duration of one year to maintain an optimal level of liquidity.

In addition to its strong cash position, the Company has in place committed funding lines of $4,000 million, and uncommitted lines of $6,710 million to provide on-call capability to meet future capital expenditure and investment programmes. The Company had utilised $2,021 million of these facilities as at 31 March 1999.

The established funding facilities are more than adequate for near-term requirements. With such a strong balance sheet, the Group is extremely well placed to access capital markets should there be substantial funding requirements in future.

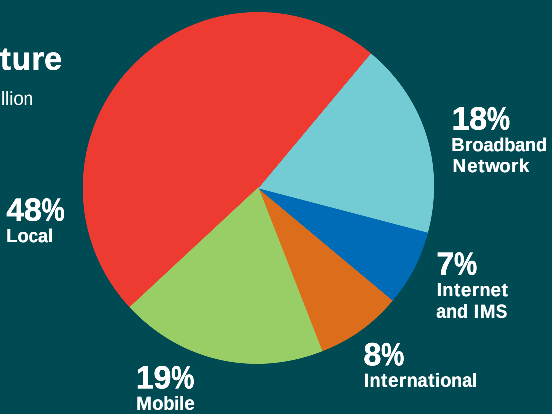
Net cash flow from operating activities

$ million



Capital expenditure

Total: $4,903 million



Treasury risk arises from foreign currency transactions and interest rate risk from cash investments and borrowings. The Group's treasury risk management activities are carried out in accordance with Board approved policies and authorities. Treasury procedures and guidelines are reviewed on a regular basis. As a matter of policy, we continue to manage currency or interest rate risks associated with the transactions directly related to our operations.

The Group continues to review its capital structure taking into account new investment opportunities, long- and short-term funding requirements, and known contingency needs. This is with a view to achieving capital efficiency and maximising shareholder value. We are aware of the necessity to utilise the Group's surplus cash in a prudent and timely manner to meet shareholders' expectations. We are actively reviewing investment opportunities where we believe our telecommunications experience and resources can enhance shareholder value.

Regulatory Developments

The Company has supported the growth of Hong Kong's telecommunications industry through significant investment in local and international communications infrastructure and the development of advanced products and services. In addition, the Company has facilitated competition in the local and international communications markets through commercial agreements for network interconnection and facilities sharing including the provision of unbundled local loops.

A major development during the year was the introduction of voice ISR with effect from 1 January 1999. Competing local and global operators are now able to resell the Company's international leased circuit capacity for the provision of voice, fax and data services. More than 90 operators have been licensed as external service providers, and it is anticipated that price competition in the provision of IDD services will continue to be intense in the future. The Company has therefore applied to Hong Kong's Telecommunications Authority for a declaration that it is no longer dominant in the provision of IDD services. If granted, this will provide greater pricing flexibility to the Company.

Mobile competition has also increased, with significant pressure on pricing and increased customer churn rates in the market. Number portability, which has been supported by the Company in the fixed line market since 1996, was introduced for mobile telephone services with effect from 1 March 1999, thus adding to the competitive intensity of Hong Kong's mobile market.

The Hong Kong SAR Government concluded its Review of Fixed Telecommunications in early May 1999, after a six-month delay in reaching final decisions. The Government announced that no further local fixed line licences would be issued before 1 January 2003, so long as satisfactory investment commitments were received by 30 June 1999 from the other three existing licensees (Hutchison Communications (Hong Kong) Ltd, New T&T Hong Kong Ltd and New World Telephone Ltd). In addition, the local pay-television operator (Hong Kong Cable Television Ltd) will be allowed to provide telecommunications services over its network and applications will be invited for non-wireline-based local networks within 1999.

The Hong Kong SAR Government stated that it will invite applications for licences for the operation of international telecommunications facilities from 1 January 2000 for satellite providers and for those operators who invest in new overland or submarine cables to external locations. Operators who simply lease capacity in such systems may not apply for facilities licences until 2003.

Outlook

Hong Kong's economy remains comparatively weak. In addition, price competition in both international and mobile services is very aggressive. From 1 January 2000 full international facilities competition will be introduced. Hong Kong has become one of the most liberalised telecommunications markets in the world and the Company faces intense competition from both local and global operators. The combination of all these factors is likely to present further significant challenges for the Company and the trends of the final six months of the last financial year are expected to continue during the year ahead.

Corporate Governance

The Company has an established independent Risk Management unit to assist management in reviewing and assessing the adequacy and effectiveness of internal controls to safeguard the Group's assets, secure the accuracy and reliability of its records and promote efficiency of operations. Dedicated functions within Risk Management include internal audit, revenue assurance and integrity, corporate security and fraud management, and information and network systems security.

Risk Management provides assistance and coordination of activities with the Group's external auditors to provide effective audit coverage and its reports and recommendations are reviewed by the Audit Committee of the Board.

The Audit Committee was constituted in May 1994 and its authority and duties are set out in written terms of reference which are consistent with those recommended by the Hong Kong Society of Accountants. The Audit Committee comprises all Non-Executive Directors and meets at least four times a year to review, among other things, the Company's financial statements, its internal financial reporting processes and controls, and the work programme and activities of the Company's internal Risk Management unit.
The Committee meets regularly with, and reviews and receives reports from, the Company's external auditors and management. The Audit Committee also oversees the Company's Millennium Compliance Programme, and undertakes regular reviews of the progress of this programme.

Year 2000

The Company adopts the Year 2000 conformity requirements issued by the British Standards Institute as its definition of Year 2000 compliance. The Company's business is highly dependent upon computer systems and the Company is taking appropriate action to mitigate the risks associated with the millennium issue. The Company's Millennium Compliance Programme was initiated in mid-1996 to ensure that all the Company's computer systems and applications function properly during the transition to the Year 2000 and beyond, to monitor the compliance status of products and services supplied to the Company by third parties, and to ensure that the Company is not exposed to excessive liability as a result of non-compliance. In particular, the Company is working closely with foreign telecommunications operators with which it has correspondent relationships in order to monitor their state of readiness for the Year 2000 and to carry out end-to-end system testing as appropriate. Continuity planning for international telecommunications carriers is also being addressed within the International Telecommunication Union.

In accordance with the Company's Millennium Compliance Programme, substantially all the Company's systems were Year 2000 compliant by 31 March 1999. The Company is now developing contingency plans to ensure continuity of the Company's business in the event of failure of the systems of other carriers with which the Company interconnects. The Company's Risk Management unit and the Audit Committee of the Board undertake regular reviews of the progress of this programme.

The costs incurred in modifying the necessary systems for the Year 2000 are expensed as incurred. The costs incurred in acquiring Year 2000 compliant equipment and software are capitalised. The total project cost, including the replacement of non-compliant systems, is estimated to be $164 million. $132 million has already been incurred and the costs to be incurred in the next 12 months are estimated to amount to $32 million, of which $4 million had been authorised but not yet contracted for as at 31 March 1999. No amounts have been contracted for but not provided in the financial statements as at 31 March 1999.

Environmental Protection

Environmental care is given high priority by Cable & Wireless HKT. As part of this commitment, the Company aims to exemplify best practice and to develop our environmental programme for improved performance in line with the principles established by the international environment management standard authorities.

To deal with waste reduction in the business sector the Company is leading the promotion of e-commerce in Hong Kong's Private Sector Committee on the Environment. We also participate in the Hong Kong General Chamber of Commerce Environment Committee. The promotion of electronic payments (autopay) as a means to encourage paperless trading is another of our environmentally friendly initiatives.

As one of the objectives of our Environment Policy we continue to support material recycling instead of disposing of waste in landfills. Our recycling programmes handled 600 tonnes of paper last year, 700 tonnes of copper cable and 5,000 units of toner cartridge. Around 80,000 mobile phones were recycled in 1998.

Cable & Wireless HKT has a free environmental hotline **(90000-22-2142)** open to the public, the contents of which are prepared in turn by different environmental groups and government departments.

Supporting our Community

Cable & Wireless HKT continues to play an active role in initiatives to support the local community.

In July 1998 we donated the contents of our Telecom World exhibition to Hong Kong's Provisional Urban Council. These diverse communications and IT exhibits will soon be made accessible to visitors to the Hong Kong Science Museum. We have also organised seminars, exhibitions and sponsorship programmes for IT education in the community.

During the year we extended the service scope of Our Care for the Elderly Line, originally named 'A Line A Day', to include deprived elderly couples. Donation hotlines for charity fund-raising and Infolines for community education and government campaigns were contributed to charitable organisations and the Hong Kong SAR Government.

We also established our Athletes' Enhancement Programme to fund educational and job orientation schemes for outstanding athletes. The Company's Go! Sport programme received an award of merit under the category 'Best Development Programme Sponsorship' from the Hong Kong Sports Development Board in recognition of the outstanding contribution of Cable & Wireless HKT over the past five years.

As a good corporate citizen we continued to participate actively in The Community Chest projects in Hong Kong. Last year, we received the platinum award in the Corporate and Employee Contribution Programme, the second-top fundraising award in the Employee Contribution Programme, and two other highest donation awards from The Community Chest.

Board of Directors

Sir Brian Smith* CBE
Non-Executive Chairman

Sir Brian Smith, 70, has been a Director of Cable & Wireless HKT since 1995, serving as Chairman from 1995 until 1997, and reappointed to the position in 1998. He was a Director of Cable and Wireless plc from 1988 until 1998, and Chairman of Cable and Wireless plc from 1995 until 1998. He is Non-Executive Chairman of Hydron Limited and was formerly Non-Executive Chairman of BAA plc.

Linus W L Cheung JP
Chief Executive

Linus Cheung Wing Lam, 50, was appointed Chief Executive and a Director of Cable & Wireless HKT in March 1994, and an Executive Director of Cable and Wireless plc in January 1995. He has overall responsibility for Cable & Wireless HKT and Cable & Wireless operations in Greater China, Taiwan and Macau. Mr Cheung is very active in community work and is presently Chairman of the University of Hong Kong's Management Board of the School of Business.

Dr The Hon David K P Li* OBE, JP
Non-Executive Deputy Chairman

Dr David Li, 60, has been Non-Executive Deputy Chairman since December 1987. He is also Chairman and Chief Executive of the Bank of East Asia and represents the Finance Constituency in the Legislative Council of the HKSAR. 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.

Roy A Wilson
Executive Director

Roy Wilson, 56, became an Executive Director in March 1997. He is responsible for all Sales, Marketing, Customer Service and Network functions. In addition, he directs the Company's customer service plans throughout all lines of business. Mr Wilson is the former Vice-President and General Manager of Sprint North Central Operations in the USA and previously worked with AT&T International.

David N Prince
Deputy Chief Executive and Finance Director

David Prince, 47, has been Finance Director of Cable & Wireless HKT since 1994 and was appointed a Deputy Chief Executive in January 1999. He is also a Director of most Cable & Wireless HKT subsidiary companies. He is responsible for overall financial, legal, procurement and property functions, and is the key interface with investors and analysts.

Norman K T Yuen JP
Deputy Chief Executive

Norman Yuen Kee Tong, 50, was appointed a Director in 1993 and named Deputy Chief Executive in 1995. He is responsible for strategic planning and local business development in e-commerce, Internet and broadband applications, mobile, product management, information technology and regulatory affairs. He serves on several Government advisory committees, including the Immigration Tribunal, the Information Infrastructure Advisory Committee and the Trade Development Council.

Back row (from left): Roy Wilson and Allen Ma
Front row (from left): David Prince, Norman Yuen and Alistair Grieve

Allen K S Ma
Executive Director

Allen Ma Kam Sing, 46, was appointed to the Board in May 1999. He joined Cable & Wireless HKT in 1974 and became Chief Executive Officer of Hong Kong Telecom IMS Limited in September 1998. He is responsible for interactive TV, Internet and multimedia services. Previously he was Managing Director, Mobile Services of Hong Kong Telecom CSL Limited from 1996 until 1998.

Alistair R Grieve
Deputy Chief Executive

Alistair Grieve, 44, was appointed a Director and Deputy Chief Executive in November 1995. He is responsible for international business, international network operations, overseas business development, interconnection with other carriers in Hong Kong and C&W Teleservices. Mr Grieve originally joined Cable & Wireless in 1976, and has worked for the Group in the Middle East, the UK, the USA and Japan.

Dr The Hon S Y Chung*
GBM, GBE, JP
Non-Executive Director

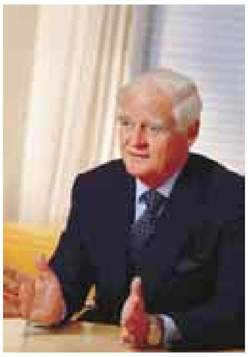
Dr S Y Chung, 81, has served as a Non-Executive Director of the Company since 1988. A former Senior Member of the Legislative and Executive Councils, he continues to lead a distinguished life of public service. He was a member of the Preparatory Committee for the formation of the HKSAR and in January 1997 was appointed Convenor of the HKSAR Executive Council.

Rodney J Olsen*
Non-Executive Director

Rodney Olsen, 53, has been a Non-Executive Director of Cable & Wireless HKT since 1987, having served as a Director of Cable and Wireless plc from 1986 until 1999. He was appointed Deputy Chief Executive of Cable and Wireless plc, and Chairman of the Asia Pacific Development Board in 1996.

Dr Victor K K Fung* CBE
Non-Executive Director

Dr Victor Fung, 53, has served as a Non-Executive Director of Cable & Wireless HKT for six years. He is Chairman of Prudential Asia, the Hong Kong Trade Development Council and the Li & Fung Group, a leading Hong Kong-based regional trading company. In 1995, Dr Fung was appointed Hong Kong Representative on the APEC Business Advisory Council. He was appointed Chairman of the Hong Kong Airport Authority with effect from June 1999.

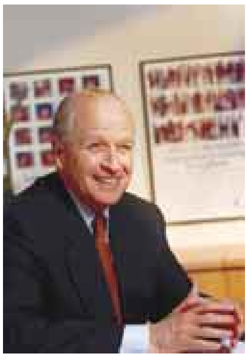


Sir Ralph H Robins*
Non-Executive Director

Sir Ralph Robins, 66, has been a Non-Executive Director of Cable & Wireless HKT since 1998. He was appointed Chairman of Cable and Wireless plc in 1998, having served as a Non-Executive Director since 1994. He is also Chairman of Rolls-Royce plc. Sir Ralph is also Chairman of the Defence Industries Council and a former President of the Society of British Aerospace Companies.

Robert E Lerwill*
Non-Executive Director

Robert Lerwill, 47, was appointed to the Board in March 1997, having joined Cable and Wireless plc as Executive Director, Finance in January 1997. He was formerly Group Finance Director of WPP Group plc, the worldwide marketing services group. He also worked for Arthur Andersen & Co. for 10 years, specialising in corporate finance functions including stock exchange flotations and acquisitions. Mr Lerwill is also a Director of Cable & Wireless Communications plc and Cable & Wireless Optus Limited.



The Hon Raymond G H Seitz*
Non-Executive Director

Raymond Seitz, 58, was appointed a Non-Executive Director of Cable & Wireless HKT in 1997. He became a Board member of Cable and Wireless plc in 1995. He is currently Vice-Chairman of Lehman Brothers, and is a former US Ambassador to the UK from 1991-94. Previously, he was US Assistant Secretary of State for Europe from 1989-91 and Minister at the US Embassy in London from 1984-89.

Li Ping*
Non-Executive Director

Li Ping, 45, was appointed a Non-Executive Director of Cable & Wireless HKT in October 1997. He is Vice-Chairman, Executive Vice-President and Chief Operating Officer of China Telecom (Hong Kong) Limited. With over 20 years' operational and management experience in telecommunications, Mr Li was previously Deputy Director General of the Directorate General of Telecommunications and the Heilongjiang PTA.

Graham M Wallace*
Non-Executive Director

Graham Wallace, 50, was appointed a Non-Executive Director of Cable & Wireless HKT in 1999. He was also appointed Chief Executive of Cable and Wireless plc in the same year, having been Chief Executive of Cable & Wireless Communications plc since 1997.

* Members of the Audit Committee

Directors' Report

The Directors present their Report, together with the financial statements, for the year ended 31 March 1999.

Principal Activities

The principal activities of the Company and its subsidiaries ("the Group"), which were carried out mainly in Hong Kong, continued to be the provision of international, local and mobile telecommunications services, Internet and interactive multimedia services, the sale and rental of telecommunications equipment, and the provision of computer, engineering and other technical services.

Results and Dividends

The profit of the Group for the year ended 31 March 1999 and the state of the Company's and the Group's affairs at that date are set out in the financial statements on pages 34 to 54. Profit attributable to shareholders for the year was $11,507 million. Analysis of turnover and operating profit is shown on page 21. An interim dividend of 38.6 cents per share was paid to shareholders on 31 December 1998 (with shareholders being given the option to elect to receive new shares in lieu of part or all of their cash entitlements). The Directors recommend a final dividend of 46.6 cents per share to be paid on or around 22 July 1999 to shareholders who are on the Register of Members of the Company at the close of business on 4 June 1999. Shareholders will again be offered a scrip alternative to the cash dividend.

Reserves

The Group's retained profit for the year was $1,322 million. Movements in its reserves during the year are set out in Note 20 to the financial statements.

Fixed Assets

Particulars of the movements in fixed assets are set out in Note 12 to the financial statements.

Share Capital

Particulars of the movements in share capital are set out in Note 19 to the financial statements.

Purchase, Sale or Redemption of Shares

During the year neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares.

Directors and their Interests

The present Directors of the Company are listed on pages 28 and 29. On 16 December 1998 Sir Brian Smith was appointed Chairman of the Company, in succession to Mr Richard H Brown who resigned from the Company with effect from 10 December 1998. Sir Ralph H Robins and Mr Graham M Wallace were appointed Directors with effect from 23 July 1998 and 4 March 1999 respectively. All other Directors served throughout the year. Mr Allen K S Ma was appointed a Director with effect from 7 May 1999.

In accordance with Article 105 of the Company's Articles of Association, Mr Rodney J Olsen, Dr David K P Li and Mr Robert E Lerwill will retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election. Sir Ralph H Robins, Mr Graham M Wallace and Mr Allen K S Ma will retire in accordance with Article 96 and, being eligible, offer themselves for re-election. No Director being proposed for re-election has a service contract with the Company which cannot be determined within one year without payment of non-statutory compensation.

The remuneration of Directors is shown in Note 5 to the financial statements.

No Director has, or had during the year, a material interest in any contract of significance to which the Company or any of its subsidiaries or its holding company or any subsidiary of such holding company is or was a party.

The following Directors had interests in the ordinary shares of the Company and of its associated companies (within the meaning of the Securities (Disclosure of Interests) Ordinance) at 31 March 1999 (or later date of appointment), as recorded in the register of share interests:

	Cable and Wireless plc			Hong Kong Telecommunications Limited		
	Personal Interests	Family Interests	Share Schemes (A)	Personal Interests	Other Interests	Share Options (B)
Sir Brian Smith	2,643	36,640	–	–	–	–
Dr The Hon D K P Li	–	–	–	3,660,853	–	–
Linus W L Cheung*	2,683	–	404,459	–	–	41,490
Alistair R Grieve*	10,835	–	103,074	–	–	22,040
Allen K S Ma* (appointed 7 May 1999)	–	–	53,000	–	–	16,790
David N Prince*	–	–	132,848	–	–	21,575
Roy A Wilson	10,636	1,200	97,275	1,030	–	16,250
Norman K T Yuen*	18,076	–	145,495	3,927	8,230 (C)	25,100
Dr The Hon S Y Chung	–	–	–	–	320,268 (D)	–
Dr Victor K K Fung	–	–	–	–	–	–
Robert E Lerwill	22,501	–	367,691	–	–	–
Li Ping	–	–	–	–	–	–
Rodney J Olsen* (E)	133,788	–	521,797	–	–	–
Sir Ralph H Robins	4,000	–	–	–	–	–
The Hon Raymond G H Seitz	2,548	–	–	–	–	–
Graham H Wallace	10,000	–	504,031	–	–	–

(A) Certain Directors were granted options and rights to acquire ordinary shares of Cable and Wireless plc ("Cable & Wireless") pursuant to the terms of the Cable & Wireless discretionary and savings related share option schemes, and the Cable & Wireless Long Term Incentive Plan. Directors marked * have acquired shares under these schemes during the year.

(B) Certain Directors were granted options to acquire ordinary shares of the Company pursuant to the terms of the Hongkong Telecom Employee Share Option Scheme, which was adopted by shareholders on 29 January 1999, at a price of $1 per share, exercisable during the period from 3 December 2001 to 31 December 2001.

(C) Family Interests.

(D) Interests held by Honfam Company Limited, an associated company of Dr The Hon S Y Chung.

(E) Mr Olsen also holds 50,000 ordinary shares of Cable & Wireless Optus Limited, a 53 per cent owned subsidiary of Cable & Wireless.

Apart from the foregoing, at no time during the year was the Company, or any of its holding company, subsidiaries or fellow subsidiaries, a party to any arrangement to enable the Directors or Chief Executive or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Substantial Shareholdings

At 31 March 1999 and in accordance with the Securities (Disclosure of Interests) Ordinance, the Company had been notified of certain interests in its ordinary shares.

Cable and Wireless (Far East) Limited, a subsidiary of Cable & Wireless had notified a beneficial interest in a total of 6,445,633,553 shares of the Company (approximately 54 per cent).

China Telecom (Hong Kong) Group Limited and its affiliated companies had notified a beneficial interest in a total of 1,548,686,181 shares of the Company (approximately 13 per cent).

Donations

Donations to charities by the Group during the year amounted to $10 million.

Management Agreement with Cable & Wireless

The Company has a Management Agreement with Cable & Wireless with respect to the provision of management and technical services and licensing of trademarks from Cable & Wireless to the Group, details of which are set out in Note 28 to the financial statements.

Major Customers and Suppliers

For the year ended 31 March 1999, the aggregate amount of turnover attributable to the Group's five largest customers represented less than 30 per cent of the Group's total turnover.

The largest supplier for the year ended 31 March 1999 represented 26 per cent of the Group's total purchases (not including purchases of a capital nature), and the combined total of the five largest suppliers accounted for 53 per cent of the Group's total purchases for the year. At no time during the year have the Directors, their associates or any shareholder of the Company who to the knowledge of the Directors owns more than 5 per cent of the Company's share capital had any interests in these major suppliers.

Connected Transactions

Particulars of connected transactions are set out in Note 28 to the financial statements. The Company has reached agreement in principle with Cable & Wireless Global Markets (CWGM) to transfer the management of certain of its existing business contracts with a further 19 multinational customers pursuant to the agreement disclosed in Note 28(b) to the financial statements.

Compliance with Code of Best Practice

Throughout the year, the Company has complied fully with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), save that Non-Executive Directors of the Company are not appointed for a fixed term but are subject to the retirement by rotation provisions of the Company's Articles of Association, and that a majority of the Non-Executive Directors on the Audit Committee are not "independent" within the meaning of the Listing Rules as certain Non-Executive Directors currently serve or have in the past served as Directors and/or officers of substantial shareholders of the Company. However, the Company believes that the Audit Committee fully complies with the spirit and intent of the Code of Best Practice. The constitution, authority and duties of the Audit Committee are set out in the Corporate Governance section of the Financial Review on page 26.

Auditors

On 19 November 1998, the Company's auditors changed the name under which they practise to KPMG and, accordingly, have signed their report in their new name.

The auditors of the Company, KPMG, have indicated their willingness to continue in office and a resolution proposing their re-appointment will be put to the Annual General Meeting.

By Order of the Board

Donald J Hess
Company Secretary

7 May 1999

Report of the Auditors

To the shareholders of

Hong Kong Telecommunications Limited

(incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 34 to 54 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective Responsibilities of Directors and Auditors

The Companies Ordinance requires the Directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

Basis of Opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements give a true and fair view, in all material respects, of the state of affairs of the Company and of the Group as at 31 March 1999 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

KPMG
Certified Public Accountants

Hong Kong, 7 May 1999

Consolidated Profit and Loss Account

For the year ended 31 March 1999

NOTE		1999 $M	1998 $M
3	**Turnover**	**32,411**	35,041
4	Operating costs	**20,573**	21,790
	Operating profit	**11,838**	13,251
6	Exceptional items	**–**	4,558
	Profit on ordinary activities before net interest and other income	**11,838**	17,809
7	Net interest and other income	**1,304**	1,064
	Profit on ordinary activities before taxation	**13,142**	18,873
8	Taxation	**1,599**	1,808
	Profit on ordinary activities after taxation	**11,543**	17,065
	Minority interests	**36**	37
9	**Profit attributable to shareholders**	**11,507**	17,028
	Appropriations		
10	Dividends	**10,185**	10,138
20	**Retained profit for the year**	**1,322**	6,890
11	**Earnings per share**		
	Basic	**96.4¢**	143.8¢
	Diluted	**96.4¢**	–
	Basic (before exceptional items)	**96.4¢**	105.3¢

The notes on pages 37 to 54 form part of these financial statements.

Balance Sheets

As at 31 March 1999

NOTE		GROUP 1999 $M	GROUP 1998 $M	COMPANY 1999 $M	COMPANY 1998 $M
12	Fixed assets	**29,470**	28,404	**59**	61
13	Interest in subsidiaries	**–**	–	**15,974**	15,935
14	Other investments	**729**	721	**382**	324
15	Other non-current assets	**1,501**	1,373	**–**	–
16	Current assets	**22,274**	23,680	**9,842**	17,143
		53,974	54,178	**26,257**	33,463
17	Current liabilities	**14,973**	16,387	**16,583**	26,444
	Total assets less current liabilities	**39,001**	37,791	**9,674**	7,019
18	Deferred taxation	**858**	739	**–**	–
		38,143	37,052	**9,674**	7,019
	Financed by				
19	Share capital	**5,980**	5,955	**5,980**	5,955
20	Reserves	**32,036**	30,992	**3,694**	1,064
	Shareholders' funds	**38,016**	36,947	**9,674**	7,019
	Minority interests	**127**	105	**–**	–
		38,143	37,052	**9,674**	7,019

The financial statements on pages 34 to 54 were approved by the Board of Directors on 7 May 1999 and were signed on their behalf by:

Linus W L Cheung
Director

David N Prince
Director

The notes on pages 37 to 54 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 March 1999

NOTE		1999 $M	1998 $M
24	**Net cash inflow from operating activities**	**15,124**	15,111
	Returns on investments and servicing of finance		
	Interest received	**1,218**	987
	Interest paid	**(196)**	(222)
	Income from investments	**62**	63
	Dividends received from associated companies	**9**	4
	Dividends paid	**(9,433)**	(5,855)
	Dividends paid to minority shareholders of subsidiary	**(15)**	–
	Issue costs of shares in lieu of cash dividends	**(1)**	–
	Net cash outflow from returns on investments and servicing of finance	**(8,356)**	(5,023)
	Taxation		
	Profits tax paid	**(1,496)**	(1,504)
	Investing activities		
	Purchase of fixed assets	**(5,183)**	(5,217)
	Proceeds on disposal of fixed assets	**54**	57
	Purchase of investments	**(2)**	(113)
	Proceeds on disposal of investments	**46**	14
	Investment in associated companies	**–**	(45)
	Proceeds on disposal of investment in associated company	**–**	16
	Compensation for surrender of exclusive international licence	**3,350**	3,350
	Proceeds on sale of staff housing loans	**–**	795
26	Purchase of businesses	**(313)**	(4,769)
	Purchase of interest bearing notes	**(424)**	–
	Decrease / (Increase) in term deposits maturing over three months	**4,336**	(785)
	Net cash inflow / (outflow) from investing activities	**1,864**	(6,697)
	Net cash inflow before financing	**7,136**	1,887
	Financing		
27	Repayment to minority interests	**(1)**	(5)
	Net cash outflow from financing	**(1)**	(5)
	Increase in cash and cash equivalents	**7,135**	1,882
	Cash and cash equivalents at 1 April	**3,194**	1,312
	Cash and cash equivalents at 31 March	**10,329**	3,194
	Analysis of the balances of cash and cash equivalents		
	Term deposits maturing within three months	**12,144**	5,778
	Bank and cash balances	**273**	206
	Bank loans and overdrafts repayable within three months	**(2,088)**	(2,790)
		10,329	3,194

The notes on pages 37 to 54 form part of these financial statements.

Notes to the Financial Statements

For the year ended 31 March 1999

1. General

The Company is a public limited company incorporated in Hong Kong. The ultimate holding company is Cable and Wireless plc, incorporated in England.

2. Principal accounting policies

(a) *Basis of accounting*

These financial statements have been prepared in accordance with Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. The financial statements have been prepared in Hong Kong dollars.

(b) *Basis of consolidation*

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 March each year. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from or to the date of their acquisition or disposal, as appropriate. All material intragroup transactions and balances are eliminated on consolidation.

Goodwill arising on the acquisition of subsidiaries or other businesses, being the excess of the cost over the fair value of the Group's share of the separable net assets acquired, is charged directly to reserves on consolidation.

On disposal of a subsidiary during the year, any attributable amount of purchased goodwill which has previously been dealt with as a movement on Group reserves is included in the calculation of the profit or loss on disposal.

(c) *Investment in subsidiaries*

A subsidiary is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors.

In the Company's balance sheet, investments in subsidiaries are stated at cost less any provisions for permanent diminution in value as determined by the Directors.

(d) *Investment in associated companies*

An associated company is a company in which the Group has a long-term equity interest and over which the Group is in a position to exercise significant influence, but not control or joint control, in its management, including participation in commercial and financial policy decisions.

The consolidated profit and loss account includes the Group's share of the post-acquisition results of its associated companies for the year. In the consolidated balance sheet, investments in associated companies are stated at the Group's share of their net assets. The goodwill arising on the acquisition of associated companies is charged directly to reserves on consolidation.

The results of associated companies are included in the Company's profit and loss account to the extent of dividends received and receivable, providing the dividend is in respect of a period ending on or before that of the Company and the Company's right to receive the dividend is established before the accounts of the Company are approved by the Directors. In the Company's balance sheet, investments in associated companies are stated at cost less any provisions for permanent diminution in value as determined by the Directors.

On disposal of an associated company during the year, any attributable amount of purchased goodwill which has previously been dealt with as a movement on Group reserves is included in the calculation of the profit or loss on disposal.

(e) *Other investments*

Other non-current investments are held for long-term purposes and are stated at cost less provision where the Directors consider there has been a permanent diminution in the underlying value of the investment.

Short-term interest bearing notes, which are redeemable at fixed dates and are being held to maturity, are stated at cost. Any premiums or discounts are amortised over the periods to redemption.

(f) *Revenue recognition*

Revenues are recognised as they are earned. Telecommunications revenues based on usage of the Group's network and facilities are recognised when the services are rendered. Telecommunications revenues for services provided for fixed periods are recognised on a straight line basis over the respective periods. Other revenues are recognised when products are delivered or services are rendered to customers.

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 the interest bearing note is amortised over the life of the assets.

2. Principal accounting policies *(continued)*

(g) Fixed assets

Investment properties with an unexpired lease term of more than 20 years are stated at the balance sheet date at their open market value. They are valued at intervals of not more than three years by independent professionally qualified valuers and in each intervening year valuations are undertaken by professionally qualified executives of the Group.

Surpluses arising on revaluation are credited to the profit and loss account to the extent of any deficit arising on revaluation previously charged to the profit and loss account and are thereafter taken to the investment properties revaluation reserve; deficits arising on revaluation are firstly set off against any previous revaluation surpluses and thereafter charged to the profit and loss account.

Investment properties with an unexpired lease term of 20 years or less are stated at valuation less accumulated depreciation.

Projects under construction are stated at cost. Certain costs relating to projects under construction are capitalised and included in the costs of fixed assets; these costs include staff costs, materials, interest and overheads.

Fixed assets other than investment properties and projects under construction are stated at cost less accumulated depreciation.

The carrying amount of fixed assets is reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The amount of the reduction is recognised as an expense in the profit and loss account. In determining the recoverable amount, expected future cash flows generated by the fixed assets are discounted to their present values.

Upon retirement or disposal of a fixed asset, the difference between the estimated net disposal proceeds and the carrying amount of the asset is recognised in the profit and loss account on the date of retirement or disposal. On disposal of an investment property, the related portion of surpluses or deficits previously taken to the investment properties revaluation reserve is also transferred to the profit and loss account.

(h) Depreciation

No depreciation is charged on projects under construction or investment properties with an unexpired lease term of more than 20 years. Depreciation is provided to write off the cost of other fixed assets over their estimated useful lives in equal annual instalments as follows:

Leasehold land	term of the lease
Investment properties with unexpired lease terms of less than 20 years	remaining term of lease
Buildings	50 years or term of lease, if less
Exchange equipment	5 to 15 years
International transmission plant	5 to 20 years
Local transmission plant	5 to 25 years
Other plant and equipment	2 to 16 years

Depreciation of the assets used for the provision of interactive multimedia services ('IMS') is partially expensed and partially deferred during the first two years of commercial operation which is the period during which the IMS systems are partially under construction and partially in service. The proportion expensed each month is determined as the ratio of, the higher of actual and forecast monthly number of customers, to the number forecast at the end of the two-year period.

(i) Retirement scheme costs

The regular cost of providing retirement benefits is charged to the profit and loss account over the service lives of the members of the schemes on the basis of constant percentages of pensionable pay. Variations from regular cost arising from periodic actuarial valuations are allocated to the profit and loss account over the expected remaining service lives of the members.

(j) Consumable stores, trading inventories and work in progress

Consumable stores, held for use in the maintenance and expansion of the Group's telecommunications systems, are stated at cost less provision for deterioration and obsolescence. Trading inventories are stated at the lower of cost and net realisable value and are valued on an average cost basis. In both cases, cost comprises materials, freight and insurance. Work in progress is stated at cost, which comprises labour, materials and overheads where appropriate.

Net realisable value is determined by reference to the sales proceeds of items sold in the ordinary course of business subsequent to the balance sheet date or to management estimates based on prevailing market conditions.

2. Principal accounting policies *(continued)*

(k) Deferred taxation

The Group does not provide for deferred tax unless there is a reasonable probability that the liability will arise in the foreseeable future. Where deferred tax is provided the liability method is used.

(l) Foreign currencies

Monetary assets and liabilities in foreign currencies are translated into Hong Kong dollars at the rates of exchange ruling on the balance sheet date. Transactions in foreign currencies during the year are translated into Hong Kong dollars at the exchange rate ruling on the dates of the transactions. All foreign exchange gains and losses are included in the profit and loss account.

(m) Operating leases

Rental income and expenses under operating leases are accounted for in the profit and loss account on a straight line basis over the periods of the respective leases.

(n) Finance leases

The total net investment in finance leases included in the balance sheet represents total lease payments receivable net of finance charges relating to future accounting periods. Finance charges are allocated to accounting periods so as to give a constant rate of return on the net cash investment in the lease.

(o) Borrowing costs

Borrowing costs are expensed in the profit and loss account in the period in which they are incurred, except to the extent that they are capitalised 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.

(p) Mobile telephone customer acquisition costs

The direct costs of acquiring new mobile telephone customers, relating primarily to equipment subsidies and connection commissions, are deferred. Deferred customer acquisition costs are amortised on a straight line basis over the shorter of the average subscription lives of the customers or two years.

(q) Programme contents costs

The costs associated with the acquisition of movies, video and television programmes are deferred and amortised on a straight line basis over the shorter of the estimated period of use or two years. The amortisation charge is partially expensed and partially deferred during the first two years of commercial operation of the IMS services in the same manner as described in Note 2(h).

(r) Related parties

For the purposes of these accounts, 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 entities.

(s) Financial instruments and derivatives

Spot and forward contracts are used to manage currency flows. Gains and losses on revaluation and maturity of the contracts are taken to the profit and loss account.

Interest rate swaps, forward rate agreements and interest rate options are used to manage exposure to interest rate fluctuation. The notional amounts are recorded off balance sheet. Interest flows are accounted for on an accrual basis.

3. Turnover

Turnover is stated on a gross basis before allocations to other telecommunications operators and comprises the following:

i) International telecommunications services – gross amounts accruing to the Group from international voice and data telecommunications services and international leased circuits.

ii) Local telecommunications services – amounts accruing to the Group from domestic telephone lines and associated value-added services, payphones, local data communications, leased lines and charges for wholesale interconnect services. Included under this category are also proceeds from sale and rental of customer premises equipment.

iii) Mobile services – revenue from sale of mobile equipment and accessories, airtime and service charges for the use of the digital mobile radio telephone networks and associated value-added services.

iv) Internet and interactive multimedia services – revenue accruing to the Group from Internet and multimedia services including subscription fees, usage fees and advertising income.

v) Technical and other services – turnover derived principally from the services provided to the Hong Kong SAR Government under the Technical Service Agreement, rental from investment property and directory advertising.

Turnover is categorised as follows:

	1999 $M	1998 $M
International telecommunications services	**15,564**	18,910
Local telecommunications services	**9,401**	8,886
Mobile services	**5,824**	5,996
Internet and interactive multimedia services	**626**	255
Technical and other services	**996**	994
	32,411	35,041

Local telecommunications services include rental income in respect of operating leases for customer equipment of **$140 million** (1998: $143 million).

4. Operating costs

	1999 $M	1998 $M
Allocations to other telecommunications operators	**6,403**	8,394
Salaries and related costs	**4,113**	4,025
Depreciation	**2,964**	2,443
Cost of sales and services	**3,272**	3,024
Rent, rates and utilities	**1,054**	846
Royalty to Hong Kong SAR Government	**–**	443
Management fees to Cable and Wireless plc	**112**	221
Other operating costs	**2,655**	2,394
	20,573	21,790

The Group capitalised salaries and related costs of **$779 million** during the year (1998: $804 million).

4. Operating costs *(continued)*

Included in cost of sales and services is an amount of **$1,937 million** (1998: $1,946 million) related to cost of equipment sales.

Included in operating costs are the following charges:

	1999 $M	1998 $M
Auditors' remuneration	**4**	4
Directors' remuneration (Note 5)	**39**	37
Rental expenses under operating leases:		
Land and buildings	**603**	383
Plant and machinery	**149**	172

5. Directors' and senior management's remuneration

(a) Directors' remuneration

	1999 $M	1998 $M
Directors' fees	**2**	2
Basic salaries and other emoluments	**28**	29
Discretionary bonuses	**7**	5
Pension contributions	**2**	1
	39	37

Housing costs accounted for **30 per cent** (1998: 35 per cent) of remuneration.

Discretionary bonuses for 1999 include Cable & Wireless shares awarded to the Directors on 13 May 1998 in respect of the year ended 31 March 1998 under the Long Term Incentive Plan. Based on the market price of the shares on 12 May 1998, the total value of the shares awarded was **$4 million**.

The number of Directors whose remuneration fell within the bands set out below is as follows:

$		$	NUMBER OF DIRECTORS 1999	1998
Nil	–	1,000,000	**11**	11
3,500,001	–	4,000,000	**–**	1
5,500,001	–	6,000,000	**1**	–
6,500,001	–	7,000,000	**2**	1
7,000,001	–	7,500,000	**–**	2
7,500,001	–	8,000,000	**1**	–
9,000,001	–	9,500,000	**1**	–
9,500,001	–	10,000,000	**–**	1

No Directors waived the right to receive emoluments during the year.

The Directors' fees above include **$1 million** (1998: $1 million) paid to the independent Non-Executive Directors. They received no other emoluments from the Company or any of its subsidiaries.

5. Directors' and senior management's remuneration *(continued)*

(b) Directors' share options

In addition to the above emoluments, certain Directors were granted options to acquire ordinary shares in Cable and Wireless plc and the Company. The details of share options granted to the Directors during the year are as follows:

Cable and Wireless plc Senior Employees' Share Option Scheme:

Date of grant	Option price £	Number of share options	Exercisable from	Exercisable to
8 Jun 1998	7.046	153,000	8 Jun 2001	7 Jun 2005
25 Feb 1999	8.488	182,597	25 Feb 2002	24 Feb 2006

Hongkong Telecom Employee Share Option Scheme:

Date of grant	Option price $	Number of share options	Exercisable from	Exercisable to
1 Feb 1999	1.00	126,455	3 Dec 2001	31 Dec 2001

(c) Senior management's remuneration

The five highest paid individuals in the Group are Directors of the Company whose total emoluments are included above.

6. Exceptional items

The exceptional items totalling $4,558 million recorded in the financial year ended 31 March 1998 arose from:

- the Framework Agreement signed on 20 January 1998 between the Company and the Hong Kong SAR Government for the surrender of the exclusive international licence of its wholly owned subsidiary, Hong Kong Telecom International Limited, in exchange for a package of compensation measures including $6,700 million in cash, free of tax (provision for costs to be incurred as a result of entering into the agreement of $140 million were set off against this sum).
- the write-down of the carrying value of those assets that had become obsolete, due to regulatory and technological changes, to their estimated recoverable value. Such write-down amounted to $2,002 million.

7. Net interest and other income

	1999 $M	1998 $M
Interest earned on bank deposits	**1,280**	1,052
Less: interest payable on bank overdrafts and other loans wholly repayable within 5 years	**(44)**	(56)
Net interest earned	**1,236**	996
Share of profits of associated companies	**6**	5
Income from unlisted investments	**62**	63
	1,304	1,064

The Group incurred total interest expenses of **$203 million** during the year (1998: $214 million) of which **$159 million** was capitalised (1998: $158 million). Interest expenses have been capitalised in relation to capital projects under construction at rates equivalent to the cost of funds to the Group which varied from 5.8 per cent to 11.4 per cent.

8. Taxation

	1999 $M	1998 $M
Hong Kong profits tax at **16 per cent** (1998: 16.5 per cent)		
Current year provision	**1,610**	1,780
Tax rebate	**(120)**	–
Tax charges from leasing partnerships	**26**	4
Overprovision in respect of prior years	**(37)**	–
	1,479	1,784
Deferred taxation (Note 18)	**119**	23
Share of associated companies' taxation	**1**	1
	1,599	1,808

9. Profit attributable to shareholders

The consolidated profit attributable to shareholders of **$11,507 million** (1998: $17,028 million) includes the Company's own profit of **$12,112 million** (1998: $4,921 million).

10. Dividends

	1999 $M	1998 $M
Interim dividend **38.6¢** per share (1998: 38.6¢)	**4,612**	4,588
Proposed final dividend **46.6¢** per share (1998: 46.6¢)	**5,573**	5,550
	10,185	10,138

Shareholders were given the option to receive new fully paid shares in lieu of the interim and final cash dividend for the year ended 31 March 1998 and the interim cash dividend for the year ended 31 March 1999 (see Note 19). A similar option is to be proposed in respect of the final dividend for the year ended 31 March 1999.

11. Earnings per share

(a) *Basic earnings per share*
The calculation of basic earnings per share is based on the profit attributable to shareholders of **$11,507 million** (1998: $17,028 million) and the weighted average number of shares of **11,938,619,787** in issue throughout the year (1998: 11,838,656,407 shares).

(b) *Diluted earnings per share*
The calculation of diluted earnings per share is based on the profit attributable to shareholders of **$11,507 million** and the weighted average number of shares of 11,942,688,101 after adjusting for the effects of all dilutive potential ordinary shares. There were no dilutive potential ordinary shares in existence during the financial year ended 31 March 1998.

	1999 Number of shares
Weighted average number of shares used in calculating basic earnings per share	**11,938,619,787**
Deemed issue of shares at no consideration	**4,068,314**
Weighted average number of shares used in calculating diluted earnings per share	**11,942,688,101**

11. Earnings per share *(continued)*

(c) Earnings per share before exceptional items

The calculation of earnings per share before exceptional items for the prior year is based on the adjusted earnings of $12,470 million and the weighted average number of shares of 11,838,656,407 in issue throughout the year. The adjusted earnings is reconciled as follows:

	1999 $M	1998 $M
Profit attributable to shareholders	**11,507**	17,028
Less: exceptional items	**–**	4,558
Adjusted earnings	**11,507**	12,470

12. Fixed assets

GROUP	Leasehold land and buildings $M	Investment properties $M	Exchange equipment $M	International transmission plant $M	Local transmission plant $M	Other plant and equipment $M	Projects under construction $M	Total $M
Cost or valuation								
At 1 April 1998	2,809	1,731	12,197	4,946	11,144	7,460	2,409	42,696
Additions	16	–	1,483	8	987	468	1,941	4,903
Acquisition of businesses	–	–	–	–	–	73	–	73
Disposals	(3)	–	(9)	(1)	(112)	(50)	–	(175)
Deficit on revaluation	–	(878)	–	–	–	–	–	(878)
Transfer of accumulated depreciation on revaluation	–	(21)	–	–	–	–	–	(21)
Transfers	(200)	263	2,340	2	(1,077)	596	(1,924)	–
At 31 March 1999	**2,622**	**1,095**	**16,011**	**4,955**	**10,942**	**8,547**	**2,426**	**46,598**
Representing								
Cost	2,622	–	16,011	4,955	10,942	8,547	2,426	45,503
Valuation	–	1,095	–	–	–	–	–	1,095
	2,622	**1,095**	**16,011**	**4,955**	**10,942**	**8,547**	**2,426**	**46,598**
Depreciation								
At 1 April 1998	482	–	4,429	1,941	3,320	4,120	–	14,292
Charge for the year	57	–	1,121	339	559	888	–	2,964
Acquisition of businesses	–	–	–	–	–	6	–	6
Disposals	(1)	–	(9)	(1)	(69)	(33)	–	(113)
Transfer of accumulated depreciation on revaluation	–	(21)	–	–	–	–	–	(21)
Transfers	(14)	21	277	–	(277)	(7)	–	–
At 31 March 1999	**524**	**–**	**5,818**	**2,279**	**3,533**	**4,974**	**–**	**17,128**
Net book values								
At 31 March 1999	**2,098**	**1,095**	**10,193**	**2,676**	**7,409**	**3,573**	**2,426**	**29,470**
At 31 March 1998	2,327	1,731	7,768	3,005	7,824	3,340	2,409	28,404

12. Fixed assets *(continued)*

Investment properties of the Group were revalued at 31 March 1999 by an executive of the Group, who is an associate member of the Hong Kong Institute of Surveyors and a qualified surveyor, on an open market value basis, taking into account their existing use, subject to existing tenancies or with vacant possession and free from encumbrances. The revaluation deficit of **$878 million** (1998: surplus of $366 million) has been transferred to the investment properties revaluation reserve (Note 20). The current year revaluation is the net effect of the upwards revaluation of properties newly classified as investment properties during the year and a downwards revaluation of investment properties held at 1 April 1998.

Gross rental receivable from the Group's investment properties amounted to **$158 million** (1998: $109 million).

The analysis of net book value of the Group's properties all of which are situated in Hong Kong comprises:

	1999		1998	
	Leasehold land and buildings $M	**Investment properties $M**	Leasehold land and buildings $M	Investment properties $M
Long-term leasehold – not less than 50 years	**633**	**1,095**	837	1,382
Medium-term leasehold – less than 50 years but not less than 10 years	**1,331**	**–**	1,490	349
Short-term leasehold – less than 10 years	**134**	**–**	–	–
	2,098	**1,095**	2,327	1,731

The Group leases equipment to customers on operating leases. The net book value of such equipment, which is included in other plant and equipment, is as follows:

	1999 $M	1998 $M
Customer equipment at cost	**1,195**	566
Less: accumulated depreciation	**790**	451
Net book value	**405**	115

	COMPANY		
	Leasehold land and buildings $M	**Other plant and equipment $M**	**Total $M**
Cost			
At 1 April 1998	60	4	64
Additions	–	1	1
At 31 March 1999	**60**	**5**	**65**
Depreciation			
At 1 April 1998	2	1	3
Charge for the year	2	1	3
At 31 March 1999	**4**	**2**	**6**
Net book values			
At 31 March 1999	**56**	**3**	**59**
At 31 March 1998	58	3	61

The Company's property is situated in Hong Kong and held under long-term leasehold of not less than 50 years.

13. Interest in subsidiaries

	COMPANY	
	1999 $M	1998 $M
Unlisted shares, at cost	**163**	124
Loans to subsidiaries	**15,811**	15,811
	15,974	15,935

14. Other investments

	GROUP		COMPANY	
	1999 $M	1998 $M	**1999 $M**	1998 $M
Associated companies				
Unlisted shares, at cost	**–**	–	**248**	248
Share of net assets of associated companies	**210**	214	**–**	–
Loan to an associated company	**119**	63	**119**	63
Other unlisted investments at cost	**400**	444	**15**	13
	729	721	**382**	324

Details of principal associated companies are set out on page 54.

15. Other non-current assets

Other non-current assets are amounts falling due after more than one year.

	GROUP	
	1999 $M	1998 $M
Mobile customer acquisition costs	**232**	114
Net investment in finance leases	**497**	502
Staff housing loans	**42**	37
Programme contents costs	**100**	121
Other debtors and prepayments	**630**	599
	1,501	1,373

A company within the Group is a limited partner in a number of limited partnerships which own and lease assets to third parties.

	GROUP	
	1999 $M	1998 $M
The net investment in these finance leases comprises:		
Net lease payments receivable	**497**	502

Non-recourse finance of **$3,176 million** (1998: $3,183 million) has been offset against net rentals receivable in arriving at the above net investment in finance leases.

16. Current assets

	GROUP		COMPANY	
	1999 $M	1998 $M	**1999 $M**	1998 $M
Inventories and work in progress	**763**	579	**–**	–
Trade debtors	**2,742**	3,775	**–**	–
Mobile customer acquisition costs	**475**	263	**–**	–
Compensation for surrender of exclusive international licence	**–**	3,350	**–**	–
Other debtors and prepayments	**907**	806	**340**	614
Amounts due from holding company and fellow subsidiaries	**147**	188	**236**	154
Amounts due from subsidiaries	**–**	–	**8,842**	5,201
Short-term unlisted interest bearing notes	**424**	–	**424**	–
Term deposits	**16,543**	14,513	**–**	11,129
Bank and cash balances	**273**	206	**–**	45
	22,274	23,680	**9,842**	17,143

17. Current liabilities

	GROUP		COMPANY	
	1999 $M	1998 $M	**1999 $M**	1998 $M
Trade creditors	**2,045**	1,478	**–**	–
Fixed assets creditors	**498**	267	**–**	–
Customer deposits	**489**	555	**–**	–
Accrued charges				
– purchase of fixed assets	**797**	1,467	**–**	–
– others	**1,856**	2,710	**–**	–
Other creditors	**168**	44	**437**	212
Deferred revenue	**792**	774	**–**	–
Amounts due to holding company and fellow subsidiaries	**151**	202	**88**	71
Amounts due to subsidiaries	**–**	–	**10,484**	19,835
Provision for profits tax	**516**	550	**1**	3
Proposed dividend (Note 10)	**5,573**	5,550	**5,573**	5,550
Bank loans and overdrafts	**2,088**	2,790	**–**	773
	14,973	16,387	**16,583**	26,444

At 31 March 1999, the Group had unutilised borrowing facilities of **$8,689 million** (1998: $8,908 million).

The Group, through its subsidiaries, arranged short-term bank loans to finance the purchase of fixed assets.

18. Deferred taxation

Group:

	1999 $M	1998 $M
Movements on deferred taxation comprise:		
Opening balance	**739**	716
Transfer from profit and loss account (Note 8)	**119**	23
Closing balance	**858**	739

Deferred taxation provided at the tax rate of 16 per cent in the Group's financial statements is as follows:

	1999 $M	1998 $M
Tax effect of timing differences due to:		
Leasing partnerships	**619**	645
Accelerated depreciation allowances	**184**	22
Others	**55**	72
	858	739

No provision for deferred tax has been made in respect of the revaluation surplus arising on investment properties as the disposal of the assets at their carrying value would result in capital gains which the Directors consider are not subject to any tax liability.

Unprovided deferred tax at the tax rate of 16 per cent is **$2,636 million** (1998: 16 per cent and $2,914 million) and principally relates to timing differences arising from tax depreciation allowances on fixed assets. This has not been recognised in the financial statements as it is considered that no liability will arise in the foreseeable future.

Company:

There is no significant deferred tax liability not provided for.

19. Share capital

	1999 $M	1998 $M
Authorised		
12,500,000,000 (1998: 12,500,000,000) ordinary shares of **$0.50** each	**6,250**	6,250
Issued and fully paid		
11,958,932,430 (1998: 11,909,410,718) ordinary shares of **$0.50** each	**5,980**	5,955

On 30 July 1998, 39,966,458 shares were issued as fully paid new shares in lieu of final cash dividends for the year ended 31 March 1998, at a value of $14.81 per share. On 31 December 1998, 9,555,254 shares were issued as fully paid new shares in lieu of interim cash dividends for the year ended 31 March 1999, at a value of $14.33 per share. An amount of $25 million standing to the credit of the share premium account was applied in paying up the shares.

Pursuant to a share option scheme, options to purchase ordinary shares in the Company were granted during the year to eligible employees at a price of $1 per share. The options will be exercisable during the period between 3 December 2001 to 31 December 2001. As at 31 March 1999, there were outstanding options in respect of a total of **26 million** ordinary shares in the Company.

20. Reserves

	Share premium $M	Capital reserves $M	Investment properties revaluation reserves $M	Retained profit $M	Total $M
Group:					
At 1 April 1998	64	11	1,073	29,844	30,992
Shares issued in lieu of cash dividends (Note 19)	(25)	–	–	729	704
Issue costs	(1)	–	–	–	(1)
Goodwill on acquisition of businesses (Note 25)	–	–	–	(240)	(240)
Adjustment to goodwill on previous acquisition	–	–	–	137	137
Deficit arising on revaluation	–	–	(878)	–	(878)
Transfer from profit and loss account	–	–	–	1,322	1,322
At 31 March 1999	**38**	**11**	**195**	**31,792**	**32,036**
Company:					
At 1 April 1998	64	–	–	1,000	1,064
Shares issued in lieu of cash dividends (Note 19)	(25)	–	–	729	704
Issue costs	(1)	–	–	–	(1)
Transfer from profit and loss account	–	–	–	1,927	1,927
At 31 March 1999	**38**	**–**	**–**	**3,656**	**3,694**

The Group's retained profit included the retained losses attributable to associated companies of **$3 million** (1998: retained profit of $1 million).

At 31 March 1999, the aggregate amount of reserves available for distribution to the shareholders of the Company was **$3,656 million** (1998: $1,000 million).

21. Capital commitments

	GROUP		COMPANY	
	1999 $M	1998 $M	**1999 $M**	1998 $M
Capital expenditure contracted for but not provided in the financial statements	**716**	2,033	**–**	–
Capital expenditure authorised but not contracted for	**1,259**	1,578	**–**	–

22. Contingent liabilities and financial commitments

The Company has issued a guarantee in the amount of **$126 million** (1998: $126 million) in respect of an investment commitment of an associated company.

Annual operating lease commitments payable within one year, analysed according to the period in which the leases expire, are as follows:

	GROUP				COMPANY			
	1999		1998		**1999**		1998	
	Land and buildings $M	**Other assets $M**	Land and buildings $M	Other assets $M	**Land and buildings $M**	**Other assets $M**	Land and buildings $M	Other assets $M
Leases expiring within one year	**226**	**8**	84	49	**1**	**3**	4	47
Leases expiring between one and five years	**238**	**73**	193	43	**8**	**30**	2	–
Leases expiring after five years	**6**	**38**	14	53	**–**	**–**	–	–
	470	**119**	291	145	**9**	**33**	6	47

23. Retirement scheme

The Group's principal retirement scheme covers substantially all the permanent staff in the Group. The scheme is established under trust and is administered by an independent trustee. The scheme is defined benefit in nature whereby the retirement benefits are based on the employees' remuneration and length of service.

The funding policy in respect of the scheme is based on valuations by an independent actuary and the scheme is funded in accordance with the actuary's recommendation from time to time on the basis of periodic valuations. During the year, based on the recommendation of the actuary, a special contribution of $400 million was made to the scheme on top of the regular funding.

Total retirement scheme cost charged to the profit and loss account, including amortisation of the special contribution, was **$410 million** (1998: $398 million) which was determined in accordance with the accounting policy described in Note 2(i) to these accounts. The assumptions adopted for the purpose of determining the profit and loss account charge were the same as those described below but scheme assets were valued using a three-year quarterly moving average method. The special contribution made during the year was allocated over the expected remaining service lives of the members.

The latest actuarial valuation of the retirement funds was carried out at 31 December 1998 by Mr A.G. Stott of Watson Wyatt Hong Kong Limited, Fellow of the Faculty of Actuaries of the United Kingdom, using the attained age method. The valuation assumes that the retirement scheme will continue in existence allowing for changes in membership, earnings and expected future returns on scheme assets and that the average long-term rate of return on the assets of the scheme will be 2 per cent p.a. higher than the rate of salary escalation. The actuary is of the opinion that the value of the scheme assets was sufficient to cover 103 per cent of the aggregate vested liability as at 31 December 1998, that is, the total value of the benefits which would be payable had the scheme been discontinued at that date.

24. Reconciliation of operating profit to net cash inflow from operating activities

	1999 $M	1998 $M
Operating profit	**11,838**	13,251
Depreciation	**2,964**	2,443
Loss on disposal of interest in associated company	**–**	1
Decrease in provision for investment	**–**	(6)
Loss / (Gain) on disposal of fixed assets	**8**	(36)
Movements in working capital		
Increase in inventories	**(184)**	(47)
Decrease / (Increase) in debtors	**650**	(559)
(Decrease) / Increase in creditors	**(152)**	64
Net cash inflow from operating activities	**15,124**	15,111

25. Acquisitions

The following acquisitions were made by the Group during the year:

On 30 December 1998, the Group acquired **100 per cent** of the Internet business from Hong Kong Star Internet Limited.

On 1 March 1999, the Group acquired **85 per cent** of the issued share capital of FIC Network Service, Inc in Taiwan.

	1999 $M
Net assets acquired:	
Fixed assets	**67**
Current assets	**26**
Cash and cash equivalents	**1**
Current liabilities	**(18)**
Minority shareholders' interest	**(2)**
	74
Goodwill arising on consolidation	**240**
Satisfied by: cash paid	**314**

The post-acquisition losses of the acquired businesses of **$2 million** have been included in the results of the Group for the year ended 31 March 1999.

The businesses acquired during the year contributed **$3 million** of the Group's net operating cash flows.

26. Analysis of net outflow of cash and cash equivalents in respect of purchase of businesses

	1999 $M
Cash consideration	**(314)**
Cash at bank and in hand acquired	**1**
Net outflow of cash and cash equivalents in respect of purchase of businesses	**(313)**

27. Analysis of changes in financing during the year

	MINORITY INTEREST 1999 $M
Balance at 1 April	**105**
Net cash outflow from financing	**(1)**
Dividends paid	**(15)**
Acquisition of subsidiary	**2**
Share of net profit attributable to minority shareholders	**36**
Balance at 31 March	**127**

28. Material related party transactions

(a) *Trading transactions with fellow subsidiaries and associates*

During the year a subsidiary of the Group ('Subsidiary') has conducted transactions with fellow subsidiaries and associates in the ordinary course of international telecommunications business. The Subsidiary receives accounting rate inpayments (included under 'turnover') for incoming calls to Hong Kong and pays the overseas operators accounting rate outpayments (included under 'allocations to other telecommunications operators') for outgoing calls. The accounting rates are mutually agreed between the Subsidiary and the fellow subsidiaries and associates on an arm's length basis in accordance with the standard industry practice. For the year ended 31 March 1999, the inpayments received from fellow subsidiaries and associates amounted to **$275 million** (1998: $268 million) and outpayments totalled **$202 million** (1998: $190 million).

(b) *Non-trading transactions*

During the year, the Company paid management fees of **$112 million** (1998: $221 million) to the holding company, Cable and Wireless plc, under an agreement signed on 28 December 1994, for the provision of management and technical services. The amount payable by the Company is based on a sum equal to the cost of service provided plus an uplift figure, currently at **7.2 per cent** (1998: 7.2 per cent). The agreement can be terminated by either party giving not less than two years' prior written notice to the other. At 31 March 1999, neither party had given written notice to terminate the agreement.

During the year, the Group entered into an agreement with Cable & Wireless Global Markets ('CWGM') on a new arrangement for the provision of telecommunications services to global customers with effect from 1 April 1998. CWGM is the trade name of a wholly owned subsidiary of Cable and Wireless plc. Under the agreement, the Group transferred the management of certain of its existing business contracts with 31 multinational customers to CWGM in return for the Group becoming the exclusive supplier of telecommunications services in Hong Kong and the Asia region for such customers on normal commercial terms. The purpose of the transaction is to protect and grow the Company's revenues in the important and competitive multinational sector through restructuring its existing commercial arrangements with Cable and Wireless plc which is an established global operator. The sale of telecommunications services to CWGM for the year ended 31 March 1999 amounted to **$414 million**. The Group also pays a global services management fee of **$101 million** to CWGM for its central coordination of global managed services. The fee is dependent on the services provided by CWGM and is calculated at the rate of 17.5 per cent of the relevant revenues achieved. The Group received an administration fee of **$9 million** for providing various administrative services to CWGM. These services are provided by the Group at cost plus an uplift figure of 5 per cent.

28. Material related party transactions *(continued)*

(b) Non-trading transactions (continued)

As at 31 March 1999 the Company had an outstanding loan balance due from MobileOne (Asia) Pte Ltd, an associated company, of **$119 million** (1998: $63 million). The loan is unsecured, non-interest bearing and has no fixed terms of repayment.

	1999 $M	1998 $M
Balances as at 31 March:		
Amounts due from holding company and fellow subsidiaries (Note 16)	**147**	188
Loan to an associated company (Note 14)	**119**	63
Amounts due to holding company and fellow subsidiaries (Note 17)	**151**	202

29. Financial instruments

(a) Interest rate risk management

From time to time the Group enters into interest rate swaps, forward rate agreements and interest rate options to manage its interest rate risk. At 31 March 1999, the total notional amount of such instruments was **$6,260 million** (1998: $530 million).

(b) Foreign exchange risk management

The Group enters into forward exchange contracts, to meet foreign currency exposure arising from settlement with overseas administrations and other business transactions denominated in foreign currencies. The term of the forward exchange contracts is generally no more than one year. The Group does not anticipate any material adverse effect on its financial position resulting from its involvement in these instruments, nor does it anticipate non-performance by any of its counterparties. The contractual amount of the Group's forward exchange contracts as at 31 March 1999 was **$1,150 million** (1998: $336 million).

(c) 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 the light of commercial commitments and is reviewed regularly by the Finance Director and senior finance executives. Counterparties to contracts are major financial institutions. The Group continually monitors its positions and the credit ratings 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.

30. Comparative figures

Certain comparative figures have been reclassified to conform with the current year's presentation.

Principal Subsidiary and Associated Companies

Name	Issued share capital	Percentage of issued share capital held Direct	Percentage of issued share capital held Indirect	Place of incorporation / operation	Principal activities
Subsidiaries					
Hong Kong Telecom CAS Limited	2 shares of HK$10 each	100.0		Hong Kong	Provision of telecommunications services
Hong Kong Telephone Company Limited	2,163,783,209 shares of HK$1 each		100.0	Hong Kong	Provision of telecommunications services
Hong Kong Telecom International Limited	100 ordinary shares of HK$10 each and 90,000,000 non-voting deferred shares of HK$10 each		100.0	Hong Kong	Provision of telecommunications services
Hong Kong Telecom CSL Limited	80,008,000 shares of HK$1 each	100.0		Hong Kong	Sale of telecommunications products and provision of services
Computasia Limited	1,200 shares of HK$1 each	100.0		Hong Kong	Provision of computer services
Monance Limited	2 shares of HK$10 each	100.0		Hong Kong	Property investment
Hongkong Telecom Finance Limited	1 share of US$1 each	100.0		British Virgin Islands / Hong Kong	Financing
One2Free PersonalCom Limited	2 shares of HK$1 each		100.0	Hong Kong	Sale of telecommunications products and provision of services
Hong Kong Telecom IMS Limited	2 shares of HK$1 each		100.0	Hong Kong	Provision of Internet and interactive multimedia services
Hong Kong Telecom VOD Limited	95 ordinary shares of HK$1 each, 1 'A' Class share of HK$1 each and 4 'B' Class shares of HK$1 each		100.0	Hong Kong	Provision of interactive multimedia services
Hongkong Telecom Teleservices Limited	2 shares of HK$1 each	100.0		Hong Kong	Provision of call-centre services
Hong Kong Telecommunications (Pacific) Limited	2 shares of HK$10 each		100.0	Hong Kong / Canada	Provision of telecommunications services
FIC Network Service, Inc.*	10,000,000 shares of NT$10 each		85.0	Taiwan	Provision of Internet services
Telecom Directories Limited	10,000 shares of HK$1 each		51.0	Hong Kong	Publication of directories
Associated companies					
Great Eastern Telecommunications Limited	43,112,715 shares of US$1 each	49.0		Cayman Islands	Investment
Abacus Distribution Systems (Hong Kong) Limited	15,600,000 shares of HK$1 each		37.0	Hong Kong	Provision of a computerised airline reservations system
MobileOne (Asia) Pte Ltd*	85,000,100 shares of S$1 each		14.7	Singapore	Provision of mobile telephone services

Certain subsidiary and associated companies which do not materially affect the results or assets of the Group are not included.

* Companies not audited by KPMG

Information for US Investors

The Group's financial statements are prepared in accordance with generally accepted accounting principles applicable in Hong Kong (HK GAAP), which differ in certain significant respects from those applicable in the United States (US GAAP). The significant differences relate principally to the following items and the adjustments considered necessary to restate profit attributable to shareholders (net income) and shareholders' funds (shareholders' equity) in accordance with US GAAP are shown in the tables set out below.

(a) *Deferred taxation*
The Group provides for deferred taxation using the liability method for timing differences only to the extent that there is a reasonable probability that a liability will arise in the foreseeable future. US GAAP requires full provision for deferred taxation under the asset and liability method on all temporary differences. For US GAAP purposes, the Group has complied with Statement of Financial Accounting Standards (SFAS) No. 109 "Accounting for Income Taxes".

(b) *Proposed final dividend*
Under HK GAAP, dividends proposed after the end of the accounting period in respect of that accounting period are deducted in arriving at retained earnings at the end of the period. US GAAP does not recognise a proposed final dividend as a reduction of retained earnings as it is declared after year-end.

(c) *Retirement scheme costs*
The Group's policy is that the regular cost of providing retirement benefits is charged to the profit and loss account over the service lives of the members of the schemes on the basis of level percentages of pensionable pay. Variations from regular costs arising from periodic actuarial valuations are allocated to the profit and loss account over the expected remaining service lives of the members. US GAAP requires that retirement scheme expense be recorded in accordance with SFAS No. 87, "Employers' Accounting for Pensions" which recognises in each accounting period the cost of providing retirement benefits earned by employees in that period.

(d) *Investment properties*
Under HK GAAP, investment properties are stated on the basis of appraisal values and depreciation expense is not provided on investment properties. Under US GAAP the investment properties are restated at historical cost less accumulated depreciation.

(e) *Scrip dividend*
Under HK GAAP, where shareholders elect to receive dividends in scrip instead of cash, the share premium reserve is reduced by the par value of the share capital issued, and a like amount recorded to the share capital account. Under US GAAP, such transaction is recorded as a reduction to retained earnings based on the fair value of the share capital issued, and a like amount recorded to the share capital and share premium accounts (in the aggregate). This measurement difference between HK GAAP and US GAAP does not affect total shareholders' equity, and accordingly, is not considered in the quantitative reconciliation of shareholders' equity.

(f) *Goodwill*
Under HK GAAP, goodwill arising on the acquisition of subsidiaries or businesses is charged directly to reserves on consolidation. Under US GAAP, the difference between purchase consideration and the net assets acquired is allocated based on the fair values of the net assets acquired, with any residual accounted for as an intangible asset and amortised over the estimated life of the benefits received of 10 years.

(g) *Exceptional items*
As disclosed in Note 6 to the consolidated financial statements, under HK GAAP, the Group classified the net amount of cash compensation received and receivable for the surrender of the exclusive international licence and the reduction of the carrying value of certain fixed and other assets as an exceptional gain in 1998. Under US GAAP, there is no such classification and the amount would be included in the determination of 'operating profits'.

(h) *Mobile customer acquisition costs*
Under HK GAAP, the direct costs of acquiring new mobile telephone customers are deferred and amortised over the shorter of the average subscription lives of customers or two years. US GAAP requires that capitalised customer acquisition costs are amortised over the initial contract period. In addition, unamortised costs are expensed upon early contract termination.

(i) *Share option scheme*
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 should be recognised and amortised over the vesting period. The amount of compensation expense is determined based upon the excess, if any, of the quoted market prices of the shares over the exercise price of the options on the date of the grant and is amortised over the vesting period of the option concerned.

The following table summarises the effect on profit attributable to shareholders (net income) of differences between HK GAAP and US GAAP.

(in millions, except per share and per ADS data which are stated in dollars)	YEAR ENDED 31 MARCH 1999 US$#	1999 HK$	1998 HK$	1997 HK$
Profit attributable to shareholders (net income) as reported under HK GAAP	**1,475**	**11,507**	17,028	11,178
US GAAP adjustments				
Deferred taxation	**40**	**315**	(265)	(254)
Retirement scheme costs	**–**	**(1)**	(18)	(61)
Depreciation on investment property	**(3)**	**(23)**	(9)	(10)
Amortisation of goodwill on acquisition	**(53)**	**(414)**	(90)	–
Mobile customer acquisition costs	**(29)**	**(229)**	–	–
Share option scheme	**(2)**	**(18)**	–	–
Profit attributable to shareholders (net income) under US GAAP	**1,428**	**11,137**	16,646	10,853
Earnings per share under US GAAP				
Basic	**0.120**	**0.934**	1.406	0.944
Diluted	**0.120**	**0.934**	1.406	0.944
Earnings per ADS under US GAAP*				
Basic	**1.20**	**9.34**	14.06	9.44
Diluted	**1.20**	**9.34**	14.06	9.44

The following table summarises the effect on shareholders' funds (shareholders' equity) of the differences between HK GAAP and US GAAP.

	31 MARCH 1999 US$M#	1999 HK$M	1998 HK$M
Shareholders' funds (shareholders' equity) as reported under HK GAAP	**4,874**	**38,016**	36,947
US GAAP adjustments			
Deferred taxation	**(335)**	**(2,616)**	(2,931)
Proposed final dividend	**714**	**5,573**	5,550
Retirement scheme costs	**13**	**102**	103
Investment properties revaluation reserve	**(25)**	**(195)**	(1,073)
Accumulated depreciation on investment property	**(6)**	**(43)**	(20)
Goodwill on acquisition of subsidiaries	**554**	**4,318**	4,215
Amortisation of goodwill on acquisition	**(65)**	**(504)**	(90)
Mobile customer acquisition costs	**(29)**	**(229)**	–
Shareholders' funds (shareholders' equity) under US GAAP	**5,695**	**44,422**	42,701

* One ADS is equivalent to 10 shares.

\# An exchange rate of US$1 = HK$7.8 has been used to translate HK$ to US$. Such translations are for convenience only and should not be construed as representations that HK$ amounts could be converted into US$ at that or any other rate.

Investor Relations

Financial Calendar

1999	Annual General Meeting	15 July 1999
1999	Final Dividend payable	22 July 1999
1999	Final Dividend payable to ADR holders	6 August 1999
2000	Interim Results announcement	November 2000
2000	Interim Dividend payable	December 2000
2000	Interim Dividend payable to ADR holders	January 2001

Listings

The Company's shares are listed on the Hong Kong Stock Exchange, and in the form of American Depositary Receipts (ADRs) on the New York and Pacific stock exchanges.

The Company is subject to the regulations of the United States Securities and Exchange Commission (SEC) as they apply to foreign companies whose securities are registered with the SEC. As required by the United States securities laws, the Company will file an annual report on Form 20-F with the SEC before 30 September 1999. Once filed, a copy of the Form 20-F may be obtained from our website or Investor Relations offices.

Dividend

Subject to approval by shareholders at the forthcoming Annual General Meeting, the proposed final dividend for the year ended 31 March 1999 will be payable on or about 22 July 1999 to shareholders who are registered in Hong Kong with Central Registration Hong Kong Limited at the close of business on 4 June 1999. Shareholders will again be offered a scrip alternative to the cash dividend.

This dividend will be payable on or about 6 August 1999 to ADR holders who are registered with the Company's ADR Depositary, Citibank, N.A., at the close of business on 4 June 1999.

Change of Name

At the forthcoming Annual General Meeting on 15 July 1999, a special resolution will be put forth proposing that the English name of the Company be changed to "Cable & Wireless HKT Limited". The Chinese name of the Company（香港電訊有限公司）will be retained.

Information for US Investors

Shares of the Company are listed in the United States in the form of ADRs under the sponsorship of its depositary agent, Citibank, N.A. Each ADR is equivalent to 10 ordinary shares of the Company.

No tax is payable in Hong Kong by withholding or otherwise in respect of dividends payable except to certain persons carrying on a trade, profession or business in Hong Kong. ADR holders unsure of their tax position should consult their independent tax adviser.

ADR holders registered on the books of the ADR Depositary in New York at close of business on 4 June 1999 can vote by proxy at the Annual General Meeting by completing a voting instruction card which will be sent to them. Alternatively, an ADR holder may appoint a discretionary proxy, usually the Chairman of the Meeting, by marking the designated box on the voting instruction card.

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

Other enquiries regarding the Company should be addressed to either: Tom McDonnell, Vice President, Investor Relations or Simon Smith, Manager, Investor Relations, at the addresses given on this page.

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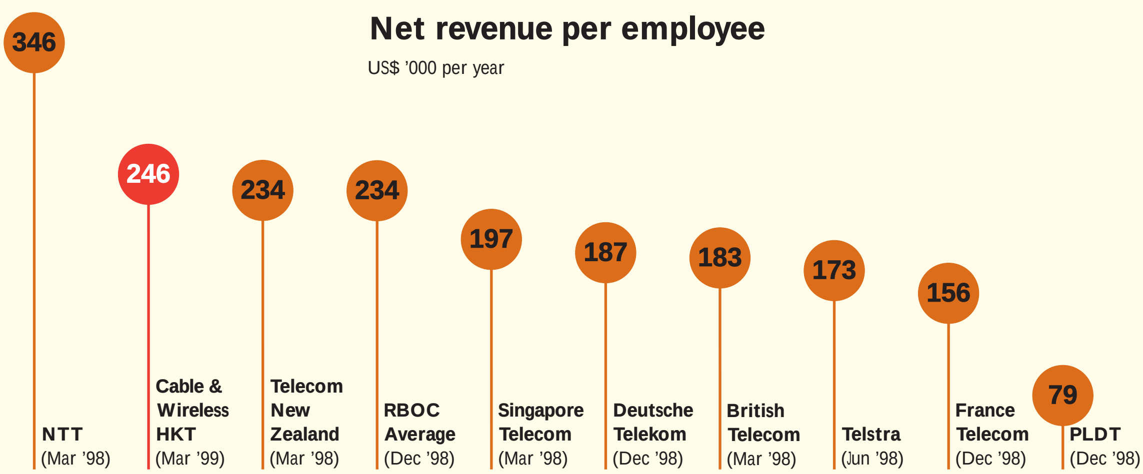
Five-year Financial Summary

Year ended 31 March

		1999 $M	1998 $M	1997 $M	1996 $M	1995 $M
Profit and Loss Account						
Turnover		**32,411**	35,041	32,578	29,405	26,910
Operating costs		**20,573**	21,790	20,375	18,313	17,148
Operating profit		**11,838**	13,251	12,203	11,092	9,762
Exceptional items		**–**	4,558	–	–	–
Profit before net interest and other income		**11,838**	17,809	12,203	11,092	9,762
Net interest and other income		**1,304**	1,064	706	386	276
Profit before taxation		**13,142**	18,873	12,909	11,478	10,038
Taxation		**1,599**	1,808	1,690	1,515	1,339
Profit after taxation		**11,543**	17,065	11,219	9,963	8,699
Minority interests		**36**	37	41	24	–
Profit attributable to shareholders		**11,507**	17,028	11,178	9,939	8,699
Balance Sheet						
Fixed assets		**29,470**	28,404	25,405	22,256	19,974
Other assets		**24,504**	25,774	22,260	14,299	9,932
Total assets		**53,974**	54,178	47,665	36,555	29,906
Total liabilities		**15,831**	17,126	17,304	14,376	12,187
Shareholders' funds		**38,016**	36,947	30,288	22,147	17,718
Minority interests		**127**	105	73	32	1
Total liabilities and shareholders' funds		**53,974**	54,178	47,665	36,555	29,906
Capital expenditure		**4,903**	5,775	5,026	4,331	4,045
Leasehold land and buildings		**33**	199	163	88	396
Exchange equipment		**2,282**	1,845	1,856	1,278	1,007
International transmission plant		**444**	420	555	549	393
Local transmission plant		**1,257**	2,051	1,366	1,195	1,010
Other plant and equipment		**887**	1,260	1,086	1,221	1,239
Earnings per share						
Basic (before exceptional items)	cents	**96.4**	105.3	97.2	88.8	78.0
Basic (after exceptional items)	cents	**96.4**	143.8	97.2	88.8	78.0
Diluted	cents	**96.4**	–	–	–	–
Dividend						
Dividend per share	cents	**85.2**	85.2	76.3	67.8	59.3
Dividend payout	%	**88.4**	59.3	78.5	76.3	76.0
Staff		**13,643**	14,702	13,767	15,022	16,054

Net revenue per employee

US$ '000 per year



Five-year Statistics

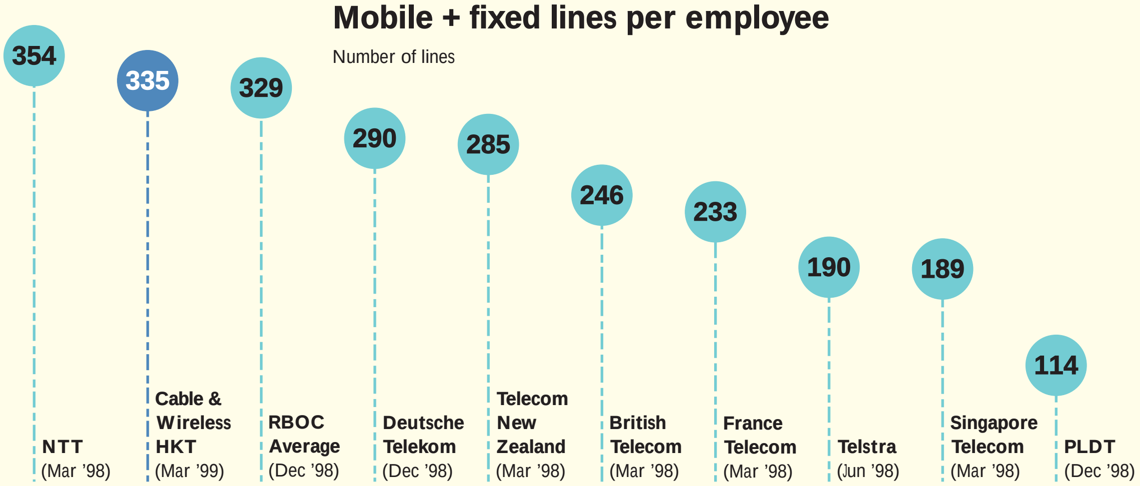
Year ended 31 March

	1999	1998	1997	1996	1995
International Telecommunications Services					
International telephone gateway traffic ('000 minutes)					
Outgoing	**1,681,582**	1,717,974	1,738,613	1,691,830	1,578,422
Incoming	**1,802,407**	2,100,266	1,940,837	1,598,331	1,446,350
Total	**3,483,989**	3,818,240	3,679,450	3,290,161	3,024,772
International leased circuits capacity (MBPS)*	**1,202**	646	382	270	186
Local Telecommunications Services					
Exchange lines in service					
Business lines	**1,470,665**	1,485,789	1,390,848	1,295,557	1,228,798
Residential lines	**2,157,837**	2,106,466	2,044,464	1,979,628	1,920,482
Total exchange lines in service	**3,628,502**	3,592,255	3,435,312	3,275,185	3,149,280
Telephones per 100 population	**68.8**	70.4	69.8	67.7	66.6
Homefax 2 connections	**10,350**	14,733	21,151	36,007	46,777
Homefax 3 connections	**115,815**	90,386	63,127	29,033	–
Homeselect packages subscription	**259,210**	108,820	–	–	–
Caller Display subscription	**393,628**	245,362	93,743	–	–
Telex lines	**3,722**	4,640	6,241	8,714	11,870
Datapak lines	**106,131**	106,457	88,925	77,839	69,349
Local digital data circuit capacity (MBPS)*	**51,254**	41,065	17,566	9,161	5,124
Mobile Services					
Customer base ('000)	**948**	860	390	270	162
Internet and Interactive Multimedia Services					
Internet customer base ('000) (excluding pre-paid netcards)	**322**	166	73	–	–
iTV customer base ('000)	**88**	21	–	–	–

* Megabits per second

Mobile + fixed lines per employee

Number of lines



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