

# REPORT OF THE DIRECTORS

The directors present their annual report together with the audited consolidated financial statements of Pacific Century CyberWorks Limited (the “Company”) and its subsidiaries (the “Group”) for the year ended December 31, 2000.

## CHANGE OF COMPANY NAME

On December 13, 2000, the Chinese name of the Company was changed from “盈科數碼動力有限公司” to “電訊盈科有限公司”. The English name of the Company remained unchanged as Pacific Century CyberWorks Limited.

## PRINCIPAL ACTIVITIES

The principal activities of the Company and its major subsidiaries are 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, mainly in the Hong Kong Special Administrative Region (“Hong Kong”); investment in and development of technology-related businesses; and investment in and development of infrastructure and properties in Hong Kong and elsewhere in the People’s Republic of China (“PRC”).

Details of segmental information are set out in Note 5 to the consolidated financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended December 31, 2000 are set out in the accompanying consolidated financial statements on page 71.

No interim dividend was paid during the year. The directors do not recommend the payment of a final dividend for the year ended December 31, 2000.

## FINANCIAL SUMMARY

A summary of the consolidated results and of the assets and liabilities of the Group for the last five financial years is set out on page 125.

## SUBSIDIARIES AND ASSOCIATES

Particulars of the Company’s principal subsidiaries and associates are set out in Notes 17 to 19 to the consolidated financial statements.

## FIXED ASSETS

Details of movements in the fixed assets of the Group and the Company during the year are set out in Note 13 to the consolidated financial statements.

## BORROWINGS AND CONVERTIBLE BONDS

Particulars of the Group’s and the Company’s borrowings and convertible bonds are set out in Notes 22 to 24 to the consolidated financial statements.

## SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in Note 25 to the consolidated financial statements.

## SHARE OPTIONS

Details of the movements in the Company’s share options during the year are set out in Note 26 to the consolidated financial statements.

## WARRANTS

Details of the warrants issued by the Company during the year are set out in Note 26 to the consolidated financial statements.

## RESERVES

Details of the movements in reserves of the Group and the Company during the year are set out in Note 27 to the consolidated financial statements.

## MAJOR CUSTOMERS AND SUPPLIERS

For the year ended December 31, 2000, the aggregate amount of turnover attributable to the Group’s five largest customers represented less than 30 percent of the Group’s total turnover.

The largest supplier for the year ended December 31, 2000 represented 15 percent of the Group’s total purchases (not including purchases of a capital nature), and the combined total of the five largest suppliers accounted for 40 percent 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 percent of the Company’s share capital had any interests in these major suppliers.

## DIRECTORS

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

### Executive Directors

Li Tzar Kai, Richard *Executive Chairman*

Yuen Tin Fan *Deputy Chairman*

Cheung Wing Lam, Linus *Deputy Chairman* (appointed on October 13, 2000)

Peter To *Deputy Chairman*

Peter Anthony Allen

Alexander Anthony Arena

John Todd Bonner

Jeffrey Amsden Bowden (appointed on December 6, 2000)

Chan Ching Cheong, George (resigned on March 8, 2001)

Cheung Kam Hung (appointed on January 16, 2001)

Chung Cho Yee, Mico

Nicholas Timothy James Colfer (resigned on October 13, 2000)

David Norman Prince (appointed on October 13, 2000)

Yuen Kee Tong (appointed on October 13, 2000; resigned on February 28, 2001)

### Non-Executive Directors

\* Robert Earl Lerwill (appointed on October 13, 2000)

Avram Miller (appointed on January 14, 2000)

The Hon Raymond George Hardenbergh Seitz (appointed on October 13, 2000)

\* Graham Martyn Wallace (appointed on October 13, 2000)

### Independent Non-Executive Directors

Prof. Chang Hsin-kang (appointed on October 13, 2000)

Dr. Cheung Ying Sheung, Paul (resigned on October 13, 2000)

Dr. Fung Kwok King, Victor (appointed on October 13, 2000)

Dr. The Hon Li Kwok Po, David, OBE, JP (appointed on October 13, 2000)

Sir Roger Lobo, CBE, JP

In accordance with Article 92 of the Company's Articles of Association, Cheung Wing Lam, Linus, David Norman Prince, Cheung Kam Hung, Jeffrey Amsden Bowden, The Hon Raymond George Hardenbergh Seitz, Dr. Fung Kwok King, Victor, Dr. The Hon Li Kwok Po, David and Prof. Chang Hsin-kang shall retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

\* Subsequent to the date of this report, Robert Earl Lerwill and Graham Martyn Wallace resigned as non-executive directors of the Company on April 1, 2001.

## DIRECTORS' SERVICE CONTRACTS

- (a) Cheung Wing Lam, Linus is employed pursuant to a service contract entered into on August 9, 2000. During the first 2 years of service, the contract is terminable by the Company on 36 months' notice. After the expiry of this 2-year period the service contract is terminable by the Company on 12 months' notice. Mr. Cheung's service contract provides for a single lump sum compensation payment by the Company if the contract is terminated by the Company other than for cause (as defined in the contract) during the first 3 years of the contract.
- (b) David Norman Prince is employed pursuant to a service contract entered into on July 27, 2000. During the first 3 years of service, the contract is terminable by the Company on 24 months' notice. After the expiry of this 3-year period, the service contract is terminable by the Company on 12 months' notice. Mr. Prince's service contract provides for a single lump sum compensation payment by the Company if the contract is terminated by the Company other than for cause (as defined in the contract) during the first 3 years of the contract.

(c) Jeffrey Amsden Bowden is employed pursuant to a service contract entered into on September 15, 2000. The term of this contract will expire on December 31, 2003 and will be automatically renewed for a further two terms of one year each, subject to termination by either party on 6 months' notice. Mr. Bowden's service contract provides for a single lump sum compensation payment by the Company if the contract is terminated by the Company other than for cause (as defined in the contract) during the term of the contract.

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

## DIRECTORS' INTERESTS IN SECURITIES

As at December 31, 2000, the interests of the directors and the chief executive of the Company in the equity or debt securities of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) as recorded in the register required to be kept pursuant to Section 29 of the SDI Ordinance or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to Section 28 of the SDI Ordinance and the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

### 1. Interests in the Company

#### (A) Ordinary Shares

| Name of director/chief executive   | Number of ordinary shares |                  |                     |                 |                         |
|------------------------------------|---------------------------|------------------|---------------------|-----------------|-------------------------|
|                                    | Personal interests        | Family interests | Corporate interests | Other interests | Number of share options |
| Li Tzar Kai, Richard (Note 1)      | –                         | –                | 8,493,092,074       | –               | –                       |
| Yuen Tin Fan (Note 5(a))           | 13,735,000                | –                | –                   | 2,575,000       | 42,670,000              |
| Peter To                           | 5,500,000                 | –                | –                   | –               | 21,800,000              |
| Cheung Wing Lam, Linus             | 30,409                    | –                | –                   | –               | 16,000,000              |
| Alexander Anthony Arena (Note 6)   | 1,000                     | –                | –                   | –               | 32,000,000              |
| Yuen Kee Tong (Note 7)             | 21,326                    | 6,278            | –                   | –               | 800,000                 |
| David Norman Prince                | 24,443                    | –                | –                   | –               | 8,000,000               |
| Chung Cho Yee, Mico (Note 8)       | 5,881,300                 | 92,276           | –                   | –               | 28,476,000              |
| Peter Anthony Allen                | 260,000                   | –                | –                   | –               | 3,146,000               |
| Chan Ching Cheong, George (Note 9) | 1,133,000                 | –                | –                   | –               | 30,789,000              |
| John Todd Bonner                   | –                         | –                | –                   | –               | 9,800,000               |
| Dr. The Hon Li Kwok Po, David      | 3,000,000                 | –                | –                   | –               | –                       |
| Prof. Chang Hsin-kang              | 70,000                    | –                | –                   | –               | –                       |

#### (B) Warrants

| Name of director/chief executive   | Subscription value of warrants (HK\$) |                  |                     |                 |
|------------------------------------|---------------------------------------|------------------|---------------------|-----------------|
|                                    | Personal interests                    | Family interests | Corporate interests | Other interests |
| Li Tzar Kai, Richard (Note 1)      | –                                     | –                | 5,672,279,055       | –               |
| Yuen Tin Fan (Note 5(a))           | 6,075,000                             | –                | –                   | 1,125,000       |
| Peter To                           | 4,500,000                             | –                | –                   | –               |
| Cheung Wing Lam, Linus             | 13,275                                | –                | –                   | –               |
| Yuen Kee Tong (Note 7)             | 9,315                                 | 2,730            | –                   | –               |
| David Norman Prince                | 10,665                                | –                | –                   | –               |
| Chung Cho Yee, Mico (Note 8)       | 2,569,500                             | 40,305           | –                   | –               |
| Peter Anthony Allen                | 150,000                               | –                | –                   | –               |
| Chan Ching Cheong, George (Note 9) | 495,000                               | –                | –                   | –               |

## 2. Interests in Associated Corporations

### I. Pacific Century Regional Developments Limited ("PCRD") (A) Ordinary Shares

#### Number of ordinary shares

| Name of director/chief executive   | Personal interests | Family interests | Corporate interests | Other interests | Number of share options |
|------------------------------------|--------------------|------------------|---------------------|-----------------|-------------------------|
| Li Tzar Kai, Richard (Note 2)      | –                  | –                | 2,330,058,230       | –               | –                       |
| Yuen Tin Fan (Note 5(b))           | 4,370,000          | –                | –                   | 23,550,000      | –                       |
| Peter To                           | 10,000,000         | –                | –                   | –               | –                       |
| Alexander Anthony Arena            | –                  | –                | –                   | –               | 15,300,000              |
| Peter Anthony Allen                | 5,010,000          | –                | –                   | –               | –                       |
| Chung Cho Yee, Mico                | –                  | –                | –                   | –               | 8,000,000               |
| John Todd Bonner                   | –                  | –                | –                   | –               | 5,000,000               |
| Chan Ching Cheong, George (Note 9) | –                  | –                | –                   | –               | 11,960,000              |

### (B) Redeemable Cumulative Preference Shares ("RCPS")

#### Number of RCPS

| Name of director/chief executive | Personal interests | Family interests | Corporate interests | Other interests |
|----------------------------------|--------------------|------------------|---------------------|-----------------|
| Li Tzar Kai, Richard (Note 3)    | –                  | –                | 87,948,362          | –               |

### II. Pacific Century Insurance Holdings Limited ("PCIHL") Ordinary Shares

#### Number of ordinary shares

| Name of director/chief executive | Personal interests | Family interests | Corporate interests | Other interests | Number of share options |
|----------------------------------|--------------------|------------------|---------------------|-----------------|-------------------------|
| Li Tzar Kai, Richard (Note 4)    | –                  | –                | 308,627,250         | –               | –                       |
| Yuen Tin Fan                     | –                  | –                | 2,254,000           | –               | 16,200,000              |
| Peter Anthony Allen              | 180,000            | –                | –                   | –               | 500,000                 |
| Chung Cho Yee, Mico              | –                  | –                | –                   | –               | 1,900,000               |
| John Todd Bonner                 | –                  | –                | –                   | –               | 13,800,000              |

### III. Pacific Century CyberWorks Japan K.K. ("PCCW Japan") (A) Ordinary Shares

#### Number of ordinary shares

| Name of director | Personal interests | Family interests | Corporate interests | Other interests |
|------------------|--------------------|------------------|---------------------|-----------------|
| John Todd Bonner | 480,000            | –                | –                   | –               |

## (B) Exchangeable Notes

| Name of director/chief executive | Aggregate principal amount outstanding (Japanese Yen) |
|----------------------------------|---|
| Li Tzar Kai, Richard (Note 10)   | 199,752,000   |

Other than as disclosed above, none of the directors, the chief executive or their associates had any personal, family, corporate or other interests in the securities of the Company or any of its associated corporations as defined in the SDI Ordinance as at December 31, 2000.

**Notes:**

1. Li Tzar Kai, Richard holds the entire issued share capital of Pacific Century Group Holdings Limited ("PCG"). PCG holds the entire issued share capital of Pacific Century International Limited ("PCIL"). PCIL holds the entire issued share capital of Pacific Century Group (Cayman Islands) Limited ("PCG(CI)"). PCG(CI) holds the entire issued share capital of Anglang Investments Limited ("Anglang"). Anglang and PCG(CI) hold 1,169,067,180 shares and 1,160,991,050 shares in PCRD respectively (an aggregate of 2,330,058,230 shares in PCRD), which constitute approximately 37.9% and approximately 37.6% of the entire issued share capital of PCRD respectively.  
  
PCRD holds 7,558,272,517 shares, including 455,000 shares held in the form of 45,500 American depositary receipts ("ADRs"), each ADR representing 10 ordinary shares, which constitutes approximately 34.5% of the entire issued share capital of the Company and warrants with a total subscription value of HK\$5,047,907,940 of the Company. PCG holds 147,458,434 shares, which constitute approximately 0.7% of the entire issued share capital of the Company and warrants with a total subscription value of HK\$98,488,290 of the Company. Li Tzar Kai, Richard also holds the entire issued share capital of Chiltonlink Limited which holds the entire issued share capital of Pacific Century Diversified Limited ("PCD"). PCD holds 787,361,123 shares, which constitute approximately 3.6% of the entire issued share capital of the Company and warrants with a total subscription value of HK\$525,882,825 of the Company. Accordingly, Li Tzar Kai, Richard is interested in an aggregate of 8,493,092,074 shares and warrants with a total subscription value of HK\$5,672,279,055 (held by PCG, PCRD and PCD) of the Company.
2. Li Tzar Kai, Richard is deemed to be interested in these shares by virtue of his deemed interests in Anglang and PCG(CI) as described in Note 1 above.
3. 57,826,950 RCPS and 30,121,412 RCPS of PCRD held by Anglang and PCG(CI) respectively. Li Tzar Kai, Richard is deemed to be interested in 87,948,362 RCPS of PCRD by virtue of his deemed interests in Anglang and PCG(CI) as described in Note 1 above.
4. These shares are held by PCRD. Li Tzar Kai, Richard is deemed to be interested in such shares of PCIHL, a subsidiary of PCRD, by virtue of his deemed interest in PCRD as described in Note 1 above.
5. (a) Yuen Tin Fan is deemed to be interested in 2,575,000 shares and warrants with a total subscription value of HK\$1,125,000 of the Company by virtue of being a beneficiary under a discretionary trust.  
  
(b) Yuen Tin Fan holds 4,370,000 ordinary shares of PCRD. He is also deemed to be interested in 23,550,000 ordinary shares of PCRD by virtue of being a beneficiary under a discretionary trust. Accordingly, Yuen Tin Fan is interested in an aggregate of 27,920,000 ordinary shares of PCRD.
6. Alexander Anthony Arena holds 1,000 shares in the form of 100 ADRs, each ADR representing 10 ordinary shares of the Company.
7. Yuen Kee Tong resigned as a director on February 28, 2001. As at December 31, 2000, Mr. Yuen held the interests disclosed herein, including a deemed interest in 6,278 shares and warrants with a total subscription value of HK\$2,730 of the Company held by his spouse.
8. Chung Cho Yee, Mico is deemed to be interested in 92,276 shares and warrants with a total subscription value of HK\$40,305 of the Company held by his spouse.
9. Chan Ching Cheong, George, resigned as a director on March 8, 2001. As at December 31, 2000, Mr. Chan held the interests disclosed herein.
10. Li Tzar Kai, Richard is deemed to be interested in the exchangeable notes of PCCW Japan (convertible into an aggregate of 609,000 shares of Japanese Yen 50 each of PCCW Japan) issued to Internet Ventures Technologies Limited, a company wholly-owned by Li Tzar Kai, Richard.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES IN THE COMPANY AND ITS ASSOCIATED CORPORATIONS

(a) The Company has a share option scheme, under which it may grant options to employees (including executive directors) of the Company to subscribe for ordinary shares in the Company. Details of the scheme are set out in Note 26 to the consolidated financial statements. A summary of the movements of directors' options during the year is as follows:

| Name of director                       | Date of grant | Exercisable period       | Exercise Price HK\$ | Number of share options    |                         |                           |                             |
|--|---------------|--------------------------|---------------------|----------------------------|-------------------------|---------------------------|-----------------------------|
|  |               |                          |                     | Outstanding at Jan 1, 2000 | Granted during the year | Exercised during the year | Outstanding at Dec 31, 2000 |
|  | (Note 1)      | (Note 1)                 |                     |                            |                         |                           |                             |
| Yuen Tin Fan                           | 08.28.1999    | 08.17.2003 to 08.17.2009 | 2.356               | 32,000,000                 | –                       | 21,330,000                | 10,670,000                  |
|  | 08.26.2000    | 08.26.2001 to 08.26.2010 | 12.024              | –                          | 32,000,000              | –                         | 32,000,000                  |
| Peter To                               | 08.28.1999    | 08.17.2001 to 08.17.2009 | 2.356               | 32,000,000                 | –                       | 10,200,000                | 21,800,000                  |
| Cheung Wing Lam, Linus                 | 08.26.2000    | 08.26.2001 to 08.26.2010 | 12.024              | –                          | 16,000,000              | –                         | 16,000,000                  |
| Alexander Anthony Arena                | 08.28.1999    | 08.17.2000 to 08.17.2009 | 2.356               | 16,000,000                 | –                       | –                         | 16,000,000                  |
|  | 08.26.2000    | 08.26.2001 to 08.26.2010 | 12.024              | –                          | 16,000,000              | –                         | 16,000,000                  |
| David Norman Prince                    | 08.26.2000    | 08.26.2001 to 08.26.2010 | 12.024              | –                          | 8,000,000               | –                         | 8,000,000                   |
| Chung Cho Yee, Mico                    | 08.28.1999    | 08.17.2001 to 08.17.2009 | 2.356               | 28,476,000                 | –                       | 10,600,000                | 17,876,000                  |
|  | 08.26.2000    | 08.26.2001 to 08.26.2010 | 12.024              | –                          | 10,600,000              | –                         | 10,600,000                  |
| Peter Anthony Allen                    | 08.28.1999    | 08.17.2000 to 08.17.2009 | 2.356               | 2,360,000                  | –                       | 1,000,000                 | 1,360,000                   |
|  | 08.26.2000    | 08.26.2001 to 08.26.2010 | 12.024              | –                          | 1,786,000               | –                         | 1,786,000                   |
| John Todd Bonner                       | 08.28.1999    | 08.17.2000 to 08.17.2009 | 2.356               | 1,080,000                  | –                       | 1,080,000                 | –                           |
|  | 11.13.1999    | 08.17.2000 to 10.25.2009 | 4.552               | 5,000,000                  | –                       | –                         | 5,000,000                   |
|  | 08.26.2000    | 08.26.2001 to 08.26.2010 | 12.024              | –                          | 4,800,000               | –                         | 4,800,000                   |
| Yuen Kee Tong (Note 2)                 | 08.26.2000    | 08.26.2001 to 08.26.2010 | 12.024              | –                          | 800,000                 | –                         | 800,000                     |
| Chan Ching Cheong, George (Note 3)     | 11.23.1999    | 10.25.2000 to 10.25.2009 | 4.552               | 32,489,000                 | –                       | 1,700,000                 | 30,789,000                  |
| Nicholas Timothy James Colfer (Note 4) | 08.28.1999    | 08.17.2000 to 08.17.2009 | 2.356               | 1,080,000                  | –                       | 360,000                   | 720,000                     |

### Notes:

1. All dates are shown month/day/year
2. Resigned on February 28, 2001
3. Resigned on March 8, 2001
4. Resigned on October 13, 2000

(b) Certain of the Company's directors have options to subscribe for shares in PCR.D. Pursuant to an ordinary resolution passed at an extraordinary general meeting held on September 29, 2000, each ordinary share of S\$1.00 of PCR.D was subdivided into ten ordinary shares of S\$0.10 each with effect from October 10, 2000 (the "Share Subdivision"). The number of share options and their exercise price were adjusted as a consequence of the Share Subdivision. Details of the outstanding options granted to directors of the Company by PCR.D are summarized as follows:

| Number of share options                |               |                          |                    |                            |                                     |                           |                             |
|--|---------------|--------------------------|--------------------|----------------------------|-------------------------------------|---------------------------|-----------------------------|
| Name of director                       | Date of grant | Exercisable period       | Exercise Price S\$ | Outstanding at Jan 1, 2000 | Adjustment due to share subdivision | Exercised during the year | Outstanding at Dec 31, 2000 |
|  | (Note 1)      | (Note 1)                 |                    |                            |                                     |                           |                             |
| Peter To                               | 10.01.1998    | 10.01.1999 to 09.30.2003 | 1.00               | 1,000,000                  | *                                   | 1,000,000                 | –                           |
| Alexander Anthony Arena                | 11.24.1999    | 10.25.2001 to 10.24.2009 | 7.584              | 1,530,000                  | (1,530,000)                         | –                         | –                           |
|  | 11.24.1999    | 10.25.2001 to 10.24.2009 | 0.7584             | –                          | 15,300,000                          | –                         | 15,300,000                  |
| Peter Anthony Allen                    | 10.01.1998    | 10.01.2000 to 09.30.2003 | 1.00               | 500,000                    | *                                   | 500,000                   | –                           |
| Chung Cho Yee, Mico                    | 04.15.1999    | 04.15.2001 to 04.14.2004 | 1.43               | 800,000                    | (800,000)                           | –                         | –                           |
|  | 04.15.1999    | 04.15.2001 to 04.14.2004 | 0.143              | –                          | 8,000,000                           | –                         | 8,000,000                   |
| John Todd Bonner                       | 11.24.1999    | 10.25.2001 to 10.24.2009 | 7.584              | 500,000                    | (500,000)                           | –                         | –                           |
|  | 11.24.1999    | 10.25.2001 to 10.24.2009 | 0.7584             | –                          | 5,000,000                           | –                         | 5,000,000                   |
| Chan Ching Cheong, George<br>(Note 2)  | 11.24.1999    | 10.25.2000 to 10.24.2009 | 9.48               | 1,196,000                  | (1,196,000)                         | –                         | –                           |
|  | 11.24.1999    | 10.25.2000 to 10.24.2009 | 0.948              | –                          | 11,960,000                          | –                         | 11,960,000                  |
| Nicholas Timothy James Colfer (Note 3) | 10.01.1998    | 10.01.2000 to 09.30.2003 | 1.00               | 300,000                    | *                                   | 300,000                   | –                           |

**Notes:**

1. All dates are shown month/day/year
2. Resigned on March 8, 2001
3. Resigned on October 13, 2000

\* As all the options were exercised before the Share Subdivision became effective, no adjustments were required to be made on either the subscription price or the number of share options.

(c) Certain of the Company's directors have options to subscribe for shares in PCIHL. Details of the outstanding options granted to directors of the Company by PCIHL are summarized as follows:

| Number of share options |               |                          |                     |   |
|-------------------------|---------------|--------------------------|---------------------|---|
| Name of director        | Date of grant | Exercisable period       | Exercise Price HK\$ | Outstanding at Jan 1, 2000 and Dec 31, 2000 |
|                         | (Note)        | (Note)                   |                     |   |
| Yuen Tin Fan            | 07.07.1999    | 07.07.2000 to 07.06.2009 | 6.28                | 16,200,000                                  |
| Peter Anthony Allen     | 07.07.1999    | 07.07.2000 to 07.06.2009 | 6.28                | 500,000                                     |
| Chung Cho Yee, Mico     | 07.07.1999    | 07.07.2000 to 07.06.2009 | 6.28                | 1,900,000                                   |
| John Todd Bonner        | 07.07.1999    | 07.07.2000 to 07.06.2009 | 6.28                | 13,800,000                                  |

**Note:**

All dates are shown month/day/year

Other than as disclosed above, at no time during the year was the Company or any of its holding companies, fellow subsidiaries or subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and none of the directors, their spouses or their children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

## SUBSTANTIAL SHAREHOLDERS

As at December 31, 2000, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that, other than the interests disclosed above in respect of certain directors, the following shareholders had a beneficial interest of 10 percent or more in the issued share capital of the Company:

| Name of shareholder  | Notes | Number of shares | %    |
|--|-------|------------------|------|
| Cable and Wireless (Far East) Limited                      | –     | 3,259,384,610    | 14.9 |
| Pacific Century Regional Developments Limited (“PCRD”)     | 1     | 7,558,272,517    | 34.5 |
| Anglang Investments Limited (“Anglang”)                    | 1     | 7,558,272,517    | 34.5 |
| Pacific Century Group (Cayman Islands) Limited (“PCG(CI)”) | 1     | 7,558,272,517    | 34.5 |
| Pacific Century International Limited (“PCIL”)             | 1     | 7,558,272,517    | 34.5 |
| Pacific Century Group Holdings Limited (“PCG”)             | 2     | 8,048,232,731    | 36.8 |
| Yasumitsu Shigeta (“Mr. Shigeta”)                          | 3     | 8,048,232,731    | 36.8 |
| Li Tzar Kai, Richard                                       | 4     | 8,835,593,854    | 40.4 |

### Notes:

- PCRD holds 7,558,272,517 shares, including 455,000 shares held in the form of 45,500 ADRs, each ADR representing 10 ordinary shares of the Company. Approximately 37.9% and approximately 37.6% of the issued share capital of PCRD are held by Anglang and PCG(CI) respectively. The entire issued share capital of Anglang is held by PCG(CI). In turn, the entire issued share capital of PCG(CI) is held by PCIL and the entire issued share capital of PCIL is held by PCG. All the shares referred to herein relate to the same parcel of shares held by PCRD.
- The shares referred to herein include the 147,458,434 shares held by PCG, the 7,558,272,517 shares held by PCRD and the 342,501,780 shares held by Mr. Shigeta. As PCG and Mr. Shigeta were parties to an agreement to which Section 9 of the SDI Ordinance applies, PCG is deemed to be interested in the 342,501,780 shares held by Mr. Shigeta.
- The shares referred to herein include 7,705,730,951 shares in which PCG is deemed to be interested. As Mr. Shigeta and PCG were parties to an agreement to which Section 9 of the SDI Ordinance applies, Mr. Shigeta is deemed to be interested in the 7,705,730,951 shares in which PCG is deemed to be interested.
- Li Tzar Kai, Richard holds the entire issued share capital of PCG. PCG holds the entire issued share capital of PCIL. PCIL holds the entire issued share capital of PCG(CI). PCG(CI) holds the entire issued share capital of Anglang. Anglang and PCG(CI) hold 1,169,067,180 shares and 1,160,991,050 shares (an aggregate of 2,330,058,230 shares of PCRD), which constitute approximately 37.9% and approximately 37.6% of the entire issued share capital of PCRD respectively. PCRD holds 7,558,272,517 shares, including 455,000 shares held in the form of 45,500 ADRs, each ADR representing 10 ordinary shares, which constitute approximately 34.5% of the entire issued share capital of the Company. PCG is interested in 489,960,214 shares (through itself and Mr. Shigeta), which constitute approximately 2.2% of the entire issued share capital of the Company. Li Tzar Kai, Richard also holds the entire issued share capital of Chiltonlink Limited which holds the entire issued share capital of PCD. PCD holds 787,361,123 shares, which constitute approximately 3.6% of the entire issued share capital of the Company. Accordingly, Li Tzar Kai, Richard is deemed to be interested in an aggregate of 8,835,593,854 shares (held by PCRD, PCG (held by itself and Mr. Shigeta) and PCD) of the Company.

## DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

- Li Tzar Kai, Richard has an interest, through PCRD which he ultimately controls, in the agreements pursuant to which PCRD agreed to provide a two-year rental guarantee on each of Towers A and B and the 6-storey commercial podium of Pacific Century Place located in Beijing, PRC. This rental guarantee was provided by PCRD under the Acquisition Agreement as amended by the Acquisition Supplement Agreement (each as defined in the Company's circular dated July 7, 1999) in respect of the acquisition by the Company of all the issued shares in PCCW Properties Limited from PCRD and PCG, both of which are ultimately controlled by Li Tzar Kai, Richard. The rental guarantee still subsisted at the financial year end.
- During the year, Li Tzar Kai, Richard had an interest in the agreements pursuant to which Pacific Century Matrix Limited (“PC Matrix”), in which Li Tzar Kai, Richard holds an indirect 70 percent interest, was engaged to distribute the Company's “NOW” television channel via satellite for Pacific Convergence Corporation, Ltd. (“PCC”). PCC paid service charges of approximately HK\$38 million to PC Matrix in consideration for such services during the year.
- Dr. Fung Kwok King, Victor, through a family trust, has an interest in 10 percent of ITVentures Limited (“IVentures”), a subsidiary of which, Digital Creation Co. Ltd. (“DC”), entered into an agreement with PCCW IMS Limited (formerly Cable & Wireless HKT IMS Limited) (“IMS”) on June 7, 1999 to form a joint venture company PCCW Schoolteam (Asia) Limited (formerly Cable & Wireless HKT Schoolteam (Asia) Limited) (“the JV”) for the marketing and sale of “Schoolteam Software” in the markets of



greater China, Asia, Australia, New Zealand and the Middle East for educational purposes. The JV has also entered into a marketing agreement dated August 3, 1999 to appoint IMS as the JV's exclusive marketing agent in Hong Kong and a loan contract dated October 27, 1999 whereby IMS offered a revolving credit line of HK\$30 million to the JV as a part of the agreement.

IVentures, DC, IMS and Cyber Connections Limited (an indirect wholly-owned subsidiary of the Company) are shareholders of Magically, Inc. IVentures, on its own and through DC, effectively holds a total of 18.7 percent interest in Magically, Inc.

- (d) Prior to joining the Company in September 2000, Jeffrey Amsden Bowden was Vice President and Director of Boston Consulting Group Inc., which provided management consultancy services to the Company. Other than in his capacity as Vice President and Director of Boston Consulting Group Inc., Mr. Bowden had no interest in these contracts.

Other than as disclosed above, no contract of significance to which the Company, its subsidiaries, its holding companies or any of its fellow subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

#### **DIRECTORS' INTERESTS IN COMPETING BUSINESS**

The interests of the directors of the Company in competing business as at December 31, 2000 required to be disclosed pursuant to Rule 8.10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") were as follows:

| <b>Name of director</b>  | <b>Name of investee companies</b>                      | <b>Nature of business</b>   | <b>Nature of interest</b>                           |
|--|--|---|---|
| Robert Earl Lerwill (Note 2)<br>Graham Martyn Wallace (Note 2) | Cable and Wireless plc                                 | Global provider of telecommunications services to business and domestic users | Director<br>Director                                |
| Chung Cho Yee, Mico  | iLink Holdings Limited (Note 1)                        | Internet application solutions provider to small and medium enterprises       | Director  |
| Li Tzar Kai, Richard (Note 3)                                  | Hutchison Whampoa Limited ("HWL") and its subsidiaries | Property business and satellite transmission in Asia                          | Having certain personal and deemed interests in HWL |

#### **Notes:**

- As at December 31, 2000, 40.84% of the issued share capital of iLink Holdings Limited (formerly iLink.net Holdings Limited) was held by an indirect wholly-owned subsidiary of the Company. Details of potential competition between the Company and iLink Holdings Limited are disclosed at pages 113 to 119 of the prospectus dated February 28, 2001 of iLink Holdings Limited regarding listing on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited by way of placing.
- Subsequent to the date of this report, Robert Earl Lerwill and Graham Martyn Wallace resigned as non-executive directors of the Company on April 1, 2001.
- Li Tzar Kai, Richard was a director of HWL and certain of its subsidiaries ("Hutchison Group") until August 16, 2000, the day before the acquisition of HKT became effective. Certain businesses of the Hutchison Group compete with certain aspects of the business of the Company. Mr. Li has a personal interest in 110,000 shares in HWL and he is also one of several discretionary beneficiaries under certain discretionary trusts which are interested in certain shares of HWL. In view of his small personal shareholding and being a discretionary beneficiary of such trusts, Mr. Li is not able to exert control or influence over the Hutchison Group.

In addition, the Group held minority equity interests in a number of Internet-related companies in which the Group was entitled to appoint, and appointed, one or more directors to the boards of these companies during the year. Some or all of these companies may compete, directly or indirectly, with certain aspects of the Group's business. Details of these companies are provided in Notes 17 to 19 to the consolidated financial statements.

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

#### **CHARITABLE DONATIONS**

During the year, the Group made charitable donations and other donations totalling approximately HK\$8 million.

#### **POST BALANCE SHEET EVENTS**

Details of significant post balance sheet events are set out in Note 35 to the consolidated financial statements.

#### **PURCHASE, SALE OR REDEMPTION OF SECURITIES**

Details of the purchase, sale or redemption of the Company's listed securities during the year are set out in Notes 25 and 26 to the consolidated financial statements.

## APPLICATION OF CHAPTER 14 OF THE LISTING RULES TO THE COMPANY

Chapter 14 of the Listing Rules requires listed companies to disclose details of certain categories of transactions, to send a circular to shareholders and to publish an announcement in the newspapers giving information about certain categories of transactions and, in the case of certain material transactions or certain transactions with connected persons (as defined in the Listing Rules), to obtain shareholders' prior approval. Certain categories of transactions are not subject to any disclosure or approval requirements at all.

The level of disclosure required generally depends on the size and nature of the transaction, and transactions are generally classified in accordance with four tests, which are commonly referred to as:

- (i) the "assets test";
- (ii) the "profits test";
- (iii) the "consideration test"; and
- (iv) the "equity test".

The application of the "assets test" and the "consideration test" depends on a determination of the net tangible assets of the listed company. If the net tangible assets of the listed company are negative, virtually every transaction (however minor) would be subject to prior shareholder approval if the relevant provisions of the Listing Rules were to be strictly applied. For a company of the scale and scope of operations of the Company, the directors consider that this would be impracticable and unduly burdensome.

Accordingly, upon the application of the Company following the acquisition of PCCW-HKT Limited (formerly Cable & Wireless HKT Limited) in August 2000, on October 19, 2000 The Stock Exchange of Hong Kong Limited (the "Exchange") agreed that the "assets test" (as defined in Rule 14.09(1) of the Listing Rules) and the "consideration test" (as defined in Rule 14.09(3) of the Listing Rules) would be determined in accordance with the following:

The Company may disregard the "assets test" and the "consideration test" for purposes of classifying notifiable transactions (other than "connected transactions") into the categories of "very substantial acquisition", "major transaction", "discloseable transaction" and "share transaction" (each as defined in the Listing Rules) provided that:

- (i) the value of the assets (as defined in paragraph 3.4 of Practice Note 13) being acquired or realized does not exceed HK\$2,000 million; and
- (ii) the aggregate value of the consideration given or received for the assets being acquired or realized, as the case may be, does not exceed HK\$2,000 million.

The directors wish to emphasize that the "profits test", the "equity test" and other relevant provisions of the Listing Rules continue to apply to all potentially notifiable transactions under Chapter 14 of the Listing Rules, including all connected transactions, notwithstanding the granting of the Limited Waiver with respect to the "assets test" and the "consideration test". Accordingly, the Company will continue to comply with all the relevant requirements for notifiable transactions under the Listing Rules, except to the extent modified by the Limited Waiver.

The Limited Waiver was granted by the Exchange on condition that it was subject to review by the Exchange at the time the Company announced its audited results for the year ended December 31, 2000. The Company intends to seek such review as soon as practicable, and will apply for such further waivers as may be appropriate. Pending the completion of this review, the above thresholds will continue to apply for the purposes of the "assets test" and the "consideration test" under Chapter 14 of the Listing Rules.

Other than the Limited Waiver described above, there are no other ongoing waivers granted to the Company by the Exchange.

**The directors wish to emphasize that the Listing Rules apply in all respects to the Company except to the extent modified by the Limited Waiver.**

The following notifiable transactions which fell within the Limited Waiver were entered into during the period from August 17, 2000 (being the effective date of acquisition of HKT by the Company) to the date of this report:

1. On August 31, 2000, the Company's subsidiary Reach Philippines Holdings Limited (formerly Hongkong Telecom Network Philippines Limited) ("HTNP") entered into a joint venture agreement with Active Research and Management Corporation ("ARMCO") pursuant to which the parties agreed to establish Cyber Web Holdings, Inc. ("Cyber Web"), a corporation incorporated in the Philippines with a subscribed and paid-up capital of Pesos 108,000,000 (approximately HK\$19.22 million). ARMCO and HTNP have subscribed for 60 percent and 40 percent, respectively, of the total subscribed capital of Cyber Web.

Pursuant to the same agreement, the parties also agreed to establish HKT Network Services Philippines Inc. ("HKT Network"), a corporation incorporated in the Philippines with a subscribed and paid-up capital of Pesos 175,000,000 (approximately HK\$31.15 million). The parties will co-operate through this company to provide public Internet access service, IP-WAN service, value-added services and e-business consultation and project management services. The total subscribed capital of HKT Network is held as to 60 percent by Cyber Web and 40 percent by HTNP.

HTNP is no longer a wholly-owned subsidiary of the Company as a result of the transfer of the holding company of HTNP, Reach Internet Services Limited (formerly PCCW Internet Services Limited), to Reach Ltd. in February 2001 as part of the Company's strategic alliance with Telstra Corporation Limited.

2. An acquisition agreement was entered into on September 28, 2000 between China United Telecommunications Corp. (H.K.) Ltd., Teleway Communications Limited, Optimum Pacific Limited and Cybernet Holdings Group Limited ("CHG"), an indirect wholly-owned subsidiary of the Company, pursuant to which CHG acquired 7,240,385 shares of HK\$0.01 each in ChinaBig.com Limited, representing 37.65 percent of the issued share capital of ChinaBig.com Limited. The purchase price of US\$25.6 million (approximately HK\$199.7 million) was paid in cash.
3. A joint venture agreement was entered into on October 11, 2000 between ASPEngines, Inc, Sybond Venture Limited ("Joint Venture Parties") and PCCW Powerbase Data Center Services (HK) Limited (formerly CWHKT Data Centre Services Limited). A novation agreement was entered into between the above parties and PCCW PowerbaseEngines Limited on January 10, 2001, and an amendment agreement dated January 15, 2001 was entered into between PCCW PowerbaseEngines Limited and the Joint Venture Parties, pursuant to which PowerbaseEngines Holdings Company Limited (a company incorporated in the British Virgin Islands to deliver data center services) was established. PCCW PowerbaseEngines Limited agreed to invest up to US\$3 million (approximately HK\$23.4 million) in PowerbaseEngines Holdings Company Limited, of which US\$600,000 (approximately HK\$4.68 million) was paid to subscribe for 6,000 shares representing 60 percent of its issued capital. PowerbaseEngines Holdings Company Limited has set up a wholly-owned subsidiary, PowerbaseEngines Company Limited, to conduct its operations in Hong Kong.
4. A cooperative joint venture agreement and a promoters' agreement to set up a company limited by shares, both dated November 30, 2000, and a supplemental agreement to the cooperative joint venture agreement dated March 7, 2001 (all of which agreements are in Chinese), were entered into between PCCW IMS China Auction Limited (formerly CWHKTIMS China Auction Limited), 北京嘉德開元文化有限公司 (Beijing Guardian Kai Yuan Cultural Co., Ltd.), 北京嘉德投資管理有限公司 (Beijing Guardian Investment Management Co., Ltd.), 北京嘉德南方商貿有限公司 (Beijing Guardian Nan Fang Trading Co., Ltd.) and SB China Holdings Pte. Ltd., pursuant to which PCCW IMS China Auction Limited agreed to invest a total of US\$7 million (approximately HK\$54.6 million) in China Guardian Auctions Company Limited, a company established in the PRC. Subject to the approval of the PRC regulatory authorities, PCCW IMS China Auction Limited will hold 14.29 percent in the restructured China Guardian Auctions Company Limited.
5. On November 30, 2000, SecureNet Asia Limited (formerly Cable & Wireless HKT Securenet Limited) ("SecureNet"), SecureNet Limited and an indirect subsidiary of the Company, CWHKT Limited, entered into a subscription agreement ("Subscription Agreement") with Solandra Investments Limited ("Solandra"), a wholly-owned subsidiary of The Hongkong & Shanghai Banking Corporation Limited, and Silver Jubilee Limited ("SJL"), a wholly-owned subsidiary of Hang Seng Bank Limited.

Under the Subscription Agreement, Solandra subscribed for 9,854,873 shares of HK\$1 each and SJL subscribed for 1,739,095 shares of HK\$1 each, respectively, in the share capital of SecureNet, representing in aggregate 16 percent of the total issued share capital of SecureNet. The total consideration for the subscription paid by Solandra and SJL was US\$16 million (approximately HK\$124.8 million).

As a result of this transaction, the Company's indirect shareholding in SecureNet was diluted from 60.0 percent to 50.4 percent.

6. A joint venture agreement dated December 20, 2000 was entered into between HKT (Regional Holdings) Limited, New India Infoways Private Limited, Rajiv Mody, Hemanshu Desai and Manish Doshi pursuant to which HKT (Regional Holdings) Limited agreed to set up a joint venture to conduct the business of an Internet services provider in India. Subject to the approval of the regulatory authorities in India, HKT (Regional Holdings) Limited will invest Rs.45,570,000 (approximately HK\$8.66 million) for a 25 percent interest in this joint venture.

A separate joint venture agreement dated December 20, 2000 was entered into between the same parties for the establishment of a joint venture to provide other Internet services in India. Subject to the approval of the regulatory authorities, HKT (Regional Holdings) Limited will invest Rs.139,500,000 (approximately HK\$26.51 million) for a 75 percent interest in this joint venture.

These transactions have not been completed and HKT (Regional Holdings) Limited is no longer a subsidiary of the Company following the transfer of Reach Internet Services Limited (formerly known as PCCW Internet Services Limited), being the holding company of HKT (Regional Holdings) Limited, to Reach Ltd. in February 2001 pursuant to the Company's strategic alliance with Telstra Corporation Limited.

7. A subscription agreement dated December 29, 2000 was entered into between iCom Solution Limited, International Transport Information Systems Limited, Satti Wong Lo and the Company's indirect subsidiary, PCCW-DOCX (BVI) Limited, pursuant to which PCCW-DOCX (BVI) Limited subscribed HK\$6,030,000 for 66,094 shares of HK\$1 each in iCom Solution Limited (a company incorporated in Hong Kong engaging in software engineering work for business applications), representing 23.23 percent of its issued capital.
8. In February 2001, the Company's publicly listed Japanese subsidiary, Pacific Century CyberWorks Japan K.K. ("PCCW Japan"), acquired four games software companies (Devil's Thumb Entertainment Inc., VR-1 Entertainment, Inc., 1464251 ONTARIO Inc., and VR-1 Japan, Inc.) from Circadence Corporation in an all-stock deal valued at approximately US\$20 million (with closing cash adjustments of approximately US\$1 million). In a related transaction, PCCW Japan invested US\$10 million in cash in Series G Preferred Stock in Circadence Corporation.
9. On February 22, 2001, the Company entered into a sale and purchase agreement with Hutchison Telecommunications International Limited ("Hutchison Telecom"), an indirect wholly-owned subsidiary of Hutchison Whampoa Limited, pursuant to which the Company acquired the entire issued share capital of Hutchison Telecommunications Technology Investments Limited and a shareholders' loan from Hutchison Telecom for a total consideration of HK\$803.4 million. The consideration was paid in the form of shares issued by the Company at a price of HK\$4.375 per share.
10. On March 1, 2001, Tele-Direct Publications International B.V. ("TDI"), a subsidiary of Bell Canada, exercised a put option pursuant to a pre-existing right contained in a shareholders' agreement entered into in 1994 between the HKT Group and TDI ("Shareholders Agreement") relating to the establishment of Telecom Directories Limited ("TDL"). PCCW Enterprises Limited (the holder of 51 percent of the issued capital of TDL) was required, as a result of such exercise, to purchase the remaining 49 percent of the issued capital of TDL. The aggregate consideration was calculated according to a pre-determined formula in the Shareholders Agreement and is estimated to be approximately HK\$311 million.

In addition to the transactions described above, the Company acquired or disposed of certain minority interests held for investment purposes. The total net investment in these minority interests during the period from August 17, 2000 to the date of this report amounted to approximately HK\$52 million. Details of these investments are set out in Notes 18 to 20 to the consolidated financial statements.

## CONNECTED TRANSACTIONS

During the year, members of the Group entered into certain transactions which were "connected transactions" as defined by the Listing Rules. Details of such transactions are as follows:

### Connected Transactions entered into during the year

1. (a) On April 27, 2000, a shareholders' agreement (the "AIV Shareholders' Agreement") was entered into between Web Intelligence Limited ("WIL"), an indirect wholly-owned subsidiary of the Company, Fairlane Asia Limited ("FAL"), a wholly-owned subsidiary of Pacific Century Insurance Holdings Limited ("PCI"), and Advanced Internet Visions Limited ("AIV"). PCI is

a subsidiary of PCRD, which is a controlling shareholder of the Company. Pursuant to the AIV Shareholders' Agreement, WIL and FAL agreed to establish AIV as the special purpose vehicle of WIL and FAL for holding 9,354,672 shares, representing approximately 50.1 percent of the issued share capital, of Morningstar Asia Limited (formerly Perfect Rhyme Limited) ("Morningstar Asia").

On the same date, AIV, Morningstar Inc. and Morningstar Asia entered into a joint venture agreement (the "Original Morningstar JV Agreement") pursuant to which AIV and Morningstar Inc. agreed to establish Morningstar Asia as a joint venture to provide independent financial information services in certain countries of Asia. Morningstar Asia was initially owned as to 50.1 percent by AIV and 49.9 percent by Morningstar Inc. Pursuant to the Original Morningstar JV Agreement, AIV agreed to subscribe for 9,354,672 shares in Morningstar Asia for an aggregate consideration of US\$12 million (approximately HK\$93.6 million) payable by AIV to Morningstar Asia in two tranches.

Morningstar Asia and Morningstar Inc. also entered into a license agreement pursuant to which Morningstar Inc. agreed to grant a license to Morningstar Asia to use certain of Morningstar Inc.'s financial information products and services, database systems, computer software, know-how and trademarks in consideration for royalties receivable from Morningstar Asia.

Pursuant to a guarantee dated April 27, 2000, CyberWorks Ventures Limited, an indirect wholly-owned subsidiary of the Company, and Pacific Century Insurance Company Limited, an indirect wholly-owned subsidiary of PCI, guaranteed AIV's obligations for payment of the consideration for the subscription of 9,354,672 shares in Morningstar Asia under the Original Morningstar JV Agreement on a several basis pro rata to the respective shareholdings of each of WIL and FAL in AIV.

- (b) On August 15, 2000, an agreement ("Morningstar S&P Agreement") was entered into for the disposal of certain shares in Morningstar Asia. Pursuant to the Morningstar S&P Agreement, AIV agreed to sell 1,867,200 shares, representing 10 percent of the issued capital of Morningstar Asia, to Softbank Investment International (Strategic) Limited ("SIIS") for US\$2.4 million (approximately HK\$18.7 million) in cash and Morningstar Inc. agreed to sell 1,867,200 shares, representing 10 percent of the issued capital of Morningstar Asia, to Softbank Finance Corporation ("Softbank Finance") for US\$2.4 million (approximately HK\$18.7 million) in cash. Upon completion of the Morningstar S&P Agreement, the issued share capital of Morningstar Asia was held as to 40.1 percent by AIV, 39.9 percent by Morningstar Inc. and 10 percent by each of SIIS and Softbank Finance, respectively.
- (c) Following completion of the Morningstar S&P Agreement, AIV, Morningstar Inc., SIIS, Softbank Finance and Morningstar Asia entered into a new joint venture agreement dated November 7, 2000 ("New Morningstar JV Agreement"). The terms of the New Morningstar JV Agreement provided, among other things, for the respective obligations of Morningstar Inc. and AIV to pay Morningstar Asia in cash any balance owed to Morningstar Asia for the shares in the capital of Morningstar Asia allotted and issued to them pursuant to the Original Morningstar JV Agreement or outstanding contributions to the operating budget of Morningstar Asia. The Original Morningstar JV Agreement was terminated upon the execution of the New Morningstar JV Agreement.
2. (a) On April 25, 2000, the Company provided a guarantee as security for certain banking facilities to PCC for an amount up to US\$477,000 (approximately HK\$3.7 million) from The Hongkong and Shanghai Banking Corporation Limited ("HSBC"). PCC, in turn, provided a guarantee to HSBC in consideration of HSBC providing a Counter Indemnity to support a bank guarantee for US\$477,000 (approximately HK\$3.7 million) given by Canara Bank on behalf of Data Access (India) Limited ("Data Access") in favor of the President of India acting through the Telegraph Authority of India in respect of the application by Data Access for an Internet Service Licence in India.

PCC is a wholly-owned subsidiary of PCC Holdings Ltd. (together with its subsidiaries hereinafter referred to as the "PCC Group") which was at the date of these transactions 60 percent held by the Company and 40 percent held by Intel Pacific, Inc. ("Intel Pacific").

Data Access is an Indian company which at the date of these transactions was 49 percent owned by the PCC Group and 51 percent by SPA Enterprises Limited ("SPA"), which is controlled by Siddhartha Ray. Siddhartha Ray is also the managing

director of Data Access and a former director of a 95 percent owned subsidiary of the PCC Group, Pacific Convergence Corporation (India) Private Limited (“PCI”). Under the Listing Rules, Data Access and SPA are connected persons of the Company because:

- Siddhartha Ray was at the date of these transactions a director of PCI, which is a subsidiary of the Company, and he is therefore a connected person of the Company;
- Siddhartha Ray is the majority shareholder of SPA which was at the relevant time the majority shareholder of Data Access, making SPA and Data Access “associates” of Siddhartha Ray within the meaning of the Listing Rules; and
- The definition of “connected person” under the Listing Rules includes associates of a connected person, thus making Data Access and SPA connected persons of the Company.

(b) On May 24, 2000 and July 27, 2000, respectively, PCC made available two loan facilities, up to a maximum principal amount of US\$5 million (approximately HK\$39 million) each, to Data Access. The loans were granted to Data Access for the purpose of funding the pre-operating and operating expenses to Data Access and the purchase of fixed assets required in the ordinary course of its business, bear interest at 6-month LIBOR plus 1.75 percent and were secured by a first charge over the movable assets of Data Access. The loans were made available in four drawings and each drawing is repayable on a date falling 3 years after the date of the relevant drawing. As at December 31, 2000, the amount outstanding under such loans was approximately US\$10 million (approximately HK\$78 million). Interest payable by Data Access to PCC for the loans during the year ended December 31, 2000 amounted to approximately US\$377,790 (approximately HK\$3 million).

(c) On May 10, 2000, PCI also made a loan of Rs.90,000,000 (approximately HK\$16 million) to Data Access.

3. (a) Pursuant to a subscription agreement dated December 29, 2000, Pacific Convergence (Mauritius) Limited (“PCM”), an indirect 60 percent owned subsidiary of the Company, agreed to subscribe for 4,411,272 shares, representing a 49 percent shareholding interest in Pacific Netinvest Limited (“PNI”), in which SPA holds the remaining 51 percent, for a total subscription price of US\$948,663 (approximately HK\$7.4 million).

Pursuant to a share purchase agreement dated December 29, 2000, PNI agreed to purchase 510,000 shares, representing 51 percent of the issued share capital of Data Access, from SPA at a consideration of US\$1,936,048 (approximately HK\$15.1 million).

As Siddhartha Ray was a director of PCI during the 12 months preceding these transactions, Data Access, SPA and PNI are connected persons of the Company, and the above agreements constituted connected transactions for the Company.

(b) Subsequent to the balance sheet date, PCM and SPA provided their pro-rata share of additional funding to PNI by way of subscription for further shares to fund PNI's share of funding commitment for Data Access. On February 13, 2001 and March 22, 2001, PCM further subscribed for 1,960,000 shares at a subscription price of Rs.10 each and 4,881,924 shares at a subscription price of Rs.10 each in PNI. Following such further funding to PNI, PCM and PNI in turn subscribed for 3,843,138 shares and 4,000,000 shares of Data Access respectively on February 13, 2001 and subscribed for 9,245,596 shares and 9,622,968 shares of Data Access at a subscription price of Rs.10 each respectively on March 22, 2001 to meet the funding requirements of Data Access.

4. On July 7, 2000, PCCW Properties Limited, a wholly-owned subsidiary of the Company, entered into a conditional sale and purchase agreement with PCR D, a company controlled by Li Tzar Kai, Richard to dispose of its 74.4 percent attributable equity interest in an underground carpark located in Shanghai, PRC, through the disposal of its 75 percent interest in Quinliven Pte. Ltd. for a total consideration of HK\$89.2 million.

As PCR D is a controlling shareholder of the Company, this disposal constituted a connected transaction for the Company.

5. On July 14, 2000, Media Touch Group Limited (“Media Touch”), an indirect wholly-owned subsidiary of the Company, entered into an agreement (“Disposal Agreement”) for the disposal of a total of 17,000 shares of US\$1.00 each, representing 17 percent of the issued share capital of NetFort Offshore Limited (“NetFort”), to RadarNet Limited (“RADAR”) at a consideration of

US\$3,350,500 (approximately HK\$26.1 million). Part of the consideration, amounting to US\$2,150,000 (approximately HK\$16.8 million) was paid in cash on July 14, 2000 and the balance of US\$1,200,500 (approximately HK\$9.4 million) (without interest) is payable on or before July 13, 2001.

NetFort was, immediately before the Disposal Agreement was signed, owned as to 80 percent by Media Touch and 20 percent by RADAR. RADAR was a substantial shareholder of NetFort and was therefore a connected person of the Company. Accordingly, the disposal of the 17 percent interest in NetFort constituted a connected transaction for the Company.

6. The Company and PCCW Services Limited (“PCCW Services”), a wholly-owned subsidiary of the Company, made advances from time to time to PCC for financing its operations. During the year, a total amount of HK\$1,611 million was provided to PCC by the Company and PCCW Services. The loan financing is unsecured, bears interest at the prime interest rate and is repayable on demand. As at December 31, 2000, a total amount of approximately HK\$1,689 million (including HK\$78 million interest) was outstanding under this facility.
7. During the year, PCC paid service charges of approximately HK\$38 million to PC Matrix, a company in which Li Tzar Kai, Richard, the Executive Chairman and controlling shareholder of the Company holds an indirect 70 percent interest, for distribution of the Company’s “NOW” television channel via satellite. This arrangement was on normal commercial terms and within the ordinary course of business of both PCC and PC Matrix.
8. Pursuant to a consulting agreement dated August 17, 1999 (the “Consulting Agreement”), the Company engaged Avram Miller as a consultant to the Company. As part of the remuneration agreed with Mr. Miller for his services under the Consulting Agreement, the Company conditionally agreed to grant options to Mr. Miller to subscribe for up to 63,201,097 shares of the Company at an exercise price of HK\$2.356 per share, exercisable over 10 years.

As Mr. Miller was subsequently appointed as a non-executive director of the Company on January 14, 2000, the grant of options to Mr. Miller constituted a connected transaction for the Company.

9. On October 23, 2000, the Company entered into a subscription agreement with PCCW Capital Limited, a wholly-owned subsidiary of the Company, and Pacific Century Group Holdings Limited (“PCG”), in respect of the placing and issue of convertible bonds with an aggregate principal amount of US\$500 million to PCG by PCCW Capital Limited for cash.

As PCG is a substantial shareholder of the Company, the placing and issue of the convertible bonds to PCG constituted a connected transaction for the Company.

#### **Prior Connected Transactions Subject to Continuing Disclosure Obligations**

10. In July 1999, Intel Corporation, the holding company of Intel Pacific, entered into a non-exclusive Technology Agreement with PCC which provides for the supply by Intel Corporation of comprehensive set-top and server-based solutions that will help deliver the combined content broadcast and Internet services generated by PCC. The contract sum for the Technology Agreement is US\$11.1 million. During the year, PCC paid US\$2 million (approximately HK\$16 million) to Intel Corporation pursuant to the Technology Agreement.

Details of this arrangement have been previously disclosed by the Company in a shareholders’ circular dated August 21, 1999 and were approved by the shareholders of the Company at an extraordinary general meeting held on September 7, 1999.

11. PCRD, a substantial shareholder of the Company, has provided a rental guarantee on each of Towers A and B and the 6-storey commercial podium of Pacific Century Place, Beijing, the PRC. The two-year rental guarantee on Tower A of not less than US\$7,527,367 per annum commenced in August 1999 and the two-year rental guarantee on Tower B of not less than US\$3,573,549 per annum commenced in June 2000.

Details of this guarantee have been previously disclosed by the Company in a shareholders’ circular dated July 7, 1999 and were approved by the shareholders of the Company at an extraordinary general meeting held on July 29, 1999.

The independent non-executive directors of the Company have reviewed the rental guarantee and confirm that such rental guarantee has been provided to the Company as stated in the Acquisition Agreement as amended by the Acquisition Supplemental Agreement (each as defined in the shareholders’ circular dated July 7, 1999).

Particulars of certain of the above transactions are also set out in Note 4 to the consolidated financial statements.

**CODE OF BEST PRACTICE**

Throughout the year, the Company complied fully with the Code of Best Practice as set out in Appendix 14 to the Listing Rules save that the non-executive directors are not appointed for a specific term of office.

**AUDITORS**

Deloitte Touche Tohmatsu acted as auditors of the Company up to and including the year ended December 31, 1998. Arthur Andersen & Co have acted as auditors of the Company for the years ended December 31, 1999 and December 31, 2000.

A resolution for the reappointment of Arthur Andersen & Co as auditors of the Company is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

**Francis Yuen**

*Deputy Chairman*

Hong Kong,

March 28, 2001