NOTES TO THE FINANCIAL STATEMENTS

December 31, 2000

(Amounts expressed in Hong Kong dollars unless otherwise stated)

1. GROUP ORGANIZATION

Pacific Century CyberWorks Limited (the "Company") was incorporated in Hong Kong and its securities have been listed on The Stock Exchange of Hong Kong Limited since October 18, 1994. 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").

(a) Reverse takeover of Pacific Century CyberWorks Limited

As a result of a series of transactions in 1999, Pacific Century Group Holdings Limited ("PCG") and Pacific Century Regional Developments Limited ("PCRD") effectively transferred certain property interests and activities in Hong Kong and elsewhere in the PRC to the Company in exchange for new shares issued by the Company. On completion of the transactions on August 3, 1999, the Company became a subsidiary of PCRD.

(b) Acquisition of PCCW-HKT Limited (formerly Cable & Wireless HKT Limited)

On August 1, 2000, the High Court of Hong Kong granted an order (the "Court Order") sanctioning the scheme of arrangement (the "Scheme") pursuant to section 166 of the Companies Ordinance to implement the acquisition of the entire issued share capital of PCCW-HKT Limited ("HKT") by Doncaster Group Limited ("Doncaster"), a wholly-owned subsidiary of the Company. On August 17, 2000, a copy of the Court Order was filed with the Companies Registry in Hong Kong and HKT became an indirect wholly-owned subsidiary of the Company. A total cash amount of approximately US$11.32 billion was paid by Doncaster and 8,669,938,322 new ordinary shares were issued by the Company to the then shareholders of HKT to acquire the entire issued share capital of HKT.

(c) Telstra Alliance

The Company and its subsidiaries (the "Group") signed conditional agreements with Telstra Corporation Limited of Australia ("Telstra") on October 13, 2000 to form a strategic alliance ("Telstra Alliance") which provided for, amongst others, (i) the merger of certain of the businesses and assets of certain subsidiaries of the Company and Telstra, including HKT's Internet Protocol ("IP") Backbone business, to create a 50:50 joint venture to operate an IP Backbone business, named Reach Ltd. ("Reach"), for which the Company would also receive cash from Reach of US$1,125 million (approximately $8,775 million), (ii) the purchase by Telstra of a 60 percent interest in a newly formed company ("Regional Wireless Company") for a cash consideration of US$1,680 million (approximately $13,100 million) that would own HKT's Hong Kong wireless communications business and (iii) the issuance of a convertible bond with a principal amount of US$750 million (approximately $5,850 million) to Telstra.

The formation of Reach and the other entities under the Telstra Alliance was completed and became effective as at February 1, 2001. A valuation of Reach will be undertaken by Reach after its formation. The results of the valuation may require an adjustment to the carrying value of the Group's investment in Reach which will be recorded in the financial statements for the year ending December 31, 2001.

(d) Ultimate holding company

The directors consider PCG, a company incorporated in the British Virgin Islands ("BVI"), to be the ultimate holding company.

2. BASIS OF PRESENTATION

As a result of the Company's acquisition of HKT and its subsidiaries (collectively known as "HKT Group"), which became effective on August 17, 2000, the consolidated financial statements include the operating results, recognized gains and losses and cash flows of HKT Group for the period from August 17, 2000 to December 31, 2000 and the financial position of HKT Group as at December 31, 2000.

The intention to form the Telstra Alliance was initially announced by the Company in April 2000, prior to the completion of the acquisition of HKT. As a result, the Company's control over HKT Group's IP Backbone business and Hong Kong wireless communications business acquired as part of the acquisition of HKT was intended to be temporary, and accordingly, the Group has not consolidated the subsidiaries which operate these businesses.

The Group has accounted for its investment in HKT Group's IP Backbone business using equity accounting, reflecting 100 percent of its interest in the HKT subsidiaries operating this business from August 17, 2000 to December 31, 2000, as the Company will have a continuing interest in the enlarged IP Backbone business operated by Reach. The investment is included in investment in unconsolidated subsidiaries under non-current assets in the accompanying balance sheet. The Company will continue to use the equity method to account for its 50 percent interest in Reach from its formation in February 2001.

The 60 percent interest in HKT Group's Hong Kong wireless communications business to be purchased by Telstra has been accounted for using the cost method of accounting and is recorded as a current asset on the consolidated balance sheet. The remaining 40 percent interest to be retained by the Group has been accounted for using the equity method and is included in investment in unconsolidated subsidiaries under non-current assets in the accompanying balance sheet.

The Group's share of results of these businesses for the $4^1/_2$ month period from August 17, 2000 to December 31, 2000, being 100 percent of HKT Group's IP Backbone business and 40 percent of the HKT Group's Hong Kong wireless communications business, has been included in share of results of unconsolidated subsidiaries.

3. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with applicable Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong ("HK GAAP"), the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Principal accounting policies are summarised in the following sections:

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries, except for the subsidiaries of HKT Group operating its IP backbone and Hong Kong wireless communications businesses, the accounting for which is set out in note 2 to the financial statements. All significant intra-group transactions and balances are eliminated on consolidation.

Unless otherwise indicated, the results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from or up to their effective dates of acquisition or disposal, as appropriate.

(b) Turnover

Turnover represents (i) telecommunications and other services revenues, (ii) the amounts received and receivable in respect of goods sold, or sales of properties, (iii) amounts received and receivable from rental of investment properties, and (iv) the aggregate amount of gross certified value earned from construction, recognized when the value of work certified by the project architect shows that more than 25 percent of such contract has been completed.

(c) Revenue recognition

Provided it is probable that the economic benefits associated with a transaction will flow to the Group and the revenue and costs, if applicable, can be measured reliably, turnover and other revenue are recognized on the following bases:

(i) Telecommunications and other services

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

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

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

(ii) Sales of goods

Sales of goods are recognized when the significant risks and rewards of ownership of the goods have been transferred to customers.

(iii) Sales of properties

Income arising from sales of completed properties is recognized upon completion of the sale when title passes to the purchaser.

Income arising from the pre-sale of properties under development is recognized when legally binding unconditional sales contracts are signed and exchanged, provided that the construction work has progressed to a stage where the ultimate realization of profit can be reasonably determined and on the basis that the total estimated profit is apportioned over the entire period of construction to reflect the progress of the development. On this basis, profit recognized on properties pre-sold during the year calculated by reference to the proportion of construction costs incurred up to the end of the year to the estimated total construction costs to completion limited to the amounts of sales deposits received with due allowance for contingencies.

(iv) Rental income

Rental income from investment properties is recognized on a straight-line basis over the respective terms of the leases.

(v) Contract revenue

Revenue from a fixed price contract is recognized using the percentage of completion method, measured by reference to the percentage of certified progress billings to date to total contract revenue.

(vi) Interest income

Interest income from bank deposits and interest bearing notes is recognized on a time apportioned basis on the principal outstanding and at the rate applicable. Any discount or premium from the interest bearing notes is amortized over the life of the notes.

(vii) Commission income

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

(viii) Dividend income

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

(d) Operating leases

Leases where substantially all the rewards and risks of ownership remain with the leasing company are accounted for as operating leases. Rental income and expenses under operating leases are accounted for in the income statement on a straight-line basis over the period of the relevant leases.

(e) Finance leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. The net investment in finance leases represents total lease payments receivable net of finance income relating to future accounting periods. Finance income is allocated to accounting periods so as to give a constant rate of return on the net cash investment in the lease.

(f) Goodwill or capital reserve

Goodwill or capital reserve arising on acquisition of subsidiaries, jointly controlled companies or associates represents, respectively, the excess or shortfall of the purchase consideration over the Group's share of the fair value ascribed to the separable assets and liabilities of the subsidiaries, jointly controlled companies or associates at the date of acquisition.

Positive goodwill is written off directly against and negative goodwill is credited directly to reserves.

On disposal of a subsidiary, a jointly controlled company or an associate, the attributable amount of goodwill or capital reserve previously written off against or credited to reserves is included in the determination of the gain or loss on disposal.

(g) Fixed assets and depreciation

Fixed assets, excluding investment properties, are stated at cost (or valuation) less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after a fixed asset has been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalized as an additional cost of the fixed asset.

Depreciation is calculated on the straight-line basis at annual rates estimated to write off the cost of fixed assets over their expected useful lives. The annual rates are as follows:

Land and buildings	Over the shorter of the lease term or the expected useful lives
Exchange equipment	5 to 15 years
Transmission plant	5 to 25 years
Other plant and equipment	2 to 16 years or term of lease

A write-down is made if the recoverable amount of fixed assets is below their carrying amount. The write-down is charged to the income statement as an expense unless it reverses a previous revaluation increase, in which case, it is charged directly against any related revaluation reserve to the extent that the reduction does not exceed the amount held in the revaluation reserve in respect of the same item.

(h) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential and for the long term.

Investment properties are included in the balance sheet at their open market value, on the basis of an annual valuation by professionally qualified executives of the Group and by independent valuers at intervals of not more than three years. Changes in the value of investment properties are dealt with as movements in the property revaluation reserve. If the total of this reserve is insufficient to cover a reduction in the open market value on a portfolio basis, the excess is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realized in respect of previous valuations is released from the property revaluation reserve to the income statement as part of the gain or loss on disposal of the investment property.

No depreciation is provided on investment properties unless the unexpired lease term is 20 years or less, in which case depreciation is provided on their carrying value over the unexpired lease term.

(i) Properties held for development

Properties held for development represent interests in land where construction has not yet commenced. Properties held for development are stated at cost less any provision for impairment in value. Costs include original land acquisition costs, costs of land use rights, and direct development costs attributable to such properties.

(j) Properties under development

Properties under development represent interests in land and buildings under construction. Properties under development for long-term purposes are stated at cost less any provision for impairment in value. Properties under development for sale, pre-sales of which have not yet commenced, are carried at the lower of cost or net realizable value. Properties under development for sale which have been pre-sold are stated at cost plus attributable profits less sale deposits, instalments received and receivable and any foreseeable losses.

Cost includes original land acquisition costs, costs of land use rights, construction expenditure incurred and other direct development costs attributable to such properties, including interest prior to the completion of construction.

Properties under development for long-term purposes, on completion, are transferred to fixed assets or investment properties.

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

(k) Trademarks

Trademarks are stated at acquisition cost and are amortized on a straight-line basis over the expected future economic life of 20 years. Where appropriate, provision is made for any impairment in value.

(l) Development costs

Development costs which represent costs directly attributable to the development of contents and facilities to provide high speed multi-media services and related programming and content costs are deferred when (i) technical feasibility of the services can be demonstrated (ii) the services under development are expected to be launched and (iii) recoverability can be foreseen with reasonable assurance.

Development costs attributable to the development of facilities to provide high speed multi-media services will be amortized over their estimated useful life commencing in the year of commercial launch of the services to reflect the pattern in which the related economic benefits are recognized.

The programming and content costs associated with the acquisition or production of movies, video and television programs and website content are deferred and amortized over the estimated period of use or estimated number of showings.

The unamortized balance of development costs is periodically reviewed and is written off to the extent that the unamortized balance, taken together with further development and other directly related costs, is no longer likely to be recoverable.

(m) Subsidiaries

A company is a subsidiary company if more than 50 percent of the issued voting capital is held long-term, directly or indirectly. Investments in subsidiaries are carried at cost in the Company's balance sheet less provisions for impairment in value, on an individual entity basis. The results of subsidiaries are included in the income statement of the Company only to the extent of dividends declared.

(n) Associates

An associate is a company over which the Group has significant influence, but not control or joint control, and thereby has the ability to participate in its financial and operating policy decisions.

In the consolidated financial statements, investment in associates are accounted for using the equity method of accounting, whereby investments are initially recorded at cost and the carrying amounts are adjusted to recognize the Group's share of post-acquisition profits or losses of the associates, distributions received from associates and other necessary alterations in the Group's proportionate interest in the net assets of the associates arising from changes in the equity of associates that have not been included in the consolidated income statement.

Where, in the opinion of the directors, there is impairment in the value of an associate, other than temporary, or the market value has fallen below the carrying value over a sustained period, a provision is made for impairment in value of the investment.

In the Company's balance sheet, investment in associates is carried at cost less provisions for impairment in value, on an individual entity basis. The results of associates are included in the income statement of the Company only to the extent of dividends declared.

(o) Joint ventures and jointly controlled companies

A jointly controlled company or a joint venture is a contractual arrangement whereby the Company and other parties undertake an economic activity which is subject to joint control and over which none of the participating parties has unilateral control. The Group has made investments in joint ventures in the PRC in respect of which the partners' profit-sharing ratios during the joint venture period and share of net assets upon the expiration of the joint venture period may not be in proportion to their equity ratios, but are as defined in the respective joint venture contracts.

Investments in jointly controlled companies or joint ventures are accounted for using the equity method in the Group's consolidated financial statements.

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

The Company's interests in joint ventures and jointly controlled companies are carried at cost in the Company's balance sheet less provisions for impairment in value, on an individual entity basis. The results of joint ventures and jointly controlled companies are included in the income statement of the Company only to the extent of dividends declared.

(p) Unconsolidated subsidiaries

An unconsolidated subsidiary is a subsidiary that is excluded from consolidation when control is intended to be temporary because the subsidiary is acquired and held exclusively with a view to its subsequent disposal in the near future. Investment in unconsolidated subsidiaries of the Group are accounted for as stated in note 2 to the financial statements.

(q) Investments

Held-to-maturity securities

Held-to-maturity securities are investments which the Group has the expressed intention and ability to hold to maturity. They are carried at amortized cost less any provision for impairment in value. The discount or premium is amortized over the period to maturity and included in the income statement.

The carrying amounts of held-to-maturity securities are reviewed at each balance sheet date to assess the credit risk and whether the carrying amounts are expected to be recovered. Provisions are made when the carrying amounts are not expected to be recovered and are recognized as an expense in the income statement.

Investment securities

Investments, which include both debt and equity securities, intended to be held on a continuing basis, are classified as investment securities and are included in the balance sheet at cost less any provision for impairment in value.

The carrying amounts of investment securities are reviewed at each balance sheet date to assess whether fair values have declined below the carrying amounts. When such a decline has occurred, the carrying amount is reduced and the reduction is recognized as an expense in the income statement unless there is evidence that the decline is temporary.

Provisions against the carrying value of held-to-maturity securities and investment securities are reversed to the income statement when the circumstances and events that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

Upon disposal of held-to-maturity securities and investment securities, any profit or loss thereon is accounted for in the income statement.

Other investments

Investments other than held-to-maturity securities and investment securities are classified as other investments and are carried at fair value in the balance sheet. Any unrealized holding gain or loss on other investments is recognized in the income statement in the period when it arises. Upon disposal of other investments, any profit or loss representing the difference between the carrying value of the investment and net sales proceeds is accounted for in the income statement.

The transfer of investments between categories is accounted for at fair value. For an investment transferred into the other investment category, the unrealized holding gain or loss at the date of transfer is recognized in net profit or loss immediately. Investments are transferred from the other investment category at fair value at the date of transfer. Previously recognized unrealized holding gains or losses on such securities are not reversed.

(r) Properties held for sale

Properties held for sale are stated at the lower of cost and net realizable value. Cost includes development and construction expenditure incurred, interest and other direct costs attributable to such properties. Net realizable value is estimated by the directors based on prevailing market prices, on an individual property basis, less any further costs expected to be incurred on disposal.

(s) Inventories

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

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

Work in progress is stated at cost, which comprises labor, materials and overheads where appropriate.

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

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

(t) Construction contracts

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

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

(u) Cash and cash equivalents

Cash and cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the dates of advances.

(v) Borrowing costs

Borrowing costs are expensed as incurred, except to the extent that they are directly attributable to the acquisition, construction or production of an asset that necessarily involves a substantial period of time before the asset is ready for its intended use or sale, in which case the borrowing costs are capitalized as part of the cost of the asset.

Discounts or premiums relating to borrowings, ancillary costs incurred in connection with arranging borrowings and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs, are recognized as expenses over the period of the borrowing.

(w) Deferred taxation

Deferred taxation is provided under the liability method in respect of timing differences between profit as computed for taxation purposes and profit as stated in the financial statements, except where it is considered that no liability will arise in the foreseeable future.

A deferred tax asset is not recognized unless the related benefits are expected to crystallize in the foreseeable future.

(x) Retirement benefit costs

Contributions related to defined contribution plans are expensed as incurred and are reduced by contributions forfeited for those employees who leave the scheme before such contributions become vested. The regular retirement cost related to defined benefit plans is charged to the income statement over the service lives of the members of the defined benefit plans on the basis of constant percentages of pensionable pay. Variations from regular retirement cost arising from periodic actuarial valuations are allocated to the income statement over the expected remaining service lives of the members.

(y) Foreign currencies

Companies comprising the Group maintain their books and records in the primary currencies of their operations (the “respective functional currencies”).

In the financial statements of individual companies, transactions in other currencies during the year are translated into the respective functional currencies at the applicable rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in other currencies are translated into the respective functional currencies at the applicable rates of exchange in effect at the balance sheet date. All exchange differences are dealt with in the income statement.

For the purpose of preparing consolidated financial statements, the financial statements of the individual companies with functional currencies other than Hong Kong dollars are translated into Hong Kong dollars using the closing rate method. Under this method, assets and liabilities of these individual companies are translated into Hong Kong dollars at the applicable rates of exchange in effect at the balance sheet date. Income and expenses are translated at the average exchange rates for the year. Share capital and other reserves are translated into Hong Kong dollars at historical rates. Exchange differences arising on translation are dealt with as movements in reserves.

(z) Off balance sheet financial instruments and derivatives

Gains and losses on revaluation and maturity of spot and forward contracts used for hedging purposes are recorded in the income statement and are offset against gains and losses arising from the foreign exchange transactions and revaluation of foreign currency denominated assets and liabilities which these contracts are hedging. Forward contracts undertaken for trading purposes are marked to market and the gain or loss arising is recognized in the income statement.

Interest rate swaps, forward rate agreements and interest rate options are used to manage exposure to interest rate fluctuations. The notional amounts are recorded off balance sheet. Interest flows are accounted for on an accrual basis. Interest income or expense arising therefrom is netted off against the related interest income or expense applicable to the on-balance sheet items which these financial instruments are hedging.

The notional amounts of equity and currency options are recorded off balance sheet. Premiums received or paid on the respective written or purchased equity and currency options are amortized over the terms of these options (see note 21(c)).

4. RELATED PARTY TRANSACTIONS

Companies are considered to be related if one company has the ability, directly or indirectly, to control the other company or exercise significant influence over the other company in making financial and operating decisions. Companies are also considered to be related if they are subject to common control or common significant influence.

(a) During the year, the Group had the following significant transactions with related companies:

	2000 HK$ million	**1999** HK$ million
		(Note 36)
Convertible bond interest charged by the ultimate holding company	23	–
Convertible bond interest charged by an intermediate holding company	11	12
Consultancy fee charged by a minority shareholder of a subsidiary *(i)*	16	16
Connectivity services fee charged by a related company	38	6
Guaranteed rental income from an intermediate holding company	18	4
Compensation of construction cost overrun from an intermediate holding company *(ii)*	213	–
Sales of telecommunications services from an unconsolidated subsidiary to a subsidiary of a substantial shareholder of the Group *(iii)*	355	–
Purchases of telecommunications services by an unconsolidated subsidiary from a subsidiary of a substantial shareholder of the Group *(iii)*	71	–
Global services management fee paid by an unconsolidated subsidiary to a subsidiary of a substantial shareholder of the Group *(iv)*	16	–
Administration fee income received from a subsidiary of a substantial shareholder of the Group by an unconsolidated subsidiary *(v)*	5	–

(i) The amount represents the consultancy fee charged by a minority shareholder of a subsidiary to the subsidiary for the development of facilities to provide high-speed multi-media services.

(ii) The Company is entitled to receive approximately $213 million from the intermediate holding company because the estimated total construction cost of a project located in the PRC has exceeded the original estimated total construction cost of US$465 million (approximately $3,627 million) guaranteed by the intermediate holding company. The intermediate holding company had undertaken to bear additional construction costs over US$465 million for the aforementioned project in July 1999.

(iii) These amounts represent transactions conducted in the ordinary course of international telecommunication business which were charged at rates agreed in accordance with the standard industry practice.

(iv) This amount represents the fee paid for central coordination of global managed services rendered on certain customers.

(v) This amount represents the fee received for providing various administrative services which was charged on a cost plus basis.

The above transactions were carried out after negotiations between the Group and the related parties in the ordinary course of business and on the basis of estimated market value as determined by the directors.

(b) Advances from customers includes an amount of $157 million (1999: $139 million) which represents prepaid advertising fees received and receivable from investee companies for advertising space on the broadband Internet and television network operated by the Group.

(c) On April 27, 2000, the Group set up a special purpose entity with a group under the common control of PCRD. The entity, Advanced Internet Visions Limited, a 70 percent owned subsidiary of the Group, was formed for the purpose of establishing a jointly controlled company for the provision of independent financial information services in certain countries in Asia. The total capital contributions to be made by the Group and the group under the common control of PCRD to the jointly controlled company were approximately US$8.4 million ($66 million) and US$3.6 million ($28 million) respectively. The group under the common control of PCRD guaranteed the obligation for payment of the capital contribution to the extent of US$3.6 million ($28 million). In August 2000, the Group disposed 7 percent effective interest in the jointly controlled company to a third party at cost.

(d) In July 2000, the Group sold its 74.4 percent attributable equity interest in a parking rental business in Shanghai, the PRC to PCRD at a gain of approximately $15 million.

(e) On July 14, 2000, the Group disposed 17 percent interest in one of its subsidiaries to the minority shareholder of that subsidiary at a consideration of US$3.4 million (approximately $26 million). The gain of approximately $15.5 million arising on the disposal of this interest was included in arriving at “Losses on investments” of the Group.

(f) Pursuant to a consulting agreement dated August 17, 1999 (the “Consulting Agreement”), the Company engaged Mr. Avram Miller as a consultant to the Company. As part of the remuneration arrangements under the Consulting Agreement, PCCW granted options to Mr. Miller to subscribe for up to 63,201,097 ordinary shares of the Company at an exercise price of $2.356 per share exercisable over ten years. On January 14, 2000, Mr. Miller was appointed as the Company’s non-executive director.

(g) In December 2000, the Group issued convertible bonds with an aggregate principal amount of US$500 million to its ultimate holding company for cash.

(h) During the year, the Group advanced three loans totaling approximately $93 million to Data Access (India) Limited (“Data Access”), a jointly controlled company of the Group. The loans bear interest at commercial rates, secured by all the movable assets of Data Access and are repayable on demand or have terms of repayment up to three years.

(i) During the year, a company wholly-owned by Li Tzar Kai, Richard purchased exchangeable notes convertible into an aggregate of 609,000 shares of Pacific Century CyberWorks Japan K.K. (formerly Jaleco Limited) issued by a subsidiary of the Group.

(j) Balances with related parties other than specified in this note are unsecured, non-interest bearing and have no fixed repayment terms.

5. SEGMENTAL INFORMATION

The following segmental information consolidates the corresponding financial information of PCCW-HKT Limited for the 4½ month period from August 17 to December 31, 2000.

An analysis of turnover and contribution to (loss)/profit from operations by principal activity and geographical location is set out below:

	Turnover		(Loss)/Profit from operations	
	2000 HK$ million	**1999** HK$ million	**2000** HK$ million	**1999** HK$ million
		(Note 36)		*(Note 36)*
(a) By principal activity:				
Telecommunications	7,658	133	2,503	(33)
Venture investments	16	–	(4,927)	433
Multimedia and Internet	912	–	(2,057)	(110)
Infrastructure and property	454	18	5	(30)
Trading	47	1	(202)	21
Eliminations	(1,796)	–	(1)	–
	7,291	152	(4,679)	281
(b) By geographical location:				
Asia Pacific	7,280	152	(3,705)	281
North America	10	–	(8)	–
Europe	1	–	(966)	–
	7,291	152	(4,679)	281

Certain operating segments of HKT Group having similar economic characteristics have been aggregated with those of the Company following the acquisition of HKT Group.

6. OPERATING PROFIT/(LOSS) BEFORE NET (LOSSES)/GAINS ON INVESTMENTS AND PROVISIONS FOR IMPAIRMENT LOSSES

	The Group	
	2000 HK$ million	**1999** HK$ million
		(Note 36)
Turnover	7,291	152
Cost of sales	(2,228)	(66)
General and administrative expenses	(4,845)	(377)
Other income/(expense), net	302	(2)
Operating profit/(loss) before net (losses)/gains on investments and provisions for impairment losses	520	(293)

7. (LOSS)/PROFIT FROM OPERATIONS

(Loss)/Profit from operations is stated after crediting and charging the following:

	The Group	
	2000 HK$ million	**1999** HK$ million
		(Note 36)
Crediting:		
Dividend income from		
Listed investment securities and other investments	1	1
Unlisted investment securities and other investments	4	–
Contract revenue	253	–
Gain on disposal of discontinued operations	–	21
Unrealized holding gain on other investments recorded as (losses)/gains on investments, net	–	537
Realized gain on disposal of other investments recorded as (losses)/gains on investments, net	50	37
Realized gain on disposal of investment in subsidiaries, a jointly controlled company and associates recorded as (losses)/gains on investments, net	181	–
Charging:		
Unrealized holding loss on other investments recorded as (losses)/gains on investments, net	1,076	–
Provision for other than temporary decline in value of		
– investment securities	3,911	–
– investment in jointly controlled companies and associates	77	–
Provision for impairment of fixed assets	50	–
Write-off of intangible assets	98	–
Write-down of fixed assets to recoverable amount	–	24
Provision for losses on contract commitments	231	–
Depreciation	892	13
Amortization of intangible assets	28	–
Staff (excluding directors) costs	1,836	93
Cost of inventories	626	66
Loss on disposal of fixed assets	8	5
Exchange loss, net	22	3
Auditors' remuneration	8	1
Operating lease rental		
– land and buildings	115	9
– equipment	12	–
Pension scheme contributions *(a)*	131	3
Provision for inventory obsolescence	113	–

(a) Information regarding pension scheme contributions

The Group operates both defined contribution and defined benefit pension schemes for its qualifying employees. The assets of the schemes are held separately from those of the Group in funds under the control of independent trustees.

For the defined contribution scheme, the pension cost charged to the income statement represents contributions paid or payable by the Group at rates specified under the rules of the scheme. Where employees leave the scheme prior to the full vesting of their contributions, the amount of forfeited contributions is used to reduce the contributions payable by the Group. The pension scheme contributions payable to the Group's defined contribution scheme and forfeited contributions are set out below:

	The Group	
	2000 HK$ million	**1999** HK$ million
Pension scheme contributions payable to the Group's defined contribution scheme	9	4
Less: Forfeited contributions	–	(1)
	9	3

At the balance sheet date, the amount of forfeited contributions arising from employees leaving the scheme before becoming fully vested and which are available to reduce the contributions payable by the Group in the future were approximately $485,000 (1999 : $100,000).

For the defined benefit scheme, the funding policy 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. The total cost charged to the income statement for the year was $122 million (1999: nil) which was determined in accordance with the accounting policy described in note 3(x) to these financial statements. The assumptions adopted for the purpose of determining the charge were the same as those described below but scheme assets were valued using a three year quarterly moving average method.

The latest actuarial valuation of the retirement funds was carried out at December 31, 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 percent per annum higher than the rate of salary escalation. The actuary was of the opinion that the value of the scheme assets was sufficient to cover 103 percent of the aggregate vested liability as at December 31, 1998, that is, the total value of the benefits which would be payable had the scheme been discontinued at that date.

8. FINANCE (COSTS)/INCOME, NET

	The Group	
	2000 HK$ million	**1999** HK$ million
		(Note 36)
Bank loans and overdrafts wholly repayable within 5 years	(3,391)	(26)
Other loans wholly repayable within 5 years	(72)	(36)
Other loans not wholly repayable within 5 years	(1)	–
	(3,464)	(62)
Interest capitalized in properties under development for investment	110	41
	(3,354)	(21)
Interest income on bank deposits	998	77
	(2,356)	56

The net finance costs of $3,354 million (1999: $21 million) includes amortization of arrangement fees of approximately $896 million (1999: nil) incurred for the bank loan facility obtained by the Group to finance the acquisition of the HKT Group.

During the year, the capitalization rate used to determine the amount of interest eligible for capitalization ranged from 5.85 percent to 7.50 percent.

9. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

(a) Details of directors' emoluments are set out below:

	The Group	
	2000 HK$ million	**1999** HK$ million
Non-executive directors		
Fees	1	–
Executive directors		
Fees	–	–
Salaries, allowances and other allowances and benefits in kind *(i)*	633	8
Pension scheme contributions	2	–
Bonuses paid and payable	132	6
	767	14
Total	768	14

(i) Benefits in kind includes the difference between the market price of the Company's shares and the exercise price of share options granted to the directors at the date of exercise of the share options by the directors irrespective of whether the resulting shares were sold or retained by the directors. The difference amounted to approximately $597 million and does not affect the results of operations of the Group.

The emoluments of the directors analyzed by the number of directors and emolument ranges were as follows:

	Number of directors The Group 2000	1999
Up to $1,000,000	4	14
$1,000,001 – $1,500,000	–	2
$1,500,001 – $2,000,000	–	1
$2,000,001 – $2,500,000	2	–
$2,500,001 – $3,000,000	–	1
$3,000,001 – $3,500,000	1	–
$3,500,001 – $4,000,000	1	1
$7,000,001 – $7,500,000	1	–
$11,500,001 – $12,000,000	1	–
$14,000,001 – $14,500,000	2	–
$21,500,001 – $22,000,000	1	–
$140,000,001 – $140,500,000	1	–
$261,000,001 – $261,500,000	1	–
$283,000,001 – $283,500,000	1	–
	16	19

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

The above analysis has also taken into account the aggregate benefits realized by the directors on the exercise of share options as noted in (i) above.

(b) Details of senior executives' emoluments are set out below:

Of the five highest paid individuals in the Group, three (1999: two) are directors of the Company whose emoluments are included above. The emoluments of the remaining two (1999: three) individuals were as follows:

	The Group	
	2000 HK$ million	**1999** HK$ million
Salaries and other benefits *(i)*	72	4
Pension scheme contributions	–	–
Bonuses paid and payable	2	3
Total	74	7

(i) Other benefits include the difference between the market price of the Company's shares and the exercise price of share options granted to the individuals at the date of exercise of the share options by the individuals irrespective of whether the resulting shares were sold or retained by the individuals. The difference does not affect the results of operations of the Group.

Their emoluments were within the following bands:

	The Group	
	Number of senior executives	
	2000	**1999**
$1,500,001 – $2,000,000	–	1
$2,000,001 – $2,500,000	–	1
$3,500,001 – $4,000,000	–	1
$29,500,001 – $30,000,000	1	–
$44,000,001 – $44,500,000	1	–
	2	3

The above analysis has also taken into account the aggregate benefits realized by the individuals on the exercise of share options.

During the year, no emoluments were paid to the five highest paid individuals (including directors, members and employees) as an inducement to join the Group or as compensation for loss of office.

10. TAXATION

Hong Kong profits tax has been provided at the rate of 16 percent (1999: 16 percent) on the estimated assessable profits for the year. Overseas taxation has been calculated on the estimated assessable profits for the year at the rates prevailing in the respective jurisdictions.

	The Group	
	2000 HK$ million	**1999** HK$ million
The Company and subsidiaries:		
Hong Kong profits tax		
– Provision for current year	320	6
– Tax charges from leasing partnerships	28	–
Overseas income tax		
– Provision for current year	3	1
Provision for deferred taxation *(Note 28)*		
– Hong Kong	31	–
	382	7
Unconsolidated subsidiaries		
Hong Kong profits tax		
– Provision for current year	137	–
Associates:		
Overseas income tax		
– Provision for current year	3	–
Total	522	7

11. (LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS

$4,460 million (1999: $41 million) of the loss attributable to shareholders was dealt with in the financial statements of the Company.

12. (LOSS)/EARNINGS PER SHARE

The calculation of (loss)/earnings per share is based on the loss attributable to shareholders for the year of $6,907 million (1999: profit of $347 million). The basic loss per share is based on the weighted average of 14,528,166,900 shares (1999: 3,472,364,370 shares) in issue during the year. The diluted loss per share for the year ended December 31, 2000 is the same as the basic loss per share as all potential ordinary shares are anti-dilutive.

The weighted average number of ordinary shares that was used for calculating the basic and diluted earnings per share has not been retrospectively adjusted for the rights issue which took place in December 2000 because there was no bonus element in the rights issue.

13. FIXED ASSETS

	2000						
	Investment properties HK$ million	**Land and buildings** HK$ million	**Exchange equipment** HK$ million	**Transmission plant** HK$ million	**Other plants and equipment** HK$ million	**Projects under construction** HK$ million	**Total** HK$ million
THE GROUP							
Cost or valuation							
Beginning of year	1,060	54	–	–	118	–	1,232
Additions							
– through acquisition of subsidiaries	2,029	3,211	4,261	6,460	1,984	1,941	19,886
– others	343	30	323	241	858	499	2,294
Valuation surplus	219	–	–	–	–	–	219
Transfers	–	4	(15)	26	243	(258)	–
Disposal of subsidiaries	–	–	–	–	(65)	–	(65)
Disposals	–	–	(14)	(2)	(34)	–	(50)
Provision for impairment in value	–	(3)	–	–	(47)	–	(50)
Cost overrun compensated by intermediate holding company	(78)	–	–	–	–	–	(78)
Exchange difference	1	–	–	–	–	–	1
End of year	3,574	3,296	4,555	6,725	3,057	2,182	23,389
Representing:							
At cost	–	3,262	4,555	6,725	3,057	2,182	19,781
At valuation	3,574	34	–	–	–	–	3,608
	3,574	3,296	4,555	6,725	3,057	2,182	23,389
Accumulated depreciation							
Beginning of year	–	1	–	–	33	–	34
Charge for the year	–	22	291	173	406	–	892
Disposal of subsidiaries	–	–	–	–	(1)	–	(1)
Disposals	–	–	(10)	–	(31)	–	(41)
End of year	–	23	281	173	407	–	884
Net book value							
End of year	3,574	3,273	4,274	6,552	2,650	2,182	22,505
Beginning of year	1,060	53	–	–	85	–	1,198

	2000	
	Equipment HK$ million	**Total** HK$ million
THE COMPANY		
Cost		
Beginning of year	2	2
Additions	–	–
Disposals	–	–
End of year	2	2
Accumulated Depreciation		
Beginning of year	1	1
Charge for the year	1	1
Disposals	–	–
End of year	2	2
Net book value		
End of year	–	–
Beginning of year	1	1

Had land and buildings of the Group carried at valuation been carried at cost less accumulated depreciation and any reductions in carrying value to recoverable amounts, the carrying value of the land and buildings of the Group as at December 31, 2000 would have been approximately $33 million (1999: $36 million).

Land and buildings with an aggregate carrying value of approximately $102 million (1999: $36 million) were pledged as security for certain bank borrowings of the Group.

The carrying amount of investment properties and land and building of the Group is analyzed as follows:

	Investment properties		Land and buildings	
	2000 HK$ million	**1999** HK$ million	**2000** HK$ million	**1999** HK$ million
Held in Hong Kong				
On long lease (over 50 years)	2,127	–	1,514	–
On medium-term lease (10 - 50 years)	285	282	1,627	36
On short lease (less than 10 years)	–	–	–	–
Held outside Hong Kong				
Freehold	–	–	70	–
Leasehold				
On long lease (over 50 years)	–	778	45	17
On medium-term lease (10 - 50 years)	1,162	–	17	–
	3,574	1,060	3,273	53

Investment properties were revalued as at December 31, 2000 by independent valuers, CB Richard Ellis Limited and Insigma Brooke.

Approximately $1,061 million (1999: $672 million) of the investment properties are mortgaged as collateral for banking facilities of the Group.

14. PROPERTIES HELD FOR DEVELOPMENT

	The Group	
	2000 HK$ million	**1999** HK$ million
Leasehold land, at cost:		
Located in Hong Kong	15	23
Located in the PRC	51	48
	66	71

As at December 31, 2000, none of the properties held for development were pledged (1999: nil).

15. PROPERTIES UNDER DEVELOPMENT

Properties under development comprised:

	The Group	
	2000 HK$ million	**1999** HK$ million
Properties under development for investment (a)	1,675	1,506
Properties under development for sale	655	355
	2,330	1,861
Less: Properties under development for sale classified as current assets	(169)	(342)
	2,161	1,519

Properties under development for investment with an aggregate carrying value of approximately $1,345 million (1999: $1,256 million) were pledged as security for certain bank borrowings of the Group.

(a) On November 5, 1998, a subsidiary of the Group entered into an agreement with an independent third party to construct an industrial building in the PRC to be leased to that party. Under the agreement, the subsidiary is responsible for the construction of the building and the third party will pay the subsidiary a lease payment in advance covering the whole lease period. As at December 31, 2000, a formal lease agreement had not yet been signed. However, approximately $169 million (1999: $167 million) had been advanced by that third party to the subsidiary.

16. INTANGIBLE ASSETS

	The Group			
	2000			1999
	Development costs HK$ million	Trademarks and others HK$ million	Total HK$ million	Total HK$ million
Cost				
Beginning of year	17	–	17	–
Additions				
– through acquisition of HKT Group	–	1,516	1,516	–
– others	81	19	100	17
Write-off	(98)	–	(98)	–
End of year	–	1,535	1,535	17
Amortization				
Beginning of year	–	–	–	–
Charge for the year	–	28	28	–
End of year	–	28	28	–
Net book value				
End of year	–	1,507	1,507	17
Beginning of year	17	–	17	–

As a result of the periodic review of the unamortized balance of development costs, the Group wrote off all development costs as at December 31, 2000 as they no longer met all the criteria for capitalization.

17. INVESTMENT IN SUBSIDIARIES

	THE COMPANY	
	2000 HK$ million	1999 HK$ million
Unlisted shares, at cost	7,026	6,225
Amounts due from subsidiaries	157,626	4,954
	164,652	11,179
Less: Provision for impairment in value	(5,194)	–
	159,458	11,179
Amounts due to subsidiaries	(525)	(1)
	158,933	11,178

The provision for impairment in value of $5,194 million relates to certain subsidiaries of the Company which hold the Group's investments in investment securities and other investments.

Balances with subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment, except for an amount of $1,689 million due from a subsidiary, which bears interest at commercial rates.

Dividends from the PRC joint ventures will be declared based on the profits in the statutory financial statements of these PRC joint ventures. Such profits will be different from the amounts reported under accounting principles generally accepted in Hong Kong.

As at December 31, 2000, the Group has financed the operations of certain of its PRC joint ventures in the form of shareholders' loans amounting to approximately US$56 million (1999: US$44 million) which have not been registered with the State Administration of Foreign Exchange. As a result, remittances in foreign currency outside the PRC may be restricted.

As at December 31, 2000, particulars of the principal subsidiaries of the Company are as follows:
(Amounts expressed in Hong Kong dollars except otherwise stated)

Name of company	Country of incorporation/ operations	Principal activities	Nominal value of issued capital/ registered capital	Equity interest attributable to the Group	
				Directly	Indirectly
ACCA Investment Limited	Hong Kong	Property holding	2	100%	–
AdSociety Limited	Cayman Islands	Investment holding	US$925,001	–	79%
Advanced Internet Ventures Limited	BVI	Investment holding	US$1	–	100%
Advanced Internet Visions Limited	BVI	Investment holding	US$100	–	70%
Angaro N.V.	Netherlands Antilles	Investment holding	US$6,000	100%	–
Asian Motion Limited	BVI	Investment holding	US$1	100%	–
Asianet System Group Limited	BVI	Investment holding	US$1	–	100%
Atherington Management Limited	BVI	Investment holding	US$1	100%	–
Atkins Developments Limited	BVI	Investment holding	US$1	–	100%
Beijing Jing Wei House and Land Estate Development Co. Ltd.	The PRC	Property development	US$50,000,000	–	100%
Beijing Jing Wei Property Management Co. Ltd.	The PRC	Property management	US$150,000	–	80%
Brideswell Limited	Hong Kong	FNOC Trial operations	2	–	60%
Broadband Experience Limited	BVI	Investment holding	US$1	–	100%
Broadband Technologies Limited	BVI	Investment holding	US$1	–	100%
Carlyle International Limited	Hong Kong	Entrustment work	2	–	100%
Carmay Investment Limited	Hong Kong	Property holding	2	100%	–
Cosmos Network Limited	BVI	Investment holding	US$1	–	100%
Cyber Advance Limited	BVI	Investment holding	US$1	–	100%
Cyber Assist Limited	BVI	Investment holding	US$1	–	100%
Cyber Century Development Limited	BVI	Investment holding	US$1	–	100%
Cyber Commerce Limited	BVI	Investment holding	US$1	–	100%
Cyber Configurations Limited	BVI	Investment holding	US$1	–	100%
Cyber Connections Limited	BVI	Investment holding	US$1	–	100%
Cyber Control Development Limited	BVI	Investment holding	US$1	–	100%
Cyber Convergence Limited	BVI	Investment holding	US$1	–	100%
Cyber Experience Limited	BVI	Investment holding	US$1	100%	–
Cyber Exposures Limited	BVI	Investment holding	US$1	–	100%
Cyber Expressions Limited	BVI	Investment holding	US$1	–	100%
Cyber Gains Technology Limited	BVI	Investment holding	US$1	–	100%
Cyber Interactions Limited	BVI	Investment holding	US$1	–	100%
Cyber Lifestyle Limited	BVI	Investment holding	US$1	–	100%
Cyber Media Limited	BVI	Investment holding	US$1	–	100%
Cyber Net Technologies Limited	BVI	Investment holding	US$1	100%	–
Cyber Speed Limited	BVI	Investment holding	US$1	–	100%
Cyber Star Investment Limited	BVI	Investment holding	US$1	–	100%
Cyber Tech Asset Management Limited	BVI	Investment holding	US$1	–	100%
Cyber-Tech Group Limited	BVI	Technology know-how, library, right, IP owning and licensing	US$1	–	60%
CyberVentures (Bermuda) Limited	Bermuda	Investment holding	US$12,000	–	100%
Cyber Universe Limited	BVI	Investment holding	US$1	–	100%
Cybernet Holdings Group Limited	BVI	Investment holding	US$1	–	100%

Name of company	Country of incorporation/ operations	Principal activities	Nominal value of issued capital/ registered capital	Equity interest attributable to the Group Directly	Indirectly
Cyber-Port Limited	Hong Kong	Property development	2	–	100%
Cyber-Port Management Limited	Hong Kong	Management services	2	100%	–
CyberWorks International B.V.	Netherlands	Investment holding	EUR3,140,000	–	100%
CyberWorks Internet Ventures Limited	Bermuda	Investment holding	US$12,000	–	100%
CyberWorks Jobs Limited	BVI	Holding intellectual property rights	US$1	100%	–
CyberWorks Ventures International Holdings Limited	BVI	Management services	US$1	100%	–
CyberWorks Ventures Limited	Bermuda	Investment holding	US$12,000	–	100%
Doncaster Group Limited	Hong Kong	Investment holding	2	–	100%
East Cyber Holdings Limited)	BVI	Investment holding	US$1	–	100%
Eureka Investments Group Limited	BVI	Investment holding	US$1	–	100%
Extra Lite International Limited	BVI	Investment holding	US$1	–	100%
Gain Score Limited	BVI	Investment holding	US$1	–	100%
Global Venture Offshore Limited	BVI	Investment holding	US$1	–	100%
Green Haven Limited	Hong Kong	Corporate services	2	100%	–
Guangzhou Huaxin Property Development Co. Ltd.	The PRC	Property development	US$2,550,000	–	85%
Hawkwood Holdings Limited	BVI	Investment holding	US$1	–	100%
Hodgson Enterprises Limited	Hong Kong	Catering services	2	–	100%
Hoover Express Limited	Hong Kong	Property development	10,000	–	80%
Hyperlink Investments Group Limited	BVI	Investment holding	US$1	–	100%
Impressive Bronze Limited	BVI	Investment holding	US$1	–	100%
iNets Holdings Limited	BVI	Information technology center	US$1,000	–	70%
Internet Accord Limited	BVI	Investment holding	US$1	–	100%
Internet Advance Limited	BVI	Investment holding	US$1	100%	–
Internet City Holdings Limited	BVI	Investment holding	US$1	–	100%
Internet Configurations Limited	BVI	Investment holding	US$1	–	100%
Internet Convergence Limited	BVI	Investment holding	US$1	–	60%
Internet Creations Limited	BVI	Investment holding	US$1	–	100%
Internet Elite Limited	BVI	Investment holding	US$1	–	100%
Internet Initiatives Limited	BVI	Investment holding	US$1	–	100%
Internet Innovations Limited	BVI	Investment holding	US$1	–	100%
Internet Linkages Limited	BVI	Investment holding	US$1	–	100%
Ipswich Holdings Limited	BVI	Investment holding	US$1	–	100%
# Joint Venture (Bermuda) No. 2 Limited	Bermuda	Telecommunications asset holding	US$12,000	–	100%
Kirkham Holdings Limited	BVI	Investment holding	US$1	–	100%
Madeline Investments Limited	Hong Kong	Property holding	2	–	100%
Manorways Holdings Limited	BVI	Investment holding	US$1	–	100%
Master Tech Group Limited	BVI	Investment holding	US$1	100%	–
Media Touch Group Limited	BVI	Investment holding	US$1	–	100%
Millennium Standard Limited	BVI	Investment holding	US$1	–	100%
Millennium System Trading Limited	BVI	Investment holding	US$1	–	100%
Millennium Vocal Limited	BVI	Investment holding	US$1	–	100%
Net Form Limited	BVI	Investment holding	US$1	–	100%
Net Visions Limited	BVI	Investment holding	US$1	–	100%
Networks Achievements Limited	BVI	Investment holding	US$1	–	100%
Network Applications Limited	BVI	Investment holding	US$1	100%	–
Network Holdings Offshore Limited	BVI	Investment holding	US$1	–	100%
Network Incubations Limited	BVI	Investment holding	US$1	–	100%
Network Initiatives Limited	BVI	Investment holding	US$10,000	–	100%
Nordic Media Limited	BVI	Investment holding	US$1	–	100%
Ocean Fine Pte Limited	Singapore	Investment holding	S$100	–	85%
Orbital Properties Limited	Hong Kong	Property holding	2	–	100%
Pacific Century Asia Technologies Limited	Cayman Islands	Investment holding	US$10	–	100%
Pacific Century Cable Holdings Limited	Bermuda	Telecommunications asset holding	US$12,000	100%	–
Pacific Century Convergence Limited	Cayman Islands	Investment holding	US$0.001	–	60%

Name of company	Country of incorporation/ operations	Principal activities	Nominal value of issued capital/ registered capital	Equity interest attributable to the Group Directly	Indirectly
Pacific Century CyberWorks (U.S.A.) Corp.	U.S.A.	Provision of promotional, liaison & business development services	US$50	100%	–
PCC Facilities (HK) Limited	Hong Kong	Production facilities owning and production operations	2	–	60%
PCC Facilities Holding Limited	BVI	Investment holding	US$1	–	60%
PCC Holdings Ltd.	Cayman Islands	Investment holding	US$2,508	60%	–
PCC Investments Limited	Cayman Islands	Investment holding	US$1	–	60%
PCC Management Services Limited	Hong Kong	Management services	2	–	60%
PCC Premium Resourcing Limited	BVI	Management services	US$1	–	60%
Pacific Convergence Corporation (UK) Limited (formerly PCC Resourcing Limited)	United Kingdom	Management services	GBP1	–	60%
PCC Wormhole Services Limited	BVI	Investment holding	US$1	–	60%
PCC Wormholes Limited	Cayman Islands	Investment holding	US$1	–	60%
PCCW Capital Limited	BVI	Bonds issuer	US$1	100%	–
Pacific Century CyberWorks India Private Limited	India	Investment holding	Rs.4,308,500	–	100%
Pacific Century CyberWorks Japan K.K. (formerly Jaleco Limited)	Japan	Entertainment software producer	JPY4,925,910,400	–	77.28%
Pacific Century CyberWorks Japan Limited	BVI	Investment holding	US$1	100%	–
Pacific Century CyberWorks Japan Limited	Cayman Islands	Investment holding	US$1	–	100%
Pacific Century Engineering Services Limited	Hong Kong	CPE business	2	100%	–
Pacific Century IDC Holdings Limited	Bermuda	Internet data centers holding	US$12,000	100%	–
Pacific Century Internet Ventures Limited	BVI	Investment holding	US$1	–	100%
Pacific Century Mobile Holdings Limited	Bermuda	Telecommunications asset holding	US$12,000	100%	–
Pacific Century Regional Services Limited	BVI	Investment holding	US$1	–	100%
Pacific Century Systems Limited	Hong Kong	CPE business	1,000,000	100%	–
Pacific Convergence Corporation, Ltd.	Cayman Islands/ Hong Kong	Broadband service developer	US$1,180	–	60%
Pacific Convergence Corporation (India) Private Limited	India	Application service provider	Rs.215,000,000	–	57%
Pacific Convergence International Limited	Cayman Islands	Investment holding	US$0.001	–	60%
Pacific Convergence (Mauritius) Limited	Mauritius	Investment holding	US$2	–	60%
Pacific Legend Group Limited	BVI	Investment holding	US$1	–	100%
PCCW International Services Limited	BVI	Recruitment services	US$1	100%	–
PCCW Japan Limited	BVI	Management services	US$1	–	100%
PCCW Mediacom Limited	BVI	Investment holding	US$1	–	100%
PCCW Properties (HK) Limited	Hong Kong	Management services	2	–	100%
PCCW Properties Limited	BVI	Investment holding	US$100	100%	–
PCCW Services Limited	Hong Kong	Management services	2	100%	–
People Now.com Limited	Hong Kong	Recruitment services	2	–	100%
Powernet Offshore Limited	BVI	Investment holding	US$1	100%	–
Reach International Holdings Limited (formerly Eastern Cable Group Limited)	BVI	Investment holding	US$1,281	–	100%
Ripley Investments Limited	Hong Kong	Property investment	10	–	100%
Spectorlite Limited	BVI	Investment holding	US$1	–	100%
Splendid Stars Group Limited	BVI	Investment holding	US$1	–	100%
Stable King Development Company Limited	Hong Kong	Property investment	100	–	80%
Starbucks (HK) Limited	Hong Kong	Satellite television uplink and downlink licence holder	10	100%	–
Tolmezzo Limited	BVI	Investment holding	US$1	–	100%
Top View Technologies Limited	BVI	Investment holding	US$1	–	100%
Virtual Effect Limited	BVI	Investment holding	US$1	–	100%
Web Commerce Limited	BVI	Investment holding	US$1	–	100%
Web Community Limited	BVI	Investment holding	US$1	–	100%
Web Content Limited	BVI	Investment holding	US$1	–	100%
Web Diversity Limited	BVI	Investment holding	US$1	100%	–

Name of company	Country of incorporation/ operations	Principal activities	Nominal value of issued capital/ registered capital	Equity interest attributable to the Group Directly	Indirectly
Web Intelligence Limited	BVI	Investment holding	US$1	–	100%
Web Power Limited	BVI	Investment holding	US$1	–	100%
Web Ventures Limited	BVI	Investment holding	US$1	–	100%
Web Visions Limited	BVI	Investment holding	US$1	–	100%
World First Finance Limited	BVI	Financing	US$1	100%	–
Yinggao Real Estate Development (Shenzhen) Co., Ltd.	The PRC	Property development	US$3,755,841	–	100%
FIC Network Service, Inc.	Taiwan	Internet services	NT$148,662,880	–	86.51%
☆ Hong Kong CSL Limited (formerly Cable & Wireless HKT CSL Limited)	Hong Kong	Sale of telecommunications products & provision of services	80,008,000	–	100%
Monance Limited	Hong Kong	Property holding	20	–	100%
☆ One2Free PersonalCom Limited	Hong Kong	Mobile telephone services	2	–	100%
PCCW Business eSolutions Limited	Hong Kong	Provision of IP/IT related, value-add services to business customer	2	–	100%
PCCW Computasia Limited	Hong Kong	Computer services	1,200	–	100%
PCCW Enterprises Limited	Hong Kong	Investment company	2	–	100%
PCCW Finance Limited	BVI/Hong Kong	Financing	US$1	–	100%
PCCW-HKT Business Services Limited	Hong Kong	Business CPE services	2	–	100%
PCCW-HKT CAS Limited	Hong Kong	Investment company	20	–	100%
PCCW-HKT Limited	Hong Kong	Local & International Telecommunications	6,092,100,052	–	100%
PCCW-HKT Telephone Limited	Hong Kong	Telecommunications services	2,163,783,209	–	100%
PCCW IMS Limited	Hong Kong	Internet multimedia services	2	–	100%
PCCW Teleservices Limited	Hong Kong	Call-center services	2	–	100%
PCCW VOD Limited	Hong Kong	iTV	3,500,000,100	–	99.99%
# Reach Internet Services Limited (formerly PCCW Internet Services Limited)	Hong Kong	Internet services provider	82,349,002	–	100%
# Reach Networks Hong Kong Limited (Formerly PCCW-HKT International Limited)	Hong Kong	Telecommunications services	901,000,000	–	100%
# Reach Pacific Limited (formerly PCCW Pacific Limited)	Hong Kong	Telecommunications services	20	–	100%
Telecom Directories Limited	Hong Kong	Publication of directories	10,000	–	51%
PCCW Powerbase Data Center Servies (HK) Limited	Hong Kong	Data center services	2	–	100%
Taiwan Telecommunication Network Services Co.,Ltd	Taiwan	Provision of telecommunications services	NT$1,087,000,000	–	56.56%

Certain subsidiaries which do not materially affect the results or financial position of the Group are not included.

\# Unconsolidated subsidiary containing IP Backbone business
☆ Unconsolidated subsidiary containing Hong Kong wireless communications business

18. INVESTMENT IN JOINTLY CONTROLLED COMPANIES

	The Group	
	2000 HK$ million	**1999** HK$ million
Share of net assets of jointly controlled companies	411	–
Provision for impairment	(60)	–
	351	–
Amounts due from jointly controlled companies	106	–
Amounts due to jointly controlled companies	(266)	–
	191	–
Investments at cost, unlisted shares	730	–

Balances with the jointly controlled companies are unsecured, non-interest bearing and have no fixed terms of repayments except for the loans due from a jointly controlled company, which bear interest at commercial rates, are secured by all of its movable properties and are repayable on demand or have fixed terms of repayment ranging up to three years.

As at December 31, 2000, particulars of the principal jointly controlled companies of the Group are as follows:

			Attributable equity interest to the Group	
Name of company	**Country of incorporation**	**Principal activities**	**Directly**	**Indirectly**
2cube Securities Limited	Hong Kong	Securities dealing	–	50%
Data Access (India) Limited	India	Internet services provider	–	29.4%
Dazzling Sky Assets Limited	Hong Kong	Restaurant	–	50%
Morningstar Asia Limited	Hong Kong	Financial information services provider	–	28.07%
PCC Skyhorse Holding Limited	Cayman Islands	Multimedia marketing solution provider	–	36%
SecureNet Asia Limited	Hong Kong	Internet security consultancy and services provider	–	50.4%

Goodwill arising from the acquisitions of these jointly controlled companies in the amount of approximately $167 million has been written off to reserves during the year.

19. INVESTMENT IN ASSOCIATES

	The Group	
	2000 HK$ million	**1999** HK$ million
Share of net assets of associates	767	11
Provision for impairment	(17)	–
	750	11
Amounts due from associates	166	–
Amounts due to associates	(7)	–
	909	11
Investment at cost:		
Unlisted shares	1,200	428
Shares listed in Hong Kong	404	–
	1,604	428
Market value of listed shares	341	–

Balances with associates are unsecured, non-interest bearing and have no fixed terms of repayment except for the loan advanced to an associate which bears interest at commercial rates.

As at December 31, 2000, particulars of the principal associates of the Company are as follows:

Name of company	Country of incorporation	Principal activities	Attributable equity interest to the Group: Directly	Attributable equity interest to the Group: Indirectly
Abacus Distribution Systems (Hong Kong) Limited	Hong Kong	Provision of a computerised airline reservations systems	–	37.04%
ChinaBig.com Limited	Hong Kong	Production and distribution of trade directory	–	37.65%
Great Eastern Telecommunications Limited	Cayman Islands	Investment holding	–	49%
Hikari Tsushin International Limited (formerly Golden Power International Holdings Limited)	Bermuda	Internet and mobile phone related business	–	20%
iLink Holdings Limited (formerly iLink.net Holdings Limited)	Cayman Islands	Internet application solution provider	–	40.84%
MobileOne (Asia) Pte Ltd.	Singapore	Provision of mobile telecommunications services	–	14.7%
Outblaze Limited	Hong Kong	Instant portal	–	46.21%
SilkRoute Holdings Pte. Ltd.	Singapore	Internet incubator	–	25.1%
Star East Information Technology Management Co. Limited	BVI	Entertainment portal	–	50%

Goodwill arising from these acquisitions of approximately $376 million (1999: $413 million) has been written off directly against reserves.

20. INVESTMENT IN UNCONSOLIDATED SUBSIDIARIES

Certain subsidiaries of HKT Group were excluded from consolidation because the control over these subsidiaries was intended to be temporary at the time of the acquisition of the HKT Group. Details of the background of the Company's intentions towards the unconsolidated subsidiaries are discussed in note 2 and the names of the unconsolidated subsidiaries are included in the list of subsidiaries in note 17.

The goodwill arising on acquisition of the above businesses was approximately $40.7 billion of which $24.2 billion was related to the IP Backbone business and $16.5 billion was related to the Hong Kong wireless communications business. 100 percent and 40 percent of the goodwill on the acquisition of the IP Backbone business and the Hong Kong wireless communications business, respectively, were written off against reserves. The remaining 60 percent of the goodwill on the acquisition of the Hong Kong wireless communications business was included in the cost of the business and recorded as a current asset in view of the contemplated disposal which was completed in February 2001.

The net aggregate post-acquisition profits of the unconsolidated subsidiaries at December 31, 2000 are as follows:

	For the current year HK$ million	Prior years since acquisition HK$ million	End of year HK$ million
Dealt with in the Company's financial statements	–	–	–
Not dealt with in the Company's financial statements	743	–	743
	743	–	743

Summarized financial information of the unconsolidated subsidiaries, in aggregate, is as follows:

	The Group	
	IP Backbone Business 2000 HK$ million	Wireless Communications Business 2000 HK$ million
Balance sheet as at December 31, 2000		
Non-current assets	5,275	5,791
Current assets	1,210	617
Total assets	6,485	6,408
Non-current liabilities	–	(12)
Current liabilities	(2,397)	(1,113)
Minority interests	(15)	–
Net assets	4,073	5,283
Income statement (for the period from August 17 to December 31, 2000)		
Turnover	2,892	1,635
Profit from operations	662	165
Profit before tax	719	165
Net profit	592	151

21. INVESTMENTS

Investments are analyzed as follows:

	The Group	
	2000 HK$ million	1999 HK$ million
Held-to-maturity securities	83	–
Investment securities (a), (d)	2,238	3,579
Other investments (b), (d)	87	965
	2,408	4,544

(a) Investment securities

	The Group	
	2000 HK$ million	1999 HK$ million
Unlisted, at cost	2,129	320
Less: Provision for impairment in value	(643)	–
	1,486	320
Listed, at cost		
Hong Kong	75	–
Overseas	3,945	3,259
	4,020	3,259
Less: Provision for impairment in value	(3,268)	–
	752	3,259
	2,238	3,579
Quoted market value of listed investment securities as at December 31, 2000	581	8,338

(b) Other investments

	The Group	
	2000 HK$ million	1999 HK$ million
Listed, at quoted market value		
Hong Kong	284	205
Overseas	110	1,034
	394	1,239
Less: Current portion classified as current assets	(307)	(274)
	87	965

During the year, certain listed securities were transferred from investment securities to other investments. These transfers were effected at fair value. The excess of fair value at the date of transfer over the cost of the securities of $544 million (1999: $404 million) was recognized in the income statement.

(c) During 1999, the Group had entered into certain derivative contracts, in the form of equity option contracts, with a third party with the effect of fixing the Group's unrealized gains on certain quoted other investments within specified ranges. The equity option contracts have terms of up to four years from the date of the contracts and will mature in 2003. The gains from changes in the fair market value of the related other investments for the year ended December 31, 1999 were determined with reference to the effect of the equity option contracts and were limited to the specified range dictated by the terms of the equity option contracts. During 2000, the Group entered into certain other equity option contracts which effectively closed out a portion of the equity option contracts entered into in 1999 and removed the lower limits of the specified range. Accordingly, the Group has recorded losses from declines in the fair value of the related other investments during 2000 by reference to the market prices of these investments as at December 31, 2000. In addition, the Group received premiums upon executing the equity option contracts in 2000. Such premiums are being amortized into income over the life of the related option contracts (see note 31 for further details).

The counterparty had the right, under the contracts entered into in 1999, to call for collateralization of gains in the values of underlying securities in excess of the range of the contracts. The Company had provided collateralization through pledging the shares of a subsidiary holding investments with a carrying value of approximately $87 million as at December 31, 2000.

(d) Certain investment securities and other investments with a carrying value of approximately $830 million (1999: $3.5 billion) are subject to restrictions on sale (i) for a period of six months to three years from the date of purchase, (ii) for a period of six months subsequent to the initial public offering of the investees' shares on a recognized stock exchange, or (iii) unless the securities are registered with the Securities and Exchange Commission of the United States or exemption from registration is obtained.

22. CURRENT ASSETS AND LIABILITIES

(a) Properties held for sale

	The Group	
	2000 HK$ million	**1999** HK$ million
Properties held for sale:		
Located in the PRC	525	553
	525	553

(b) Inventories

	2000 HK$ million	**1999** HK$ million
		(Note 36)
Raw materials	4	–
Work in progress	306	–
Finished goods	225	20
Consumable inventories	52	–
Less: provision for obsolescence	(113)	–
	474	20

(c) Investment in unconsolidated subsidiaries

The 60 percent interest in HKT Group's Hong Kong wireless communications business to be disposed of subsequent to December 31, 2000 amounting to $13,104 million has been accounted for using the cost method of accounting and is recorded as a current asset in the consolidated balance sheet.

(d) Accounts receivable

An aging analysis of trade receivable is set out below:

	The Group	
	2000 HK$ million	**1999** HK$ million
		(Note 36)
0 – 30 days	1,317	72
31– 60 days	209	2
61 – 90 days	32	2
91 – 120 days	79	1
Over 120 days	86	1
Less: Provision for doubtful debts	(4)	–
	1,719	78

The normal credit period granted by the Group is on average 30 days from the date of invoice.

(e) Gross amounts due from/(to) customers for contract work

	The Group	
	2000 HK$ million	**1999** HK$ million
		(Note 36)
Contract costs incurred plus attributable profit less foreseeable losses	306	33
Less: progress billings received and receivable	(253)	(38)
	53	(5)

Included in the non-current assets at December 31, 2000 is approximately $2.5 million (1999: nil) representing retentions receivable from customers in respect of construction contracts in progress.

(f) Short-term borrowings

	The Group	
	2000 HK$ million	**1999** HK$ million
Bank loans and overdrafts	64,822	958
Loan from a shareholder	10	10
Other loans	217	–
Current portion of long-term loans	–	8
	65,049	976
Secured	59,940	799
Unsecured	5,109	177

Please refer to note 34 to the financial statements for details of the Group's banking facilities.

At December 31, 2000, the Company had unsecured short term bank loans of approximately $2,147 million (1999: 159 million).

(g) Accounts payable

An aging analysis of accounts payable is set out below:

	The Group	
	2000 HK$ million	**1999** HK$ million
		(Notes 36)
0 – 30 days	285	14
31 – 60 days	97	4
61 – 90 days	30	1
91 – 120 days	3	3
Over 120 days	27	–
	442	22

23. LONG-TERM LIABILITIES

	The Group	
	2000 HK$ million	**1999** HK$ million
Repayable within a period		
– not exceeding one year	–	8
– over one year, but not exceeding two years	148	11
– over two years, but not exceeding five years	858	34
– over five years	1	114
	1,007	167
Less: Amounts repayable within one year included under current liabilities	–	(8)
	1,007	159
Secured	1,004	–
Unsecured	3	159

Please refer to note 34 to the financial statements for details of the Group's banking facilities.

24. CONVERTIBLE BONDS

	The Group	
	2000 HK$ million	**1999** HK$ million
Beginning of year	882	–
Conversion *(a)*	(882)	(78)
Issuance *(b)*	8,580	960
End of the year	8,580	882

(a) The convertible bonds carried forward from 1999 with a conversion price of $0.31 per share were fully converted into ordinary shares of the Company during the year (see note 25).

(b) Convertible bonds due 2005 ("Convertible Bonds") with the principal amount of US$1,100 million (approximately $8,580 million) were issued by PCCW Capital Limited, a wholly-owned subsidiary of the Company, on December 5, 2000. The Convertible Bonds are listed on the Luxembourg Stock Exchange. The Convertible Bonds are convertible into ordinary shares of the Company at US$1.0083 (approximately $7.865) per share at any time on or after January 5, 2001 and prior to the close of business on November 21, 2005 and bear interest at 3.5 percent per annum, payable annually in arrears. Unless previously cancelled, redeemed or converted, the Convertible Bonds will be redeemed in US dollars at 120.12 percent of the principal amount together with accrued interest on December 5, 2005. If the Convertible Bonds are fully converted, the Company will be required to issue approximately 1,091 million ordinary shares. The redemption premium is being accrued on a straight line basis from the date of issuance to the final redemption date of December 5, 2005. Up to December 31, 2000, none of the Convertible Bonds had been converted into shares of the Company.

25. SHARE CAPITAL

	The Company			
	2000		1999	
	Number of shares	**Nominal value** HK$ million	**Number of shares**	**Nominal value** HK$ million
Authorised:				
Ordinary shares of $0.05 each	32,000,000,000	1,600	32,000,000,000	1,600
Issued and fully paid ordinary shares of $0.05 each:				
Beginning of year	9,067,035,875	453	461,852,000	23
Issued for acquisition of 100% holding in PCCW Properties Limited	–	–	4,838,710,000	242
Issued for acquisition of 60% holding in PCC	–	–	752,302,268	38
Issued for acquisition of 100% holding in HKT *(g)*	8,669,938,322	434	–	–
Exercise of options *(Note 26)*	78,489,638	4	580,000	–
Repurchased and cancelled	–	–	(34,784,000)	(2)
Issued for cash *(a) & (d)*	583,000,000	29	2,311,719,000	116
Rights issue *(h)*	637,288,324	32	–	–
Issued for acquisition of investments	–	–	485,043,704	24
Conversion of convertible bonds *(b), (c), (e) & (f)*	2,845,160,966	142	251,612,903	12
End of year	21,880,913,125	1,094	9,067,035,875	453

(a) On February 8, 2000, 248,000,000 new ordinary shares were issued at $15.80 per share for cash for the investment in a proposed 50/50 joint venture with CMGI Inc. and general working capital of the Group. The issue price of the shares represented a discount of approximately 5.1 percent of the closing price $16.65 per share on January 25, 2000.

(b) On February 8, 2000, 251,612,903 new ordinary shares were issued to PCRD as a result of the conversion of convertible bonds in the principal amount of $78 million at a conversion price of $0.31 per share.

(c) On February 14, 2000, 278,709,548 new ordinary shares were issued to the ultimate holding company as a result of the conversion of convertible bonds in the principal amount of approximately $86 million at the conversion price of $0.31 per share.

(d) On February 28, 2000, 335,000,000 new ordinary shares were issued at $23.50 per share for cash for financing the acquisition of the entire issued share capital of HKT. The issued price represented a discount of approximately 4.7 percent of the closing price $24.65 per share on February 11, 2000.

(e) On April 11, 2000, 645,161,290 new ordinary shares were issued to PCRD as a result of the conversion of convertible bonds in the principal amount of $200 million at a conversion price of $0.31 per share.

(f) On August 1, 2000, 1,669,677,225 new ordinary shares were issued to PCRD as a result of the conversion of convertible bonds in the principal amount of approximately $518 million at a conversion price of $0.31 per share.

(g) On August 17, 2000, 8,669,938,322 new ordinary shares were issued as part of the consideration for the acquisition of 100 percent interest in HKT.

(h) On December 4, 2000, the Company, by way of a rights issue, issued 637,288,324 new ordinary shares ("Rights Shares") at $6.50 per share for cash, being 30 new shares for every 1,000 existing shares held by the existing shareholders of the Company as at November 13, 2000.

In accordance with the terms of the share underwriting agreements dated October 23, 2000, Pacific Century Diversified Limited, a shareholder of the Company, PCRD and the ultimate holding company subscribed a total of 134,717,384 Rights Shares not taken up or applied for as excess Rights Shares.

(i) Details of the convertible bonds and warrants issued by the Group during the year are presented in notes 24 and 26.

All shares issued during the year rank pari passu in all respects with existing shares.

26. SHARE OPTIONS AND WARRANTS

(a) Staff Share Option Scheme

On September 20, 1994, the Company approved a share option scheme under which the directors may, at their discretion, at any time during the ten years from the date of approval of the scheme, invite employees of any member company of the Group, including directors, to take up share options of the Company. The maximum number of shares on which options may be granted may not exceed 10 percent of the issued share capital of the Company excluding any shares issued on the exercise of options from time to time. The exercise price in relation to each option offer shall be determined by the directors at their absolute discretion, but in any event shall not be less than the greater of (i) 80 percent of the average of the official closing price of the shares on The Stock Exchange of Hong Kong Limited ("SEHK") for the five trading days immediately preceding the relevant offer date or (ii) the nominal value of the shares. The scheme became effective upon the listing of the Company's shares on the SEHK on October 18, 1994 and was amended by the directors on December 22, 1995 and was further amended by the shareholders on July 29, 1999. The terms of the scheme provide that an option may be exercised under the scheme at any time during the period commencing on the date upon which such option is deemed to be granted and accepted. The directors may determine and adjust the period within which the relevant grantee may exercise his or her option and the proportion of the option to be exercised in each period, so long as the period within which the option must be taken up is not more than ten years from the date of grant of the option.

A summary of the movements of share options granted under the scheme during the year is as follows:

Exercise price per share	$2.01 to $5.00	$5.01 to $8.00	$11.01 to $14.00	$14.01 to $17.00	$17.01 to $20.00	Total
	Number of share options					
Beginning of year	282,479,000	–	–	–	–	282,479,000
Granted during the year	121,939,400	33,324,000	258,785,000	4,193,500	18,054,000	436,295,900
Exercised during the year	(77,433,638)	(1,056,000)	–	–	–	(78,489,638)
Cancelled/lapsed during the year	(2,507,136)	(1,538,000)	(7,166,000)	(1,760,000)	(18,054,000)	(31,025,136)
End of year	324,477,626	30,730,000	251,619,000	2,433,500	–	609,260,126

(b) Other Share Options

In September 1999, as part of the acquisition of Pacific Convergence Corporation, Ltd. ("PCC"), the Company entered into an agreement with the minority shareholder of PCC, under which the minority shareholder can exchange its effective 40 percent shareholding in PCC Holdings Ltd., the holding company of PCC, for 1,003,070,000 new shares of the Company at no further consideration. The option is exercisable until September 2009. The Company has the right to require the minority shareholder to exercise the option at the end of the option period to the extent it has not already been exercised. No option was exercised for the year ended December 31, 2000. On March 2, 2001, the minority shareholder exercised a portion of the options and the Company issued 138,370,000 new ordinary shares to the minority shareholder.

In December 1999, certain subsidiaries of the Company signed a legally binding Heads of Agreement ("Agreement") with a supplier for the provision of production and sales consultancy services and the rights to use all archive, visual, audio-visual and/or audio materials owned by the supplier for ten years. Under the terms of the Agreement, the supplier will be granted options to subscribe for up to 5 percent in the issued share of PCC at par value. As at December 31, 2000, the options had not yet been granted and final definitive agreements had not yet been signed, except for a production services agreement.

(c) Warrants

On December 5, 2000, the Company issued warrants, in the proportion of two warrants for each Rights Share subscribed under the rights issue, entitling the holders to subscribe in cash, at any time on or after December 5, 2000 until December 4, 2001, for 1,274,576,648 ordinary shares of the Company at a price of $7.50 per ordinary share. If the warrants are fully exercised, the Company will be required to issue 1,274,576,648 ordinary shares. During the year, no warrant was exercised.

27. (DEFICIT)/RESERVES

	2000					1999
	Share premium HK$ million	Property revaluation reserve HK$ million	Currency translation reserve HK$ million	Accumulated deficits HK$ million	Total HK$ million	Total HK$ million
THE GROUP						
Beginning of year	14,614	124	(2)	(3,838)	10,898	91
Issue of ordinary shares and exercise of options, net of issuing expenses	147,612	–	–	–	147,612	14,712
Issue of shares under rights issue, net of issuing expenses	4,069	–	–	–	4,069	–
Share repurchases (including transaction costs)	–	–	–	–	–	(188)
Issue of shares upon conversion of convertible bonds	740	–	–	–	740	–
Write-down of revaluation surplus on fixed assets	–	–	–	–	–	(39)
Write-off of goodwill arising from acquisitions of subsidiaries	–	–	–	(172,014)	(172,014)	(3,734)
Write-off of goodwill arising from acquisitions of associates	–	–	–	(376)	(376)	(413)
Write-off of goodwill arising from acquisitions of jointly controlled companies	–	–	–	(167)	(167)	–
Realization of capital reserve on disposal of subsidiaries	–	–	–	(9)	(9)	–
Realization of goodwill on disposal of associates	–	–	–	48	48	–
Surplus on revaluation of investment properties	–	219	–	–	219	124
Translation exchange differences	–	–	(63)	–	(63)	(2)
(Loss)/Profit for the year	–	–	–	(6,907)	(6,907)	347
End of year	167,035	343	(65)	(183,263)	(15,950)	10,898
Attributable to:						
– The Company and subsidiaries	167,035	343	(65)	(183,744)	(16,431)	11,315
– Jointly controlled companies	–	–	–	(100)	(100)	–
– Associates	–	–	–	(72)	(72)	(417)
– Unconsolidated subsidiaries	–	–	–	653	653	–
End of year	167,035	343	(65)	(183,263)	(15,950)	10,898
THE COMPANY						
Beginning of year	14,614	–	–	(40)	14,574	91
Issue of ordinary shares and exercise of options, net of issuing expenses	147,612	–	–	–	147,612	14,712
Issue of shares under rights issue, net of issuing expenses	4,069	–	–	–	4,069	–
Share repurchases (including transaction costs)	–	–	–	–	–	(188)
Issue of shares upon conversion of convertible bonds	740	–	–	–	740	–
Loss for the year	–	–	–	(4,460)	(4,460)	(41)
End of year	167,035	–	–	(4,500)	162,535	14,574

28. DEFERRED TAXATION

	The Group	
	2000	**1999**
	HK$ million	HK$ million
Beginning of year	1	1
Acquisition of subsidiaries	706	–
Provision for net timing differences	31	–
End of year	738	1

Deferred taxation represents the taxation effect of the following timing differences:

	The Group	
	2000	**1999**
	HK$ million	HK$ million
Leasing partnership	555	–
Accelerated depreciation allowances	187	1
Tax losses	(4)	–
	738	1

The potential net deferred taxation liabilities/(assets) which are not included in the financial statements are:

	The Group	
	2000	**1999**
	HK$ million	HK$ million
Accelerated depreciation allowances	2,431	5
Tax losses and others	(1,727)	(36)
	704	(31)

The above net deferred taxation liabilities/(assets) have not been recognized in the financial statements as it is not certain that the liabilities/(assets) will be realized in the foreseeable future.

In addition, deferred taxation has not been provided in respect of the property revaluation surpluses recorded by the Group as the realization of the surpluses would not be subject to taxation or the deferred taxation is not expected to crystallize in the foreseeable future.

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of (loss)/profit before taxation to net cash inflow/(outflow) from operating activities

	The Group	
	2000 HK$ million	**1999** HK$ million
		(Note 36)
(Loss)/Profit before taxation	(6,408)	353
Provision for inventory obsolescence	113	–
Write-off of intangible assets	98	–
Interest income	(998)	(77)
Interest expenses	2,458	21
Finance charges	896	–
Depreciation	892	13
Unrealised loss/(gain) on other investments, net	1,076	(537)
Realized gain on disposal of other investments	(50)	(37)
Realized gain on disposal of investment in subsidiaries, a jointly controlled company and associates	(181)	–
Provision for other than temporary decline in value of		
– investment securities	3,911	–
– investment in jointly controlled companies and associates	77	–
Provision for impairment of fixed assets	50	–
Provision for losses on contract commitments	231	–
Gain on disposal of discontinued operations	–	(21)
Loss on disposal of fixed assets	8	5
Write-down of fixed assets to recoverable amount	–	24
Provision for doubtful debts	4	–
Amortization of intangible assets	28	–
Provision for loss on disposal of land	–	8
Provision for connectivity services	–	6
Dividend income	(5)	(1)
Share of results of associates and jointly controlled companies	163	5
Share of results of unconsolidated subsidiaries	(790)	–
Decrease/(Increase) in operating assets:		
– properties held for sale	(10)	(240)
– properties under development for sale	(472)	(17)
– inventories	(61)	8
– accounts receivable	(150)	81
– gross amounts due from customers for contract work	(53)	–
– amounts due from related companies	(34)	(5)
– other assets	(59)	(357)
Increase/(Decrease) in operating liabilities:		
– bills payable	–	(9)
– accounts payable, accruals, other payables and deferred income	1,918	210
– amounts due to related companies	28	15
– advances from customers	118	143
– other liabilities	24	(3)
Unrealized exchange differences	16	(2)
Net cash inflow/(outflow) from operating activities	2,838	(414)

(b) Acquisitions of subsidiaries

During the year, the Group acquired interests in PCCW-HKT Limited and Pacific Century CyberWorks Japan K.K. The effects of the acquisitions on the cash flows of the Group are as follows:

	The Group	
	2000 HK$ million	**1999** HK$ million
		(Note 36)
Net assets acquired:		
Fixed assets	19,886	953
Properties held for development	–	96
Properties under development for investment	–	1,443
Properties held for sale	–	183
Properties under development for sale	–	361
Intangible assets	1,516	–
Investment in unconsolidated subsidiaries	17,677	–
Investment in jointly controlled companies and associates	466	–
Investments	835	–
Investment in unconsolidated subsidiaries - current portion	13,104	–
Accounts receivable, prepayments, deposits and other assets	4,186	104
Bank deposits maturing over three months	331	–
Cash and bank balances	6,664	56
Short term borrowings	(2,015)	–
Accounts payable, accruals and other payables	(4,725)	(279)
Long-term borrowings	(21)	(393)
Deferred taxation	(706)	–
Other long-term liabilities	(57)	–
Due to a minority shareholder	–	(28)
Minority interests	(716)	(3)
	56,425	2,493
Goodwill arising on acquisition	172,014	3,731
	228,439	6,224
Satisfied by:		
Issuance of ordinary shares	136,464	5,261
Issuance of convertible bonds	–	960
Cash proceeds from Bridge Loan	88,281	–
Cash from internal resources	3,694	3
	228,439	6,224
Analysis of the net (outflow) / inflow of cash and cash equivalents in respect of the purchase of subsidiaries:		
Cash	(91,975)	(3)
Cash and bank balances acquired	6,664	56
Net cash (outflow) / inflow in respect of acquisitions of subsidiaries	(85,311)	53

(c) Disposals of subsidiaries

	The Group	
	2000 HK$ million	**1999** HK$ million
		(Note 36)
Net assets/(liabilities) disposed of:		
Fixed assets	64	43
Properties under development	108	–
Investment in associates and investments	–	5
Inventories	–	40
Accounts receivable and other current assets	23	66
Cash and bank balances	74	15
Bank borrowings	(60)	–
Accounts payable, accruals and other payables	(73)	(281)
Minority interests	(17)	–
	119	(112)
Waiver of amount receivable from the subsidiaries disposed of	–	193
Realization of capital reserve	(9)	–
	110	81
Gain on disposal of discontinued operations	–	21
Gain on disposal of subsidiaries	31	–
	141	102
Satisfied by:		
Waiver of a loan from a former shareholder	–	68
Receivable from a former shareholder	–	34
Reclassification of investment on deemed disposal on dilution of interests in a subsidiary	26	–
Cash	115	–
	141	102
Analysis of the net inflow/(outflow) of cash and cash equivalents in respect of the disposals of subsidiaries		
Cash consideration	115	–
Cash and bank balances disposed of	(74)	(15)
Net cash inflow/(outflow) in respect of disposal of subsidiaries	41	(15)

(d) Analysis of changes in financing

	2000					1999
	Share capital and premium HK$ million	Borrowings HK$ million	Convertible bonds HK$ million	Minority interests HK$ million	Total HK$ million	Total HK$ million
Beginning of year	15,067	934	882	5	16,888	226
Net cash inflow from financing	15,716	63,017	8,580	136	87,449	7,158
Reduction of minority interests arising from disposals of subsidiaries	–	–	–	(17)	(17)	(3)
Increase in minority interests arising from acquisitions of subsidiaries	–	–	–	716	716	–
Gain on investment from minority shareholders	–	–	–	(59)	(59)	–
Conversion of convertible bonds	882	–	(882)	–	–	(78)
Shares issued for acquisitions of subsidiaries	136,464	–	–	–	136,464	8,296
Issuance of convertible bonds	–	–	–	–	–	960
Waiver of loans	–	–	–	–	–	(68)
Increase in loans arising from acquisitions of subsidiaries	–	2,036	–	–	2,036	393
Decrease in loans arising from disposals of subsidiaries	–	(60)	–	–	(60)	–
Minority interests in share of loss / (profit)	–	–	–	(23)	(23)	4
Dividends paid to minority interests	–	–	–	(44)	(44)	–
Exchange differences	–	15	–	9	24	–
End of year	168,129	65,942	8,580	723	243,374	16,888

(e) Analysis of cash and cash equivalents

	The Group	
	2000 HK$ million	1999 HK$ million
Cash and bank balances	13,819	4,121
Bank loans and overdrafts	(114)	(200)
	13,705	3,921

(f) Major non-cash transactions

During the year, the Company issued 8,669,938,322 ordinary shares at an issue price of $15.74 per share or approximately $136,464 million in partial settlement of the consideration for the acquisition of 100 percent of HKT. The Group also obtained a syndicated bank loan of US$12 billion to finance the payment of the remainder of the purchase consideration.

See note 24 for new ordinary shares issued on conversion of convertible bonds.

30. NET LEASE PAYMENTS RECEIVABLE

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

	The Group	
	2000 HK$ million	**1999** HK$ million
		(Note 36)
The net investment in these finance leases comprises:		
Net lease payments receivable	490	–
Less: Current portion of net lease payments receivable	(21)	–
	469	–

Non-recourse finance of $2,952 million (1999: nil) has been offset against net rentals receivable in arriving at the above net investment in finance leases.

31. FINANCIAL INSTRUMENTS

(a) Equity options

As at December 31, 2000, the Group had outstanding written equity call options with a total notional amount of approximately US$228 million (approximately $1,775 million) (1999: approximately US$124 million or approximately $968 million). The Group had also received premiums of approximately US$54 million (approximately $425 million) on writing new equity call and put options in 2000. A portion of these new contracts effectively closed out certain of the equity option contracts entered into in 1999. The premiums received were recorded as deferred income and are being amortized into income on a straight line basis over the life of the related contracts.

(b) Interest rate options

The Group entered into interest rate options to manage its interest rate risk. At December 31, 2000, the total notional amount of such instruments was $390 million.

The notional amounts of the outstanding equity option contracts and interest rate options indicate the volume of transactions outstanding at the balance sheet date and do not represent amounts at risk.

32. COMMITMENTS

(a) Capital

	The Group	
	2000 HK$ million	**1999** HK$ million
Authorized and contracted for	3,622	2,571
Authorized but not contracted for	589	348
	4,211	2,919

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

	The Group	
	2000 HK$ million	**1999** HK$ million
Investments	455	501
Property development	1,802	1,064
Development of Internet business	1,045	1,350
Construction contract	432	–
Acquisition of fixed assets	443	4
Others	34	–
	4,211	2,919

(b) Operating leases

The amount payable in the next twelve months, analyzed according to the period in which the lease expires, is as follows:

Land and buildings

	The Group	
	2000 HK$ million	**1999** HK$ million
Expiring in the first year	105	1
Expiring in the second to fifth years inclusive	294	3
Expiring after the fifth year	50	–
	449	4

Equipment

	The Group	
	2000	**1999**
	HK$ million	HK$ million
Expiring in the first year	27	–
Expiring in the second to fifth years inclusive	67	–
Expiring after the fifth year	59	–
	153	–

(c) Others

As at December 31, 2000, the Group had outstanding forward foreign exchange contracts to buy US$2,450 million (1999: nil) at various rates totaling approximately $19,080 million (1999: nil). Further, the Group had outstanding forward foreign exchange contracts to buy approximately DEM 1.3 million (1999: nil), FRF 2.3 million (1999: nil), and JPY 77 million (1999: nil) at various rates totaling approximately US$2 million (1999: nil).

33. CONTINGENT LIABILITIES

	The Group		The Company	
	2000	**1999**	**2000**	**1999**
	HK$ million	HK$ million	HK$ million	HK$ million
Performance guarantee	630	8	8	8
Guarantees given to banks in respect of credit facilities granted to				
– subsidiaries	–	–	9,158	83
– jointly controlled company	4	–	4	–
Guarantee in lieu of cash deposit	1	1	1	–
Guarantee in respect of an investment commitment of an associate	104	–	–	–
Revenue guarantee	68	–	–	–
	807	9	9,171	91

34. BANKING FACILITIES

Aggregate banking facilities as at December 31, 2000 were $66,004 million (1999: $1,522 million) of which the unused facilities as at the same date amounted to $288 million (1999: $562 million).

Substantially all of the assets of HKT Group amounting to approximately $44 billion as at December 31, 2000, the entire issued share capital of HKT and certain additional assets of the Company and one of its subsidiaries are or will be subject to fixed or floating charge to secure the Bridge Loan as defined below obtained to finance the acquisition of HKT.

Additional security pledged for the banking facilities includes:

	The Group	
	2000 HK$ million	**1999** HK$ million
Investment properties	1,061	672
Land and buildings	102	36
Properties under development	1,345	1,256
Other non-current assets	10	–
Accounts receivable	4	–
Fixed deposit	7	50
	2,529	2,014

As part of the above banking facilities, the Group obtained loan facilities of US$12 billion ($93.6 billion) from a syndicate of banks (the "Bridge Loan") on February 29, 2000 to finance the acquisition of the entire issued share capital of HKT. The loan was drawn down in August 2000. The loans granted under the facilities are repayable within 90 days of drawdown for the first US$3 billion ("Tranche A"), and within 180 days of drawdown or February 29, 2001, whichever is earlier, on the remaining US$9 billion ("Tranche B"). The maturity of a portion of the Tranche B loans totalling approximately US$3.6 billion may be extended to February 2003. The loan facilities agreement requires payment of refundable and non-refundable loan arrangement fees of approximately US$148 million ($1.2 billion). These up front loan arrangement fees were paid in March 2000 and are being amortized into the income statement over the original term of the loan facilities i.e. twelve months to February 2001. The terms of the agreement also place certain restrictions on, amongst others, the future borrowings of the Group, execution of encumbrances on and disposals of the assets of the Group, use of proceeds on disposal of the Group's assets, acquisitions of businesses, investments in joint ventures and the entering into finance lease arrangements. The Group had repaid US$4.3 billion of this facility up to December 31, 2000. The balance of US$7.66 billion was subsequently repaid in February 2001.

35. POST BALANCE SHEET EVENTS

The following events occurred subsequent to December 31, 2000 up to the date of approval of these financial statements by the Board of Directors:

(a) In February 2001, the Group arranged a syndicated bank loan of US$4.7 billion ($36.7 billion). The syndicated loan consists of three tranches which are repayable in three to seven years. Each tranche of the loan carries interest at rates ranging from Libor plus 0.85 percent to Libor plus 1.45 percent for the US dollar portion and Hibor plus 0.95 percent to Hibor plus 1.55 percent for the Hong Kong dollar portion.

(b) In February 2001, the Telstra Alliance was completed and included (i) the formation of Reach to operate a regional IP Backbone business plus receipt of US$1.125 billion in cash from Reach, (ii) the sale of 60 percent of the Group's wireless communications business in Hong Kong to Telstra for US$1.68 billion in cash, (iii) the formation of a joint venture to establish a data center business in the region and (iv) the issuance of US$750 million convertible bonds to Telstra.

(c) Both the proceeds received from the Telstra Alliance and the drawdown of the syndicated loan were applied to repay the outstanding Bridge Loan. In February 2001, the outstanding balance of the US$12 billion ($93.6 billion) Bridge Loan was fully repaid and the corresponding securities were released.

(d) On March 2, 2001, the 40 percent minority shareholder of PCC Holdings Ltd. ("PCCH"), a subsidiary of the Company, converted part of its interest in PCCH into shares of the Company in accordance with the option granted in September 1999. The Company issued 138,370,000 of its ordinary shares to the minority shareholder on the same date. After the partial conversion, the minority shareholder is entitled to further convert its remaining interests in PCCH into approximately 865 million shares of the Company in the remaining conversion period of approximately nine years.

(e) In March, 2001 iLink Holdings Limited ("iLink") (formerly iLink.net Holdings Limited), an associate of the Company, listed its shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited at an offering price of HK$1.28 per share. iLink is engaged in the Internet application solution business.

(f) In January 2001, the Japanese subsidiary of the Company announced a restructuring plan to terminate some of its businesses. As a result of the restructuring, it is expected that certain restructuring costs will be incurred in 2001.

(g) On February 22, 2001, the Company entered into an agreement with Hutchison Telecommunications International Limited ("Hutchison Telecom"), an indirect wholly-owned subsidiary of Hutchison Whampoa Limited, a listed company in Hong Kong. Pursuant to the agreement, the Company conditionally agreed to acquire all the issued share capital of Hutchison Telecommunications Technology Investments Limited ("HTTIL") and the shareholders' loan of approximately $546 million due from HTTIL and its subsidiaries to Hutchison Telecom for a total consideration of approximately $803 million. Consideration was satisfied in full by the issuance and allotment of 183,634,285 new ordinary shares of the Company at the price of $4.375 per share to Hutchison Telecom. The principal activity of HTTIL and its subsidiaries is the provision of satellite-based telecommunications solutions.

(h) 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.

(i) On March 1, 2001, the Group acquired 49 percent interest in Telecom Directories Limited ("TDL") at a cash consideration of approximately $311 million. As a result, TDL became an indirect wholly–owned subsidiary of the Company.

36. COMPARATIVE FIGURES

Certain of the 1999 comparative figures have been reclassified to conform with the current year presentation.