

Statement from the Chairman and Chief Executive

Dear Fellow Shareholders,

The past year has seen PCCW successfully continue the integration of its technology businesses with the former Cable & Wireless HKT Limited (HKT) into one of Asia's leading integrated telecommunications service providers. In the course of this transition, the Company is building on its fundamentals: realigning its group structure to better serve customers, further strengthening its financial platform, improving its operational efficiencies, all towards enhancing long-term shareholder value.

We have accomplished this in the midst of another challenging year for telecommunications companies throughout the world. While some observers have labeled 2001 one of the worst years ever for the telecommunications industry, we at PCCW believe we have emerged from a difficult year stronger than ever, confident in our abilities to add value to our customers.

Following the downward trend experienced in 2000, telecom stocks saw their values dip significantly in 2001. This negative climate reflected the general recession taking shape in other parts of the world, a trend exacerbated by the tragic events of September 11. While many start-up communication companies battled to survive in a tough 2001, we at PCCW continued to strengthen our operations and financial situation through economically trying times. We have done this by maintaining our customer focus while increasing business unit efficiencies.

In this climate, PCCW accomplished several key objectives:

We became more customer-focused. In line with our customer-centric business approach to deliver total solutions, we created a unified sales organization divided into two sectors – Commercial Group and Consumer Group. This initiative is focused on delivering solutions to customers large or small. The goal: Add convenience and value to the household and enable business customers to operate more efficiently for our customer base of nearly 3.5 million fixed-line, 631,000 consumer Internet access, 300,000 SME, 5,000 corporate and 3,000 global customers.

We developed our systems integration business. Against international competition, our systems integration unit Business eSolutions won significant contracts in 2001. As a result, PCCW is establishing itself as a leading total solutions provider to large-scale enterprises, with a portfolio spanning consulting, systems integration, applications development, outsourcing and connectivity.

We captured key broadband growth. PCCW significantly increased broadband Internet numbers. Broadband is a key consumer area for the Company as it enables PCCW to maintain a high-revenue fixed-line relationship with the customer, with potential for additional revenues over and above pure access. Over the year we introduced new broadband services that, by adding value to our customers, significantly expanded our consumer broadband subscriber base from 194,000 at year end 2000 to 311,000 by year end 2001. The most significant new product was the introduction of our locally focused now.com.hk broadband content service, which had 81,000 subscribers as at December 31, 2001.

We strengthened our capital structure. PCCW improved its capital structure while capitalizing on a lowered interest rate environment, and our subsidiary, PCCW-HKT Telephone Limited, obtained an investment grade credit rating. Now, our first debt repayment is not due until 2005, and we have extended the average loan maturity to more than six years. Overall we are lowering the average cost of our long-term debt by taking advantage of market conditions, balancing fixed and floating rate debt and extending the maturity of our debt to better match the underlying long-term nature of the assets.

We are operating more efficiently. In 2001, PCCW took painful but necessary decisions to close businesses that, in a tough economic climate, we considered unable to contribute to our growth-oriented strategy. Taking a long-term view of our staffing needs, we streamlined positions by nearly 1,000 last year. These reductions, combined with closure savings, are expected to provide substantial annualized savings.

Looking ahead from our base in the Asian communications hub of Hong Kong, a Special Administrative Region within the People's Republic of China, PCCW is ideally situated to respond to communications demands from Asia, as well as from Western customers wishing to do business here. And of course, we are primarily focused on strengthening our telecommunications and IT presence in China itself, particularly in light of its accession to the World Trade Organization.

Utilizing a seasoned management team to move forward, our business outlook revolves around the following key areas:

1. We will focus on growth, particularly in the greater China IT&T sector, utilizing Business eSolutions to deliver total solutions to high-value enterprise customers. We are building on our China presence, which includes representative offices in Beijing, Shanghai and Guangzhou, and interests in data center ventures in Beijing and Shanghai, and other mainland ventures and alliances. In early 2002 we formed an IT venture with Sinopec, one of China's largest energy and petrochemical companies. In Taiwan, PCCW owns a majority equity interest in Taiwan Telecommunication Network Services Co., Ltd., a data network service provider.
2. We will continue to deliver innovative new products and services to our customers to meet their increasingly sophisticated requirements. Our Consumer Group is focused on providing value and convenience to the household while driving broadband penetration. Our Commercial Group will continue to build its brand as a leading provider of solutions in greater China for large-scale customers such as governments and multinational corporations. In early 2002, a PCCW-led international consortium won a HK\$163 million contract from the Hong Kong government to provide hardware, software and services for the city's new computer-chip ID card.
3. We will continue to sharpen efficiencies, including the rationalization of products and services that do not add

sufficient value to our customer-centric integrated telecommunications approach. PCCW will continue to explore and implement network enhancements that will meet increasingly demanding user requirements while boosting efficiencies. Combined with the continuing refinements to our organizational structure, we are constantly evolving into a more flexible, customer-focused company able to serve customer needs instantly and effectively.

4. We will continue to optimize our capital structure, focusing on closely managing and, over time, significantly retiring our debt. Following the loan extensions outlined above, we will continue to prudently seek and evaluate refinancing opportunities that best serve our shareholders.

Looking back at 2001, we have made solid progress in a difficult environment by leveraging our strong customer base and executing the fundamentals of integrated telecommunications while practising prudent financial management.

Looking forward, the near-term dynamic telecommunications environment favors those companies that can excel at building on fundamentals, while steadily achieving new levels of efficiencies and focusing on customer needs. At PCCW, we strongly believe that if we deliver on our fundamentals, shareholder value will be realized.

Sincerely,



Richard Li
Chairman and Chief Executive
March 20, 2002