

Report of the Directors

The directors present their annual report together with the audited consolidated financial statements of Pacific Century CyberWorks Limited (the “Company”) and its subsidiaries (the “Group”) for the year ended December 31, 2001.

PRINCIPAL ACTIVITIES

The principal activities of the Group are the provision of local and international telecommunications services, Internet and interactive multimedia services, the sale and rental of telecommunications equipment, and the provision of computer, engineering and other technical services, mainly in the Hong Kong Special Administrative Region (“Hong Kong”); investment in and development of systems integration and technology-related businesses; and investment in and development of infrastructure and properties in Hong Kong and elsewhere in mainland China.

Details of segment information are set out in note 4 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended December 31, 2001 are set out in the accompanying consolidated financial statements on page 80.

No interim dividend was paid during the year. The directors do not recommend the payment of a final dividend for the year ended December 31, 2001.

FINANCIAL SUMMARY

A summary of the consolidated results and of the assets and liabilities of the Group for the last five financial years is set out on page 137.

SUBSIDIARIES, JOINTLY CONTROLLED COMPANIES AND ASSOCIATES

Particulars of the Company’s principal subsidiaries, jointly controlled companies and associates are set out in notes 16 to 18 to the consolidated financial statements.

FIXED ASSETS

Details of movements in the fixed assets of the Group during the year are set out in note 12 to the consolidated financial statements.

BORROWINGS AND CONVERTIBLE BONDS

Particulars of the Group’s and the Company’s borrowings and convertible bonds are set out in notes 21 and 22 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in note 23 to the consolidated financial statements.

WARRANTS

The warrants issued by the Company on December 5, 2000 expired on December 4, 2001 and the listing of the warrants was withdrawn from The Stock Exchange of Hong Kong Limited (the "Stock Exchange") at the close of business on the same date.

Details of the movements in the warrants of the Company during the year are set out in note 24 to the consolidated financial statements.

RESERVES

Details of the movements in reserves of the Group and the Company during the year are set out in note 25 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended December 31, 2001, the aggregate amount of turnover attributable to the Group's five largest customers represented less than 30 percent of the Group's total turnover.

The largest supplier for the year ended December 31, 2001 represented 32 percent of the Group's total purchases (not including purchases of a capital nature), and the combined total of the five largest suppliers accounted for 54 percent of the Group's total purchases for the year. At no time during the year have the directors, their associates or any shareholder of the Company who to the knowledge of the directors owns more than 5 percent of the Company's share capital had any interests in these major suppliers.

DIRECTORS

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

Executive Directors

Li Tzar Kai, Richard *Chairman and Chief Executive*

Yuen Tin Fan, Francis *Deputy Chairman*

Cheung Wing Lam, Linus *Deputy Chairman*

Peter Anthony Allen

Alexander Anthony Arena

John Todd Bonner

Jeffrey Amsden Bowden

Cheung Kam Hung, William (appointed on January 16, 2001)

Chung Cho Yee, Mico

Ma Si Hang, Frederick (appointed on May 2, 2001)

David Norman Prince

Peter To

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

Yuen Kee Tong, Norman (resigned on February 28, 2001)

Non-Executive Directors

Avram Miller

The Hon Raymond George Hardenbergh Seitz

Robert Earl Lerwill (resigned on April 1, 2001)

Graham Martyn Wallace (resigned on April 1, 2001)

Independent Non-Executive Directors

Prof. Chang Hsin-kang

Dr. Fung Kwok King, Victor

Dr. The Hon Li Kwok Po, David, GBS, JP

Sir Roger Lobo, CBE, JP

In accordance with Article 92 of the Company's Articles of Association, Ma Si Hang, Frederick shall retire and, being eligible, offer himself for re-election at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

There is no unexpired service contract which is not terminable by the Group within one year without payment of compensation (other than statutory compensation) of the director proposed for re-election at the forthcoming annual general meeting.

DIRECTORS' INTERESTS IN SECURITIES

As at December 31, 2001, the interests of the directors of the Company in the equity or debt securities of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) as recorded in the register required to be kept pursuant to Section 29 of the SDI Ordinance or as otherwise notified to the Company and the Stock Exchange pursuant to Section 28 of the SDI Ordinance and the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

1. Interests in the Company*Ordinary Shares*

| Name of director | Number of ordinary shares | | | | Number of share options |
|--|---------------------------|------------------|---------------------|-----------------|-------------------------|
| | Personal interests | Family interests | Corporate interests | Other interests | |
| Li Tzar Kai, Richard (Notes 1(a) and 1(b)) | – | – | 8,481,120,074 | 183,634,285 | – |
| Yuen Tin Fan, Francis (Note 5(a)) | 13,735,000 | – | – | 2,575,000 | 42,670,000 |
| Cheung Wing Lam, Linus | 30,409 | – | – | – | 16,000,000 |
| Peter Anthony Allen | 300,000 | – | – | – | 3,146,000 |
| Alexander Anthony Arena (Note 6) | 201,000 | – | – | – | 32,000,000 |
| John Todd Bonner | – | – | – | – | 9,800,000 |
| Jeffrey Amsden Bowden | – | – | – | – | 12,000,000 |
| Cheung Kam Hung, William (Note 7) | 13,178 | 2,277 | – | – | 4,800,000 |
| Chung Cho Yee, Mico (Note 8(a)) | 5,881,300 | 92,276 | – | – | 28,476,000 |
| Ma Si Hang, Frederick (Note 9) | – | – | 7,749,000 | – | 12,000,000 |
| David Norman Prince | 24,443 | – | – | – | 8,000,000 |
| Peter To | 5,500,000 | – | – | – | 21,800,000 |
| Avram Miller (Note 10) | – | – | – | – | 63,201,097 |
| Prof. Chang Hsin-kang | 70,000 | – | – | – | – |
| Dr. The Hon Li Kwok Po, David | 3,000,000 | – | – | – | – |

DIRECTORS' INTERESTS IN SECURITIES (con't)**2. Interests in Associated Corporations**

I. Pacific Century Regional Developments Limited ("PCRD")

A. Ordinary Shares

| Name of director | Number of ordinary shares | | | | Number of share options |
|-----------------------------------|---------------------------|------------------|---------------------|-----------------|-------------------------|
| | Personal interests | Family interests | Corporate interests | Other interests | |
| Li Tzar Kai, Richard (Note 2) | - | - | 2,330,058,230 | - | - |
| Yuen Tin Fan, Francis (Note 5(b)) | 4,370,000 | - | - | 23,550,000 | - |
| Peter Anthony Allen | 5,010,000 | - | - | - | - |
| Alexander Anthony Arena | - | - | - | - | 15,300,000 |
| John Todd Bonner | - | - | - | - | 5,000,000 |
| Chung Cho Yee, Mico | 8,000,000 | - | - | - | - |
| Peter To | 10,000,000 | - | - | - | - |

B. Redeemable Cumulative Preference Shares ("RCPS")

| Name of director | Number of RCPS | | | |
|-------------------------------|--------------------|------------------|---------------------|-----------------|
| | Personal interests | Family interests | Corporate interests | Other interests |
| Li Tzar Kai, Richard (Note 3) | - | - | 61,578,362 | - |

II. Pacific Century Insurance Holdings Limited ("PCIHL")

Ordinary Shares

| Name of director | Number of ordinary shares | | | | Number of share options |
|-------------------------------|---------------------------|------------------|---------------------|-----------------|-------------------------|
| | Personal interests | Family interests | Corporate interests | Other interests | |
| Li Tzar Kai, Richard (Note 4) | - | - | 370,352,700 | - | - |
| Yuen Tin Fan, Francis | - | - | 2,704,800 | - | 19,440,000 |
| Peter Anthony Allen | 360,000 | - | - | - | 600,000 |
| John Todd Bonner | - | - | - | - | 16,560,000 |
| Chung Cho Yee, Mico | - | - | - | - | 2,280,000 |

III. Pacific Century CyberWorks Japan Co., Ltd. ("PCCW Japan")

A. Ordinary Shares

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

B. Exchangeable Notes

| Name of director | Aggregate principal amount of Exchangeable Notes outstanding (Yen) |
|--------------------------------|--|
| Li Tzar Kai, Richard (Note 11) | 199,752,000 |

DIRECTORS' INTERESTS IN SECURITIES (con't)**2. Interests in Associated Corporations** (con't)

IV. iLink Holdings Limited ("iLink")

Ordinary Shares

| Name of director | Number of ordinary shares | | | |
|---------------------------------|---------------------------|------------------|---------------------|-----------------|
| | Personal interests | Family interests | Corporate interests | Other interests |
| Chung Cho Yee, Mico (Note 8(b)) | – | – | – | 400,500,000 |

V. PCCW Capital Limited

Convertible Bonds

| Name of director | Aggregate principal amount of convertible bonds outstanding (US\$) |
|--------------------------------|--|
| Li Tzar Kai, Richard (Note 12) | 28,000,000 |

Notes:

1. a. Li Tzar Kai, Richard holds the entire issued share capital of Pacific Century Group Holdings Limited ("PCG"). PCG holds the entire issued share capital of Pacific Century International Limited ("PCIL"). PCIL holds the entire issued share capital of Pacific Century Group (Cayman Islands) Limited ("PCG(CI)"). PCG(CI) holds the entire issued share capital of Anglang Investments Limited ("Anglang"). Anglang and PCG(CI) hold 1,169,067,180 ordinary shares and 1,160,991,050 ordinary shares of PCRD respectively (an aggregate of 2,330,058,230 ordinary shares of PCRD), which constitute approximately 37.8 percent and approximately 37.5 percent of the entire issued share capital of PCRD respectively.

PCRD holds 7,590,049,517 shares, including 455,000 shares held in the form of 45,500 American depository receipts ("ADRs"), each ADR representing 10 ordinary shares, which constitute approximately 33.4 percent of the entire issued share capital of the Company. PCG holds 103,709,434 shares, which constitute approximately 0.5 percent of the entire issued share capital of the Company. Li Tzar Kai, Richard also holds the entire issued share capital of Chiltonlink Limited which holds the entire issued share capital of Pacific Century Diversified Limited ("PCD"). PCD holds 787,361,123 shares, which constitute approximately 3.5 percent of the entire issued share capital of the Company. Accordingly, Li Tzar Kai, Richard is interested in an aggregate of 8,481,120,074 shares (held by PCG, PCRD and PCD) of the Company.
- b. Yue Shun Limited, a subsidiary of Hutchison Whampoa Limited ("HWL"), holds 183,634,285 shares of the Company.

Cheung Kong (Holdings) Limited ("Cheung Kong") through certain subsidiaries holds more than one-third of the issued share capital of HWL. Li Ka-Shing Unity Trustee Company Limited ("TUT") as trustee of The Li Ka-Shing Unity Trust ("LKS Unity Trust") and companies controlled by TUT as trustee of the LKS Unity Trust hold more than one-third of the issued share capital of Cheung Kong. All the issued and outstanding units in the LKS Unity Trust are held by certain discretionary trusts under which Li Tzar Kai, Richard is one of the several discretionary beneficiaries.

By virtue of being a director of the Company and his deemed interest in the shares of HWL as a discretionary beneficiary under such discretionary trusts as described above, Li Tzar Kai, Richard is taken to have an interest in 183,634,285 shares of the Company held by the subsidiary of HWL.
2. Li Tzar Kai, Richard is deemed to be interested in these shares by virtue of his deemed interests in Anglang and PCG(CI) as described in Note 1(a) above.
3. These RCPS of PCRD are held by Anglang. Li Tzar Kai, Richard is deemed to be interested in such RCPS of PCRD by virtue of his deemed interest in Anglang as described in Note 1(a) above.
4. These shares are held by PCRD. Li Tzar Kai, Richard is deemed to be interested in such shares of PCIHL, a subsidiary of PCRD, by virtue of his deemed interest in PCRD as described in Note 1(a) above.
5. a. Yuen Tin Fan, Francis is deemed to be interested in 2,575,000 shares of the Company by virtue of being a beneficiary under a discretionary trust.

b. Yuen Tin Fan, Francis is deemed to be interested in 23,550,000 ordinary shares of PCRD by virtue of being a beneficiary under a discretionary trust.

DIRECTORS' INTERESTS IN SECURITIES (con't)

6. Alexander Anthony Arena holds 1,000 shares in the form of 100 ADRs, each ADR representing 10 ordinary shares of the Company.
7. Cheung Kam Hung, William is deemed to be interested in 2,277 shares of the Company held by his spouse.
8.
 - a. Chung Cho Yee, Mico is deemed to be interested in 92,276 shares of the Company held by his spouse.
 - b. Chung Cho Yee, Mico is deemed to be interested in 400,500,000 ordinary shares of iLink by virtue of being a beneficiary under a trust.
9. Ma Si Hang, Frederick is deemed to be interested in 7,749,000 shares of the Company held by a company which is equally owned by him and his spouse.
10. These options were granted to Avram Miller on January 10, 2001 pursuant to the terms and conditions of a consulting agreement dated August 17, 1999 and approved by the Company's shareholders at an extraordinary general meeting held on December 5, 2000.
11. Li Tzar Kai, Richard is deemed to be interested in the exchangeable notes of PCCW Japan (convertible into an aggregate of 609,000 ordinary shares of Yen 50 each of PCCW Japan) issued to Internet Ventures Technologies Limited, a company wholly-owned by Li Tzar Kai, Richard.
12. Li Tzar Kai, Richard is deemed to be interested in the convertible bonds issued by a wholly-owned subsidiary of the Company, PCCW Capital Limited with an aggregate principal amount of US\$28,000,000 convertible into shares of the Company at a conversion price of US\$1.0083 per share held by PCIHL.

Other than as disclosed above, none of the directors or their associates had any personal, family, corporate or other interests in any securities of the Company or any of its associated corporations as defined in the SDI Ordinance as at December 31, 2001.

SHARE OPTION SCHEME

On September 20, 1994, the Company approved a share option scheme (the "Scheme") under which the directors may, at their discretion, offer any employee (including directors) of the Group options to subscribe for shares in the Company subject to the terms and conditions stipulated in the Scheme.

Pursuant to the Scheme, the Company has granted options to certain directors and employees of the Group, details of which are as follows:

1. Outstanding options at January 1, 2001 and at December 31, 2001

| Name or category of participant | Date of grant | Vesting period | Exercisable period | Exercise price HK\$ | Number of options | |
|---------------------------------|--------------------------|--------------------------|--------------------------|---------------------|---------------------------|---------------------------|
| | | | | | Outstanding at 01.01.2001 | Outstanding at 12.31.2001 |
| | <i>(Notes 1 & 2)</i> | <i>(Note 1)</i> | <i>(Note 1)</i> | | | |
| Directors | | | | | | |
| Yuen Tin Fan, Francis | 08.28.1999 | 08.17.2000 to 08.17.2004 | 08.17.2003 to 08.17.2009 | 2.356 | 10,670,000 | 10,670,000 |
| | 08.26.2000 | 08.26.2001 to 08.26.2005 | 08.26.2001 to 08.26.2010 | 12.024 | 32,000,000 | 16,000,000 |
| | 02.20.2001 | 08.26.2001 to 08.26.2005 | 08.26.2001 to 01.22.2011 | 3.368 | – | 16,000,000 |
| Cheung Wing Lam, Linus | 08.26.2000 | 08.26.2001 to 08.26.2005 | 08.26.2001 to 08.26.2010 | 12.024 | 16,000,000 | – |
| | 02.20.2001 | 08.26.2001 to 08.26.2005 | 08.26.2001 to 01.22.2011 | 3.368 | – | 16,000,000 |
| Peter Anthony Allen | 08.28.1999 | 08.17.2000 to 08.17.2002 | 08.17.2000 to 08.17.2009 | 2.356 | 1,360,000 | 1,360,000 |
| | 08.26.2000 | 08.26.2001 to 08.26.2005 | 08.26.2001 to 08.26.2010 | 12.024 | 1,786,000 | 893,000 |
| | 02.20.2001 | 08.26.2001 to 08.26.2005 | 08.26.2001 to 01.22.2011 | 3.368 | – | 893,000 |
| Alexander Anthony Arena | 08.28.1999 | 08.17.2000 to 08.17.2004 | 08.17.2000 to 08.17.2009 | 2.356 | 16,000,000 | 16,000,000 |
| | 08.26.2000 | 08.26.2001 to 08.26.2005 | 08.26.2001 to 08.26.2010 | 12.024 | 16,000,000 | 8,000,000 |
| | 02.20.2001 | 08.26.2001 to 08.26.2005 | 08.26.2001 to 01.22.2011 | 3.368 | – | 8,000,000 |
| John Todd Bonner | 11.13.1999 | 08.17.2000 to 10.25.2004 | 08.17.2000 to 10.25.2009 | 4.552 | 5,000,000 | 5,000,000 |
| | 08.26.2000 | 08.26.2001 to 08.26.2005 | 08.26.2001 to 08.26.2010 | 12.024 | 4,800,000 | 2,400,000 |
| | 02.20.2001 | 08.26.2001 to 08.26.2005 | 08.26.2001 to 01.22.2011 | 3.368 | – | 2,400,000 |

SHARE OPTION SCHEME (con't)**1. Outstanding options at January 1, 2001 and at December 31, 2001** (con't)

| Name or category of participant | Date of grant | Vesting period | Exercisable period | Exercise price HK\$ | Number of options | |
|---------------------------------|--------------------------|--------------------------|--------------------------|---------------------|---------------------------|---------------------------|
| | | | | | Outstanding at 01.01.2001 | Outstanding at 12.31.2001 |
| | (Notes 1 & 2) | (Note 1) | (Note 1) | | | |
| Jeffrey Amsden Bowden | 02.20.2001 | 01.22.2002 to 01.22.2006 | 01.22.2002 to 01.22.2011 | 3.368 | – | 12,000,000 |
| Cheung Kam Hung, William | 08.26.2000 | 08.26.2001 to 08.26.2005 | 08.26.2001 to 08.26.2010 | 12.024 | 4,800,000 | – |
| | 02.20.2001 | 08.26.2001 to 08.26.2005 | 08.26.2001 to 01.22.2011 | 3.368 | – | 4,800,000 |
| Chung Cho Yee, Mico | 08.28.1999 | 08.17.2000 to 08.17.2004 | 08.17.2001 to 08.17.2009 | 2.356 | 17,876,000 | 17,876,000 |
| | 08.26.2000 | 08.26.2001 to 08.26.2005 | 08.26.2001 to 08.26.2010 | 12.024 | 10,600,000 | 5,300,000 |
| | 02.20.2001 | 08.26.2001 to 08.26.2005 | 08.26.2001 to 01.22.2011 | 3.368 | – | 5,300,000 |
| Ma Si Hang, Frederick | 05.18.2001 | 05.07.2002 to 05.07.2006 | 05.07.2002 to 05.07.2011 | 2.232 | – | 12,000,000 |
| David Norman Prince | 08.26.2000 | 08.26.2001 to 08.26.2005 | 08.26.2001 to 08.26.2010 | 12.024 | 8,000,000 | – |
| | 02.20.2001 | 08.26.2001 to 08.26.2005 | 08.26.2001 to 01.22.2011 | 3.368 | – | 8,000,000 |
| Peter To | 08.28.1999 | 08.17.2000 to 08.17.2004 | 08.17.2001 to 08.17.2009 | 2.356 | 21,800,000 | 21,800,000 |
| Other Employees | | | | | | |
| In aggregate | 08.17.1999 to 09.15.1999 | (Note 3) | 08.17.2000 to 08.17.2009 | 2.356 | 65,208,692 | 59,827,354 |
| | 10.25.1999 to 11.23.1999 | (Note 3) | 10.25.2000 to 10.25.2009 | 4.552 | 65,153,334 | 31,803,000 |
| | 12.07.1999 to 01.05.2000 | 12.07.2000 to 12.07.2002 | 12.07.2000 to 12.07.2009 | 5.392 | 2,280,000 | – |
| | 12.20.1999 to 01.18.2000 | (Note 3) | 12.20.2000 to 12.20.2009 | 6.712 | 28,450,000 | 1,080,000 |
| | 02.11.2000 | 02.01.2001 to 02.01.2003 | 02.01.2001 to 02.01.2010 | 14.472 | 2,000,000 | – |
| | 02.08.2000 to 03.08.2000 | 02.08.2001 to 02.08.2003 | 02.08.2001 to 02.08.2010 | 15.048 | 433,500 | 433,500 |
| | 08.26.2000 to 09.24.2000 | (Note 4) | (Note 4) | 12.024 | 157,633,000 | 26,505,000 |
| | 10.27.2000 to 11.25.2000 | (Note 5) | (Note 5) | 4.872 | 121,409,600 | 106,863,160 |
| | 01.22.2001 to 02.20.2001 | (Note 6) | (Note 6) | 3.368 | – | 129,982,702 |
| | 02.20.2001 | 02.08.2002 to 02.08.2004 | 02.08.2002 to 02.08.2011 | 3.752 | – | 433,500 |
| | 04.17.2001 to 05.16.2001 | (Note 7) | (Note 7) | 2.060 | – | 20,928,200 |
| | 07.16.2001 to 09.15.2001 | 07.16.2002 to 07.16.2004 | 07.16.2002 to 07.16.2011 | 1.832 | – | 4,206,000 |
| | 08.03.2001 | Fully vest on 03.31.2002 | 03.31.2002 to 08.01.2011 | 3.368 | – | 4,000,000 |
| | 09.27.2001 | 09.07.2002 to 09.07.2004 | 09.07.2002 to 09.07.2011 | 1.363 | – | 18,000,000 |
| | 10.15.2001 to 11.13.2001 | 10.15.2002 to 10.15.2004 | 10.15.2002 to 10.15.2011 | 1.728 | – | 1,460,000 |

SHARE OPTION SCHEME (con't)**2. Options granted during the year ended December 31, 2001**

| Name or category of participant | Date of grant | Vesting period | Exercisable period | Exercise price HK\$ | Number of options granted | Market value per share at date of grant HK\$ |
|---------------------------------|--------------------------|--------------------------|--------------------------|---------------------|---------------------------|--|
| | (Notes 1 & 2) | (Note 1) | (Note 1) | | | (Note 2) |
| Directors | | | | | | |
| Yuen Tin Fan, Francis | 02.20.2001 | 08.26.2001 to 08.26.2005 | 08.26.2001 to 01.22.2011 | 3.368 | 16,000,000 | 4.650 |
| Cheung Wing Lam, Linus | 02.20.2001 | 08.26.2001 to 08.26.2005 | 08.26.2001 to 01.22.2011 | 3.368 | 16,000,000 | 4.650 |
| Peter Anthony Allen | 02.20.2001 | 08.26.2001 to 08.26.2005 | 08.26.2001 to 01.22.2011 | 3.368 | 893,000 | 4.650 |
| Alexander Anthony Arena | 02.20.2001 | 08.26.2001 to 08.26.2005 | 08.26.2001 to 01.22.2011 | 3.368 | 8,000,000 | 4.650 |
| John Todd Bonner | 02.20.2001 | 08.26.2001 to 08.26.2005 | 08.26.2001 to 01.22.2011 | 3.368 | 2,400,000 | 4.650 |
| Jeffrey Amsden Bowden | 02.20.2001 | 01.22.2002 to 01.22.2006 | 01.22.2002 to 01.22.2011 | 3.368 | 12,000,000 | 4.650 |
| Cheung Kam Hung, William | 02.20.2001 | 08.26.2001 to 08.26.2005 | 08.26.2001 to 01.22.2011 | 3.368 | 4,800,000 | 4.650 |
| Chung Cho Yee, Mico | 02.20.2001 | 08.26.2001 to 08.26.2005 | 08.26.2001 to 01.22.2011 | 3.368 | 5,300,000 | 4.650 |
| Ma Si Hang, Frederick | 05.18.2001 | 05.07.2002 to 05.07.2006 | 05.07.2002 to 05.07.2011 | 2.232 | 12,000,000 | 2.725 |
| David Norman Prince | 02.20.2001 | 08.26.2001 to 08.26.2005 | 08.26.2001 to 01.22.2011 | 3.368 | 8,000,000 | 4.650 |
| Other Employees | | | | | | |
| In aggregate | 01.22.2001 to 02.20.2001 | (Note 6) | (Note 6) | 3.368 | 159,073,300 | 4.415 to 4.975 |
| | 02.20.2001 | 02.08.2002 to 02.08.2004 | 02.08.2002 to 02.08.2011 | 3.752 | 433,500 | 4.650 |
| | 04.17.2001 to 05.16.2001 | (Note 7) | (Note 7) | 2.060 | 24,858,600 | 2.600 to 3.000 |
| | 07.16.2001 to 09.15.2001 | 07.16.2002 to 07.16.2004 | 07.16.2002 to 07.16.2011 | 1.832 | 4,558,800 | 1.630 to 2.225 |
| | 08.03.2001 | Fully vest on 03.31.2002 | 03.31.2002 to 08.01.2011 | 3.368 | 4,000,000 | 1.940 |
| | 09.27.2001 | 09.07.2002 to 09.07.2004 | 09.07.2002 to 09.07.2011 | 1.363 | 18,000,000 | 1.930 |
| | 10.15.2001 to 11.13.2001 | 10.15.2002 to 10.15.2004 | 10.15.2002 to 10.15.2011 | 1.728 | 1,460,000 | 2.025 to 2.200 |

SHARE OPTION SCHEME (con't)**2. Options granted during the year ended December 31, 2001** (con't)

The share options granted are not recognized in the financial statements until they are exercised. The weighted average value per option granted in 2001 and 2000 estimated at the date of grant using the binomial option pricing model was HK\$3.59 and HK\$9.67 respectively. The weighted average assumptions used are as follows:

| | 2001 | 2000 |
|-----------------------------|--------------------|-------------|
| Risk-free interest rate | 6.2 percent | 7.6 percent |
| Expected life (in years) | 10 | 10 |
| Volatility | 0.46 | 0.75 |
| Expected dividend per share | - | - |

The binomial option pricing model was developed for use in estimating the fair value of traded options that are fully transferrable. In addition, such option pricing model requires input of highly subjective assumptions, including the expected stock price volatility. Because the Company's share options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, the binomial option pricing model does not necessarily provide a reliable measure of the fair value of the share options.

3. Options exercised during the year ended December 31, 2001

| Name or category of participant | Date of grant | Vesting period | Exercisable period | Exercise price HK\$ | Number of shares acquired on exercise of options | Weighted average market value per share on exercise of options HK\$ |
|---------------------------------|-----------------------------|-----------------------------|-----------------------------|---------------------|--|---|
| | (Notes 1 & 2) | (Note 1) | (Note 1) | | | |
| Other Employees | | | | | | |
| In aggregate | 08.17.1999 to 09.15.1999 | Fully vest on 08.17.2000 | 08.17.2000 to 08.17.2009 | 2.356 | 40,000 | 4.65 |
| | 10.25.1999 to 11.23.1999 | 10.25.2000 to 10.25.2002 | 10.25.2000 to 10.25.2009 | 4.552 | 30,000 | 4.98 |
| | 01.22.2001 to 02.20.2001 | (Note 6) | (Note 6) | 3.368 | 2,318,998 | 4.59 |

No option was exercised by any director during the year.

SHARE OPTION SCHEME (con't)**4. Options cancelled or lapsed during the year ended December 31, 2001**

| Name or category of participant | Exercise price HK\$ | Number of options cancelled | Number of options lapsed |
|---------------------------------|---------------------|-----------------------------|--------------------------|
| Directors | | | |
| Yuen Tin Fan, Francis | 12.024 | 16,000,000 | – |
| Cheung Wing Lam, Linus | 12.024 | 16,000,000 | – |
| Peter Anthony Allen | 12.024 | 893,000 | – |
| Alexander Anthony Arena | 12.024 | 8,000,000 | – |
| John Todd Bonner | 12.024 | 2,400,000 | – |
| Cheung Kam Hung, William | 12.024 | 4,800,000 | – |
| Chung Cho Yee, Mico | 12.024 | 5,300,000 | – |
| David Norman Prince | 12.024 | 8,000,000 | – |
| Other Employees | | | |
| In aggregate | 2.356 | – | 5,341,338 |
| | 4.552 | – | 33,320,334 |
| | 5.392 | 2,280,000 | – |
| | 6.712 | 27,370,000 | – |
| | 14.472 | 2,000,000 | – |
| | 12.024 | 125,256,000 | 5,872,000 |
| | 4.872 | 485,700 | 14,060,740 |
| | 3.368 | – | 26,771,600 |
| | 2.060 | – | 3,930,400 |
| | 1.832 | – | 352,800 |

Notes:

- All dates are shown month/day/year.
- Due to the large number of employees participating in the Scheme, certain information such as the date of grant and market value per share at the grant date of options can only be shown within a reasonable range in this report. For options granted to employees, the options were granted during the underlying periods for acceptance of the offer of such options by the employees concerned, and the market value per share at the grant date as stated represents the range of closing prices during the relevant period for the grant of options.
- These options vest in installments during a period starting from the first anniversary of the offer date of such options ("Offer Date") and ending on either the third or fifth anniversary of the Offer Date inclusive.
- These options vest in installments during a period starting from: (i) May 26, 2001 and ending on May 26, 2003 inclusive; (ii) the first anniversary of the Offer Date and ending on the third anniversary of the Offer Date inclusive; or (iii) the first anniversary of the Offer Date and ending on the fifth anniversary of the Offer Date inclusive. All these options are exercisable in installments from the commencement of the relevant vesting period until the tenth anniversary of the Offer Date.
- These options vest in installments during a period starting from: (i) March 15, 2001 and ending on March 15, 2005 inclusive; or (ii) the first anniversary of the Offer Date and ending on the third anniversary of the Offer Date inclusive. All these options are exercisable in installments from the commencement of the relevant vesting period until the tenth anniversary of the Offer Date.
- These options vest in installments during a period starting from dates ranging between February 8, 2001 to December 20, 2001 and ending on either the third or fifth anniversary of the relevant starting date inclusive. All these options are exercisable in installments from the commencement of the relevant vesting period until the tenth anniversary of the Offer Date.
- These options vest in installments during a period starting from: (i) May 26, 2001 and ending on May 26, 2005 inclusive; (ii) the first anniversary of the Offer Date and ending on the third anniversary of the Offer Date inclusive; or (iii) the first anniversary of the Offer Date and ending on the fifth anniversary of the Offer Date inclusive. All these options are exercisable in installments from the commencement of the relevant vesting period until the tenth anniversary of the Offer Date.

Further details of the Scheme and movements in other options of the Company are set out in note 24 to the consolidated financial statements.

DIRECTORS' RIGHT TO ACQUIRE SHARES

- a. Other than the share options granted to certain directors pursuant to the Scheme as contained in the section headed "SHARE OPTION SCHEME", the Company on January 10, 2001 granted to Avram Miller, a non-executive director of the Company, options to subscribe for 63,201,097 shares at an exercise price of HK\$2.356 per share pursuant to the terms and conditions of a consulting agreement dated August 17, 1999 which had been approved by the Company's shareholders at an extraordinary general meeting held on December 5, 2000. These options become exercisable at a rate of 10 percent per annum from January 2001 to January 2011 and will expire on January 9, 2011. Avram Miller did not exercise any of the options during the year.
- b. Certain of the Company's directors have options to subscribe for ordinary shares in PCRD. Details of the outstanding options granted to directors of the Company by PCRD are summarized as follows:

| Name of director | Date of grant (Note) | Exercisable period (Note) | Exercise price S\$ | Number of share options | | |
|-------------------------|-------------------------|------------------------------|--------------------|---------------------------|---------------------------|---------------------------|
| | | | | Outstanding at 01.01.2001 | Exercised during the year | Outstanding at 12.31.2001 |
| Alexander Anthony Arena | 11.24.1999 | 10.25.2001 to 10.24.2009 | 0.7584 | 15,300,000 | – | 15,300,000 |
| John Todd Bonner | 11.24.1999 | 10.25.2001 to 10.24.2009 | 0.7584 | 5,000,000 | – | 5,000,000 |
| Chung Cho Yee, Mico | 04.15.1999 | 04.15.2001 to 04.14.2004 | 0.143 | 8,000,000 | 8,000,000 | – |

Note: All dates are shown month/day/year.

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

| Name of director | Date of grant (Note 1) | Exercisable period (Note 1) | Exercise price at date of grant HK\$ | Exercise price adjusted for Bonus Issue HK\$ (Note 2) | Number of share options | | |
|-----------------------|---------------------------|--------------------------------|--------------------------------------|--|---------------------------|--|---------------------------|
| | | | | | Outstanding at 01.01.2001 | Adjustment for the Bonus Issue (Note 2) | Outstanding at 12.31.2001 |
| Yuen Tin Fan, Francis | 07.07.1999 | 07.07.2000 to 07.06.2009 | 6.28 | 5.233 | 16,200,000 | 3,240,000 | 19,440,000 |
| Peter Anthony Allen | 07.07.1999 | 07.07.2000 to 07.06.2009 | 6.28 | 5.233 | 500,000 | 100,000 | 600,000 |
| John Todd Bonner | 07.07.1999 | 07.07.2000 to 07.06.2009 | 6.28 | 5.233 | 13,800,000 | 2,760,000 | 16,560,000 |
| Chung Cho Yee, Mico | 07.07.1999 | 07.07.2000 to 07.06.2009 | 6.28 | 5.233 | 1,900,000 | 380,000 | 2,280,000 |

Notes:

- All dates are shown month/day/year.
- Adjustment as a consequence of the 1-for-5 bonus issue of ordinary shares of PCIHL effected on May 17, 2001 ("Bonus Issue").

DIRECTORS' RIGHT TO ACQUIRE SHARES (con't)

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

SUBSTANTIAL SHAREHOLDERS

As at December 31, 2001, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that, other than the interests disclosed above in respect of certain directors, the following shareholders had an interest of 10 percent or more in the issued share capital of the Company:

| Name of shareholder | Note | Number of shares | Percentage of total issued shares |
|---|------|------------------|-----------------------------------|
| UBS AG ("UBS") | 1 | 3,285,099,270 | 14.5 |
| Cable and Wireless plc ("C&W plc") | 1 | 3,259,384,610 | 14.4 |
| Cable and Wireless (Investments) Limited ("CWIL") | 1 | 3,259,384,610 | 14.4 |
| Cable and Wireless (Far East) Limited ("CWFE") | 1 | 3,259,384,610 | 14.4 |
| PCRD | 2 | 7,590,049,517 | 33.4 |
| Anglang | 2 | 7,590,049,517 | 33.4 |
| PCG(CI) | 2 | 7,590,049,517 | 33.4 |
| PCIL | 2 | 7,590,049,517 | 33.4 |
| PCG | 3 | 8,036,260,731 | 35.4 |
| Yasumitsu Shigeta ("Mr. Shigeta") | 4 | 8,036,260,731 | 35.4 |
| Li Tzar Kai, Richard | 5 | 8,823,621,854 | 38.9 |

Notes:

- On April 2, 2001, UBS Warburg, a business group of UBS acquired a notifiable interest in the shares of the Company which (together with its interest in the shares of the Company acquired prior to April 2, 2001) amounted to 3,285,099,270 shares of the Company. Such interests arose in connection with the following:–
 - In connection with the C&W plc US\$1,504,331,000 Zero Coupon Exchangeable Bonds due 2003 ("C&W Exchangeable Bonds") exchangeable into shares of the Company, on April 2, 2001 UBS entered into certain call option arrangements with CWFE, under which CWFE granted to UBS call options over 3,259,384,610 shares of the Company then directly or indirectly beneficially owned by CWFE; and UBS granted to CWFE call options over 3,259,384,610 shares of the Company.
 - UBS also has an interest arising under an underwriting commitment in respect of the C&W Exchangeable Bonds that means it has a conditional interest in the shares of the Company underlying the C&W Exchangeable Bonds. Any exercise of the exchange right in relation to the C&W Exchangeable Bonds will be reflected in the call option arrangements described in sub-paragraph (a) above such that at no time will UBS be interested in more than 3,259,384,610 shares of the Company in aggregate under the above arrangements.
 - On April 2, 2001, UBS exercised call options over 1,600,000,000 shares of the Company pursuant to the call options described in sub-paragraph (a) above. As a result, UBS retains the right to call for the delivery of 1,659,384,610 shares of the Company from CWFE under such call option arrangements.
 - Following the exercise by UBS on April 2, 2001 of call options over 1,600,000,000 shares of the Company as described in sub-paragraph (c) above, UBS holds 1,625,714,660 shares of the Company (including 25,714,660 shares it held prior to April 2, 2001).
 - On December 4, 2001, CWIL entered into an agreement for the purchase of C&W Exchangeable Bonds exchangeable into 433,332,000 shares of the Company from UBS.

As a result of the above transactions, C&W plc, CWIL and CWFE are each deemed to be interested in 3,259,384,610 shares of the Company under the SDI Ordinance, including 1,659,384,610 shares of the Company held by C&W plc through CWIL and CWFE.
- PCRD holds 7,590,049,517 shares, including 455,000 shares held in the form of 45,500 ADRs, each ADR representing 10 ordinary shares of the Company. Approximately 37.8 percent and approximately 37.5 percent of the issued share capital of PCRD are held by Anglang and PCG(CI) respectively. The entire issued share capital of Anglang is held by PCG(CI). In turn, the entire issued share capital of PCG(CI) is held by PCIL and the entire issued share capital of PCIL is held by PCG. All the shares referred to herein relate to the same parcel of shares held by PCRD.
- The shares referred to herein include the 103,709,434 shares held by PCG, the 7,590,049,517 shares held by PCRD and the 342,501,780 shares held by Mr. Shigeta. As PCG and Mr. Shigeta were parties to an agreement to which Section 9 of the SDI Ordinance applies, PCG is deemed to be interested in the 342,501,780 shares held by Mr. Shigeta.

SUBSTANTIAL SHAREHOLDERS (con't)

4. The shares referred to herein include 7,693,758,951 shares in which PCG is deemed to be interested. As Mr. Shigeta and PCG were parties to an agreement to which Section 9 of the SDI Ordinance applies, Mr. Shigeta is deemed to be interested in the 7,693,758,951 shares in which PCG is deemed to be interested.
5. Li Tzar Kai, Richard holds the entire issued share capital of PCG. PCG holds the entire issued share capital of PCIL. PCIL holds the entire issued share capital of PCG(CI). PCG(CI) holds the entire issued share capital of Anglang. Anglang and PCG(CI) hold 1,169,067,180 ordinary shares and 1,160,991,050 ordinary shares of PCRD respectively (an aggregate of 2,330,058,230 ordinary shares of PCRD), which constitute approximately 37.8 percent and approximately 37.5 percent of the entire issued share capital of PCRD respectively. PCRD holds 7,590,049,517 shares, including 455,000 shares held in the form of 45,500 ADRs, each ADR representing 10 ordinary shares, which constitute approximately 33.4 percent of the entire issued share capital of the Company. PCG is interested in 446,211,214 shares (through itself and Mr. Shigeta), which constitute approximately 2 percent of the entire issued share capital of the Company. Li Tzar Kai, Richard also holds the entire issued share capital of Chiltonlink Limited which holds the entire issued share capital of PCD. PCD holds 787,361,123 shares, which constitute approximately 3.5 percent of the entire issued share capital of the Company. Accordingly, Li Tzar Kai, Richard is deemed to be interested in an aggregate of 8,823,621,854 shares (held by PCRD, PCG (through itself and Mr. Shigeta) and PCD) of the Company.

Save as disclosed above, the Company has not been notified of any other interests representing 10 percent or more of the issued share capital of the Company as at December 31, 2001.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

- a. During the year, Li Tzar Kai, Richard had an interest, through his associates (as defined in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules")) including PCRD, Pacific Century Matrix Limited ("PC Matrix") and Pacific Century Group Japan Co., Ltd. ("PCGJ"), in certain transactions which constituted "connected transactions" of the Company under the Listing Rules. Particulars of these transactions are set out in the section headed "CONNECTED TRANSACTIONS" in this report.
- b. Dr. Fung Kwok King, Victor, through a family trust, has an interest of 10 percent in ITVentures Limited ("ITVentures"). In 1999, a subsidiary of ITVentures, Digital Creation Company Limited ("DC") entered into an agreement with PCCW IMS Limited ("IMS") (an indirect wholly-owned subsidiary of the Company) to form a joint venture company, PCCW Schoolteam (Asia) Limited ("Schoolteam"), of which DC had an interest of 49 percent, for the marketing and sale of "Schoolteam Software" and IMS also offered a revolving credit line of HK\$30 million to Schoolteam.

On December 31, 2001, ITVentures and IMS entered into a sale and purchase agreement dated December 31, 2001 pursuant to which IMS disposed of its remaining 51 percent interest in Schoolteam and assigned a shareholder's loan of HK\$30 million in Schoolteam to ITVentures in exchange for certain shares in Magically, Inc. ("Magically") owned by ITVentures and DC. Accordingly, Schoolteam is no longer a subsidiary of the Company.

As a result of the above transaction, ITVentures, on its own and/or through DC, effectively holds a total of 15.2 percent interest in Magically in which IMS and Cyber Connections Limited (an indirect wholly-owned subsidiary of the Company) also holds a 28 percent interest.

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

The interests of the directors of the Company in competing business as at December 31, 2001 required to be disclosed pursuant to Rule 8.10 of the Listing Rules were as follows:

| Name of director | Name of investee companies | Nature of business | Nature of interest |
|-------------------------------|--|--|--|
| Li Tzar Kai, Richard (Note 1) | HWL and its subsidiaries ("Hutchison Group") | Property business and satellite transmission in Asia | Certain personal and deemed interests in HWL |
| Chung Cho Yee, Mico | iLink (Note 2) | Internet connectivity, server hosting and co-location services, other value-added services and sales of equipment and software | Director |

Notes:

- Li Tzar Kai, Richard was a director of HWL and certain of its subsidiaries until August 16, 2000, the day before the acquisition of Cable & Wireless HKT Limited (now known as PCCW-HKT Limited) became effective. Certain businesses of the Hutchison Group compete with certain aspects of the business of the Group. Li Tzar Kai, Richard has a personal interest in 110,000 shares in HWL and he is also one of several discretionary beneficiaries under certain discretionary trusts which are interested in certain shares of HWL. In view of his small personal shareholding and being a discretionary beneficiary of such trusts, Li Tzar Kai, Richard is not able to exert control or influence over the Hutchison Group.
- As at December 31, 2001, 47.9 percent of the issued share capital of iLink was held by an indirect wholly-owned subsidiary of the Company. Details of potential competition between the Group and iLink are disclosed at pages 113 to 119 of the prospectus dated February 28, 2001 of iLink regarding its listing on The Growth Enterprise Market of the Stock Exchange by way of placing.

In addition, the Group held minority equity interests in a number of Internet-related companies in which the Group was entitled to appoint, and appointed, one or more directors to the boards of these companies during the year. Some or all of these companies may compete, directly or indirectly, with certain aspects of the Group's business. Details of these companies are provided in notes 17 and 18 to the consolidated financial statements.

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

CHARITABLE DONATIONS

During the year, the Group made charitable donations and other donations totaling approximately HK\$0.6 million (2000: HK\$8 million).

POST BALANCE SHEET EVENTS

Details of significant post balance sheet events are set out in note 33 to the consolidated financial statements.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Details of the purchase, sale or redemption of the Company's listed securities during the year are set out in note 23 to the consolidated financial statements.

APPLICATION OF CHAPTER 14 OF THE LISTING RULES TO THE COMPANY

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

The Company has negative net tangible assets as a result of the requirement under the relevant accounting standards to write-off to reserves HK\$172,014 million goodwill arising from the acquisition of subsidiaries, including the acquisition of Cable & Wireless HKT Limited (now known as PCCW-HKT Limited) ("HKT") in August 2000. The negative net tangible asset value of the Company does not arise as a result of operational losses.

As a result of the negative net tangible asset value of the Company as described above, the Company may have difficulties in complying fully with those provisions of the Listing Rules which require comparisons to be made with its net tangible assets or net assets. Accordingly, the Company during 2000 and 2001 applied for and was granted waivers by the Stock Exchange from the application of certain provisions of the Listing Rules as described below.

APPLICATION OF CHAPTER 14 OF THE LISTING RULES TO THE COMPANY (con't)**Limited Waiver**

Upon the application of the Company following the acquisition of HKT in August 2000, on October 19, 2000 the Stock Exchange granted a limited waiver (the "Limited Waiver") with respect to the application of the "assets test" (as defined in Rule 14.09(1) of the Listing Rules) and the "consideration test" (as defined in Rule 14.09(3) of the Listing Rules).

Details of the Limited Waiver were set out in the Company's announcements dated March 29, 2001 and March 31, 2001 and in the Company's Annual Report for the year ended December 31, 2000 and Interim Report for the period ended June 30, 2001.

The Limited Waiver was granted by the Stock Exchange on condition that it was subject to review by the Stock Exchange at the time the Company announced its audited results for the year ended December 31, 2000. The Limited Waiver ceased to apply from March 28, 2001 when the Company announced its audited results for the year ended December 31, 2000.

De-minimis Concession and Modified Calculation Concession for Purposes of Certain Notifiable Transactions

On June 1, 2001 the Stock Exchange approved the Company's application for the right to apply (A) the De-minimis Concession (as described in the Stock Exchange's announcement dated May 3, 2001 (the "May 3 Announcement")) and (B) the Modified Calculation Concession (as described in the May 3 Announcement) for purposes of determining the "assets test" and the "consideration test" (the "Relevant Tests") under Rules 14.06, 14.09, 14.12 and 14.20 of the Listing Rules.

Details of the application of the De-minimis Concession and Modified Calculation Concession were set out in the Company's announcement dated June 1, 2001. Following publication of the Company's Unaudited Condensed Consolidated Balance Sheet as at June 30, 2001 in the Interim Report for the six months ended June 30, 2001 ("Unaudited Balance Sheet as at June 30, 2001"), the applicable thresholds for the purpose of the Relevant Tests were modified as described below and the details were set out in the Company's announcement dated September 25, 2001:

De-minimis Concession

The De-minimis Concession is such that each transaction carried out in the ordinary course of business of the Group, which is entered into on normal commercial terms, and where the consideration or value of the transaction does not exceed HK\$1,000,000, would be considered as de-minimis. The Relevant Tests will not apply.

Modified Calculation Concession

Based on the Company's Unaudited Balance Sheet as at June 30, 2001, the monetary thresholds against which the "gross assets less intangibles and current liabilities of the asset to be acquired or realised" for the "assets test" and the "consideration for the asset to be acquired or realised" for the "consideration test" are to be determined for the purposes of the Modified Calculation Concession to ascertain the type of notifiable transaction for the purposes of Chapter 14 of the Listing Rules are as follows:

- A. ratio of 5 percent or above but below 15 percent (approximately HK\$2,118 million or above but below approximately HK\$6,354 million) – the requirements for discloseable transactions apply;
- B. ratio of 15 percent or above but below 25 percent (approximately HK\$6,354 million or above but below approximately HK\$10,591 million) – the requirements for major transactions apply;
- C. ratio of 25 percent or above (approximately HK\$10,591 million or above) – the requirements for very substantial acquisitions apply; and

APPLICATION OF CHAPTER 14 OF THE LISTING RULES TO THE COMPANY (con't)

Modified Calculation Concession (con't)

- D. for acquisition of assets (including securities but excluding cash) by the Company or any of its subsidiaries for consideration that includes securities for which listing will be sought, the requirements for share transactions apply if the ratio is less than 5 percent (HK\$2,118 million).

For the avoidance of doubt, the “profits test” and “equity test” remain applicable to the Company.

Modified Assets Test for Purposes of the Connected Transactions Rules

On August 30, 2001 the Stock Exchange approved the Company's application for the right to apply the “modified assets test” (as described in the Stock Exchange's announcement dated August 24, 2001 (the “August 24 Announcement”)) for purposes of Rules 14.24(5) and 14.25(1) and for purposes of certain provisions of Appendices 7A and 16, and Practice Notes 13, 15 and 19, of the Listing Rules.

Details of the application of the “modified assets test” were set out in the Company's announcement dated August 31, 2001. Following publication of the Company's Unaudited Balance Sheet as at June 30, 2001, the applicable thresholds for purposes of the “modified assets test” were modified as described below and the details were set out in the Company's announcement dated September 25, 2001:

Application of the “Modified Assets Test” under the Modified Calculation Concession

The Stock Exchange approved the Company's application for the right to apply the “modified assets test” under the Modified Calculation Concession with respect to the following items set forth in the August 24 Announcement:

1. **Modified Assets Test Only while Maintaining the Percentage Ratios Prescribed under the Relevant Rules**
In relation to references to net tangible assets, or net assets, as applicable, in the following Rules, the basis set out in the modified assets test under the Modified Calculation Concession has been adopted as the basis for comparison to determine the relevant disclosure requirements under those rules:
 - Paragraph 17(2) of Appendix 7A;
 - Paragraph 5.1 of Practice Note 13;
 - Paragraph 3(e)(ii) of Practice Note 15;
 - Paragraph 36 of Appendix 16; and
 - Paragraph 1.3 of Practice Note 19.

Since the numerator and denominator are using the same modified basis, there has been no need to change the current percentage ratios prescribed under these rules.
2. **Modified Assets Test and Different Percentage Ratios**
For the following Rules, in relation to references to net tangible assets, or net assets, as applicable, the basis set out in the modified assets test under the Modified Calculation Concession has been adopted as the basis for comparison to determine the relevant disclosure or shareholders' approval requirements. In addition, percentage ratio thresholds prescribed under those rules have been amended as a result of the change in basis:
 - Paragraph 15.2 of Appendix 16 – ratio of 1 percent;
 - Paragraph 23 of Appendix 16 – ratio of 5 percent;
 - Paragraph 3.2.1 of Practice Note 19 – ratio of 8 percent;
 - Paragraph 3.2.2 of Practice Note 19 – ratio of 3 percent; and
 - Paragraph 3.3 of Practice Note 19 – ratio of 8 percent.

APPLICATION OF CHAPTER 14 OF THE LISTING RULES TO THE COMPANY (con't)**Application of the "Modified Assets Test" under the Modified Calculation Concession (con't)**

3. Connected Transactions

In relation to references to net tangible assets set out under Rules 14.24 and 14.25 for connected transactions, the basis set out in the modified assets test under the Modified Calculation Concession has been adopted. In addition, the percentage ratio thresholds to determine disclosure and shareholders' approval requirements have been amended as follows:

- in Rule 14.24(5) the applicable threshold is the higher of either:
 - i. HK\$1,000,000, or
 - ii. 0.01 percent of the modified assets basis.

Based on the Company's Unaudited Balance Sheet as at June 30, 2001, the relevant threshold in sub-item (ii) above is equal to HK\$4.24 million.

- in Rule 14.25(1) the applicable threshold is the higher of either:
 - i. HK\$10,000,000, or
 - ii. 1 percent of the modified assets basis.

Based on the Company's Unaudited Balance Sheet as at June 30, 2001, the relevant threshold in sub-item (ii) above is equal to HK\$424 million.

Application of the Modified Calculation Concession to Rule 14.25(2)(b)(i) and the modification of the relevant percentage ratio threshold

On December 14, 2001 the Stock Exchange approved the Company's application for the right to apply the Modified Calculation Concession to Rule 14.25(2)(b)(i) of the Listing Rules. In relation to references to net tangible assets in Rule 14.25(2)(b)(i), the basis set out in the "modified assets test" under the Modified Calculation Concession has been adopted as the basis for comparison to determine the relevant disclosure requirements under that Rule. In addition, the percentage ratio threshold prescribed under this rule has been amended from 15 percent of the book value of the net tangible assets to 5 percent of the "modified assets" (as described in the Stock Exchange's announcement dated October 9, 2001). Based on the Company's Unaudited Balance Sheet as at June 30, 2001, the relevant threshold of 5 percent of the modified assets is equal to approximately HK\$2,118 million. Details of the application were set out in the Company's announcement dated December 18, 2001.

Period for which the Modified Assets Test will Apply

The Stock Exchange's approvals for the use of the modified assets test described above remain in effect until the publication or the due date of publication of this annual report, whichever is earlier. Accordingly, the Company has applied to the Stock Exchange for the right to apply the "De-minimis Concession", the "Modified Calculation Concession" and the "modified assets test" based on the Company's results for the year ended December 31, 2001.

CONNECTED TRANSACTIONS

The Company continued to comply with all the relevant requirements for connected transactions under Chapter 14 of the Listing Rules except to the extent modified by the concessions granted by the Stock Exchange to the Company on August 30, 2001 and December 14, 2001 in respect of the right to apply “modified assets tests” for the purposes of Rules 14.24 and 14.25.

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

Connected Transactions entered into during the year

1. On November 19, 2001, PCCW Communications (Japan) K.K. (“PCCW Communications”), an indirect wholly-owned subsidiary of the Company, entered into a five year lease agreement with PCGJ regarding the lease of certain office space in Pacific Century Place Marunouchi, Tokyo, Japan (the “Building”) owned by PCGJ at a monthly rent of Yen 7.4 million (approximately HK\$0.5 million) plus other monthly management expenses and a sub-lease agreement regarding the sub-lease of office space in the Building to PCGJ at a monthly rent of Yen 3.1 million (approximately HK\$0.2 million) plus other monthly management expenses and renovation costs. The sub-lease agreement has a term of approximately four years and ten months. In addition, PCCW Communications entered into a five year lease agreement with The Pacific Century Place Marunouchi Owners Union (“PCPMOU”) regarding the lease of space for display of the Company’s logo outside the Building at a monthly rent of Yen 0.95 million (approximately HK\$0.6 million).

Li Tzar Kai, Richard, the Chairman and Chief Executive and controlling shareholder of the Company, indirectly held a 55 percent interest in the issued share capital of PCGJ and PCGJ is able to exercise 94 percent of the voting rights of PCPMOU. As PCGJ and PCPMOU are both associates of Li Tzar Kai, Richard, they are therefore connected persons of the Company. Accordingly, the lease and sub-lease agreements constituted connected transactions for the Company.

2. On December 21, 2001, FIC Network Service, Inc. (“FIC Network”), a 86.51 percent indirect subsidiary of the Company, entered into an asset transfer agreement for the sale of certain network infrastructure assets owned by FIC Network to Taiwan Telecommunication Network Services Co., Ltd. (“TTN”), a 56.56 percent indirect subsidiary of the Company, for a consideration of approximately NT\$21.8 million (approximately HK\$4.98 million) to be satisfied by TTN taking up all the outstanding rights, obligations and liabilities of FIC Network under certain lease agreements between FIC Network as lessee and independent third parties as lessors of certain assets.

FIC Network and TTN are both non wholly-owned subsidiaries of the Company and the asset transfer agreement constituted a connected transaction for the Company.

3. As disclosed in the Company’s annual report for the year ended December 31, 2000 and the Company’s announcement dated September 7, 2001, PC Matrix distributes the Company’s English-language NOW service via satellite for Pacific Convergence Corporation, Ltd. (“PCC”) and certain members of the PCC Group (as defined below). During the year ended December 31, 2001, PC Matrix continued to provide this service and the PCC Group paid to PC Matrix service charges of approximately US\$2.8 million (approximately HK\$22 million). This arrangement continues to be on normal commercial terms and within the ordinary course of business of the PCC Group and PC Matrix.

Li Tzar Kai, Richard, the Chairman and Chief Executive and controlling shareholder of the Company, holds an indirect 70 percent interest in PC Martrix.

PCC is a wholly-owned subsidiary of PCC Holdings Ltd. (together with its subsidiaries referred to as the “PCC Group”) which was, as at December 31, 2001 and the date of this report, 84.98 percent held by the Company and 15.02 percent held by Intel Pacific, Inc.

As PC Matrix is an associate of Li Tzar Kai, Richard, it is a connected person of the Company. Accordingly, the above arrangement constituted a connected transaction for the Company.

CONNECTED TRANSACTIONS (con't)**Connected Transactions entered into during the year** (con't)

4. The Company and its wholly-owned subsidiaries, PCCW Services Limited ("PCCW Services") and HKT, made advances from time to time to the PCC Group companies for financing their operations. During the year ended December 31, 2001, a total amount of approximately HK\$737 million was provided to the PCC Group companies by the Company, PCCW Services and HKT. The loan financing is unsecured, bears interest at prime interest rate and is repayable on demand. As at December 31, 2001, a total amount of approximately HK\$2,791 million was outstanding under this facility.
5. As disclosed in the Company's annual report for the year ended December 31, 2000 and the Company's announcement dated September 7, 2001, PCC made available to Data Access (India) Limited ("Data Access") two loan facilities of US\$5 million (approximately HK\$39 million) each on May 24, 2000 and July 24, 2000 ("PCC Facilities"). On November 22, 2001, Data Access entered into a loan agreement with The HSBC Offshore Banking Unit Mauritius for a US\$10 million (approximately HK\$78 million) loan facility (the "Term Loan Facility") which were to refinance the PCC Facilities. The Term Loan Facility bears interest at 6-month LIBOR plus 0.90 percent and is repayable on a business date falling 3 years after the date of drawdown. On January 15, 2002, an amendment agreement was entered into between PCC and Data Access for the partial release of assets that were charged to PCC in relation to the PCC Facilities.

Data Access is an Indian company which at the date of the amendment agreement was 49 percent owned by the PCC Group and 51 percent by Pacific Netinvest Limited ("PNI"). PNI is an Indian company which at the date of the amendment agreement was 49 percent owned by the PCC Group and 51 percent by SPA Enterprises Limited ("SPA"), which is controlled by Siddhartha Ray. Siddhartha Ray is also the managing director of Data Access. Under the Listing Rules, Data Access and SPA are connected persons of the Company because Siddhartha Ray is the majority shareholder of SPA which was at the relevant time the majority shareholder of Data Access, making SPA and Data Access associates of Siddhartha Ray, thus making Data Access and SPA connected persons of the Company.

6. During the year ended December 31, 2001 and up to the date of this report, Pacific Convergence (Mauritius) Limited ("PCM"), a wholly-owned subsidiary of the PCC Group, and SPA provided their pro-rata share of additional funding to PNI by way of subscription for further shares to fund PNI's share of funding commitment for Data Access. As at the date of this report, PCM has subscribed for 40,916,767 shares at a subscription price of Rs. 10 (approximately HK\$1.62) each in PNI. Following such further funding to PNI, PCM and PNI in turn subscribed for 71,419,390 shares and 74,334,468 shares of Data Access at a subscription price of Rs.10 (approximately HK\$1.62) each respectively to meet the funding requirements of Data Access.
7. The proposed acquisition of a further 1,074,999 shares representing 5 percent of the outstanding issued capital of Pacific Convergence Corporation (India) Private Limited ("PCCI") and the remaining one share of PCCI by PCM and Internet Convergence Limited, a wholly-owned subsidiary of the PCC Group, respectively from SPA, at a price of Rs. 10 (approximately HK\$1.62) per share as disclosed in the Company's announcement dated September 7, 2001 was not proceeded with during the year ended December 31, 2001.

PCM, as at the date of this report, holding 20,425,000 shares representing 95 percent of the outstanding issued capital of PCCI, will increase its shareholding to 99.99 percent of the outstanding issued capital of PCCI after the completion of the above acquisition.

8. The proposed commercial agreement to be entered into between PCCI and Data Access regarding the provision of billing, customer relationship management and other services by PCCI to Data Access as disclosed in the Company's announcement dated September 7, 2001 has not been signed as at the date of this report.

CONNECTED TRANSACTIONS (con't)**Connected Transactions entered into during the year (con't)**

9. During the year ended December 31, 2001, the Company's publicly listed Japanese subsidiary, PCCW Japan, made advances from time to time to CS Now Corporation ("CS NOW"), a non wholly-owned subsidiary of PCCW Japan and discharged certain payments on behalf of CS NOW to independent third parties. During the year, a total amount of Yen 120 million (approximately HK\$7.1 million) was provided by PCCW Japan to CS NOW. The loan financing is unsecured, bears an interest rate of Japanese prime plus 50 basis points and is repayable at the end of 2002. The amounts referred to above remained outstanding as at December 31, 2001. CS NOW is 80 percent held by PCCW Japan and is the holder of a license to provide certain digital satellite broadcasting services in Japan.
10. During the year ended December 31, 2001, PCCW Japan provided funding from time to time to B-Factor Inc. ("B-Factor"), a non wholly-owned subsidiary of PCCW Japan, for B-Factor's operations. On April 26, 2001, PCCW Japan provided funding to B-Factor through the subscription of new common shares in B-Factor for a consideration of Yen 58.8 million (approximately HK\$3.5 million). In addition, PCCW Japan further subscribed for warrant bonds issued by B-Factor in the amount of Yen 70.6 million (approximately HK\$4.2 million) and Yen 26.6 million (approximately HK\$1.6 million) on April 26, 2001 and October 23, 2001, respectively. The bonds bear interest at 0.4 percent per annum. On November 29, 2001, PCCW Japan also made a loan to B-Factor of Yen 30 million (approximately HK\$1.8 million), which is unsecured and bears interest at the rate of 1.375 percent per annum and is repayable twelve months from that date. As at December 31, 2001, apart from the share subscription referred to above, only the Yen 30 million loan remained outstanding. B-Factor is 53 percent held by PCCW Japan and develops content and software for mobile applications.
11. During the year ended December 31, 2001, PCCW Services provided certain office, staff, administrative and support services to PC Matrix. The services were provided on normal commercial terms and were within the ordinary course of business of PCCW Services and PC Matrix. For the year ended December 31, 2001, the total charges for such services amounted to approximately HK\$28.1 million in respect of which PC Matrix had paid HK\$12.3 million as at December 31, 2001.
12. During the year ended December 31, 2001, the Group paid to Pacific Century Insurance Company Limited ("PCI") insurance premiums amounting to approximately HK\$10.9 million in respect of group life and medical insurance (including clinical and hospitalisation) coverage for employees of the Group.

PCI is a wholly-owned subsidiary of PCIHL, of which PCRD held 44.8 percent as at December 31, 2001. PCRD is a substantial shareholder of the Company.

PCI is continuing to provide group life and medical insurance to the Group. The policies are on normal commercial terms and within the ordinary course of business of PCI and the Group. The Group has as of March 2002 paid to PCI insurance premiums in respect of the current financial year amounting to approximately HK\$5.3 million.

Prior Connected Transactions Subject to Continuing Disclosure Obligations

1. In July 1999, Intel Corporation, the holding company of Intel Pacific, Inc., entered into a non-exclusive Technology Agreement with PCC which provides for the supply by Intel Corporation of comprehensive set-top and server-based solutions (the "Services") that will help deliver the combined content broadcast and Internet services generated by PCC. The contract sum for the Technology Agreement is US\$11.1 million (approximately HK\$87 million). During the year ended December 31, 2001, Intel Corporation did not provide the Services to PCC and PCC did not pay any amount to Intel Corporation under the Technology Agreement.

Details of this arrangement have been previously disclosed by the Company in a shareholders' circular dated August 21, 1999 and were approved by the shareholders of the Company at an extraordinary general meeting held on September 7, 1999.
2. PCRD, a substantial shareholder of the Company, has provided a rental guarantee on each of Towers A and B and the 6-storey commercial podium of Pacific Century Place, Beijing, the PRC. The two-year rental guarantee on Tower A of not less than US\$7,527,367 (approximately HK\$59 million) per annum commenced in August 1999 and the two-year rental guarantee on Tower B of not less than US\$3,573,549 (approximately HK\$28 million) per annum commenced in June 2000.

CONNECTED TRANSACTIONS (con't)**Prior Connected Transactions Subject to Continuing Disclosure Obligations** (con't)

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

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

3. On April 25, 2000, the Company provided a guarantee (the "Corporate Guarantee") as security for certain banking facilities to PCC for an amount up to US\$477,000 (approximately HK\$3.7 million) from The Hongkong and Shanghai Banking Corporation Limited ("HSBC"). PCC, in turn, provided a guarantee to HSBC in consideration of HSBC providing a Counter Indemnity to support a bank guarantee for US\$477,000 (approximately HK\$3.7 million) given by Canara Bank on behalf of Data Access in favor of the President of India acting through the Telegraph Authority of India in respect of the application by Data Access for an Internet Service License in India. This arrangement remained in place during the year ended December 31, 2001 and continues as at the date of this report.

The proposed re-arrangement of the Corporate Guarantee as disclosed in the Company's announcement dated September 7, 2001 was not proceeded with during the year ended December 31, 2001 and up to the date of this report.

4. On May 10, 2000, PCCI which is 95 percent owned by the PCC Group and 5 percent owned by SPA, made a loan of Rs. 90 million (approximately HK\$16 million) to Data Access. The loan is repayable on demand with a five-day notice and bears interest at the rate of 12 percent per annum. As at December 31, 2001, the amount outstanding under such loan was Rs. 90 million (approximately HK\$15 million). Interest payable by Data Access to PCCI for the loan during the year ended December 31, 2001 amounted to approximately Rs. 11,824,252 (approximately HK\$2 million).

CODE OF BEST PRACTICE

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

AUDITORS

The financial statements for the year have been audited by Arthur Andersen & Co.

On behalf of the Board

Fiona Nott

Company Secretary

Hong Kong,

March 20, 2002