Notes to the Financial Statements

December 31, 2001
(Amount 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 ("SEHK") since October 18, 1994. The principal activities of the Company and its subsidiaries (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 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.

a. 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 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, an indirect 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.

b. Telstra Alliance

In February 2001, the Group formed a strategic alliance with Telstra Corporation Limited ("Telstra") of Australia ("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 the 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 Group received cash from Reach of US$1,125 million (approximately HK$8,775 million), (ii) the purchase by Telstra of a 60 percent interest in a newly formed company, ("Regional Wireless Company" or "RWC"), for a cash consideration of US$1,680 million (approximately HK$13,100 million) that owns the Hong Kong wireless communications business contributed by the Company and (iii) the issuance of a convertible bond with a principal amount of US$750 million (approximately HK$5,850 million) to Telstra ("Telstra Bond").

c. Syndicated Bank Loan

During 2001, the Group successfully arranged a syndicated bank loan of US$4,700 million (approximately HK$36,660 million) (the "Term Loan") to repay the outstanding portion of the Bridge Loan drawn in 2000 to finance the cash consideration for the acquisition of HKT. The terms of the Term Loan include certain general and financial covenants with which management believes the Group has complied. As of the date of the approval of these financial statements, the Group has repaid US$2,263 million (approximately HK$17,651 million) from the cash generated from operations and funds raised through the issuance of bonds and convertible debt. Details of the Term Loan, the bonds and convertible debts are disclosed in notes 22 and 33.

d. Acquisition of Telecommunications Technology Investments Limited ("TTIL")

In March 2001, the Group completed the acquisition of 100 percent of TTIL, a leading satellite-based network communication solutions provider in Asia, together with a shareholder's loan of approximately HK$546 million for an aggregate consideration of approximately HK$803 million. The consideration was satisfied by the issue of 183,634,285 ordinary shares of the Company at a price of HK$4.375 per share (note 23).

1. GROUP ORGANIZATION

e. Ultimate holding company

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

2. PRINCIPAL ACCOUNTING POLICIES

a. Statement of compliance

The financial statements have been prepared in accordance with applicable Statements of Standard Accounting Practice ("SSAP") issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong ("HK GAAP") and the disclosure requirements of the Hong Kong Companies Ordinance. In particular, these financial statements have adopted SSAP 28 "Provisions, Contingent Liabilities, and Contingent Assets", SSAP 29 "Intangible Assets", SSAP 30 "Business Combinations", SSAP 31 "Impairment of Assets" and Interpretation 13 "Goodwill – continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves" which became effective January 1, 2001. As a result of the required first time adoption of these accounting standards, the Group has followed the transitional arrangements and where appropriate retrospectively adjusted its financial results for the year ended December 31, 2000, as required under SSAP 2 "Net profit or loss for the period, fundamental errors and changes in accounting polices". Details of these adjustments are disclosed in note 34. These financial statements also comply with the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

A summary of the significant accounting policies adopted by the Group is set out below.

b. Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is historical cost modified by the revaluation of investment properties and the marking to market of certain investments in securities as further explained in the accounting policies set out below.

c. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. 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.

The equity and net income attributable to minority shareholders' interests are shown separately in the balance sheet and income statement, respectively.

d. Turnover

Turnover represents (i) telecommunications and other service 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) revenues from construction contracts.

2. PRINCIPAL ACCOUNTING POLICIES

e. 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.

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 estimated value of work done 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.

f. 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.

2. PRINCIPAL ACCOUNTING POLICIES

g. Fixed assets and depreciation

Fixed assets, excluding investment properties, are stated at cost less accumulated depreciation and impairment. 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 beyond its originally assessed standard of performance, 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.

When fixed assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the income statement.

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 leases term.

2. PRINCIPAL ACCOUNTING POLICIES

i. Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognized no longer exists or may have decreased:

- fixed assets;
- investment in subsidiaries, associates and jointly controlled companies;
- intangible assets; and
- goodwill (whether taken initially to reserves or recognized as an asset).

If any such indication exists, the asset's recoverable amount is estimated. For intangible assets, that are not yet available for use, or are amortized over more than 20 years from the date when the asset is available for use or goodwill that is taken initially to reserves or amortized over 20 years from initial recognition, the recoverable amount is estimated at each balance sheet date. An impairment loss is recognized in the income statement whenever the carrying amount of an asset exceeds its recoverable amount.

i. Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. Net selling price is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

ii. Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognized in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognized.

j. 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 any direct development costs incurred attributable to such properties.

k. 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 and 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.

2. PRINCIPAL ACCOUNTING POLICIES

l. Trademarks

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

m. Development costs

Development costs which represent costs directly attributable to the development of media content and related programming 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 representing costs for 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.

n. Goodwill

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

Goodwill is capitalized and amortized on a straight-line basis over its estimated useful life ranging from 10 to 20 years. The amortization charge for each period is recognized as an expense.

Goodwill arising from transactions completed prior to January 1, 2001 is written off directly against reserves and is reduced by impairment losses. Any impairment loss identified is recognized as an expense.

On disposal of an interest in a subsidiary, a jointly controlled company or an associate, the attributable amount of goodwill not previously amortized through the consolidated income statement or which has previously been dealt with as a movement on group reserves is included in the calculation of the profit or loss on disposal.

o. Subsidiaries

A subsidiary, is a company in which the Company, directly or indirectly, holds more than half of the issued share capital, or controls more than half the voting power, or controls the composition of the board of directors. A subsidiary is considered to be controlled if the Company has the power, directly or indirectly, to govern its financial and operating policies. Investments in subsidiaries are carried at cost in the Company's balance sheet less provision 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.

p. 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.

In the Company's balance sheet, investment in associates is carried at cost less provision 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.

2. PRINCIPAL ACCOUNTING POLICIES

q. 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 that 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 People's Republic of China (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.

r. 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. To the extent the investments in unconsolidated subsidiaries are intended to be temporary, they are accounted for using the cost method of accounting and are recorded as current assets on the consolidated balance sheet. In respect of investments in unconsolidated subsidiaries held for the long term, they are accounted for using the equity method of accounting.

s. 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.

2. PRINCIPAL ACCOUNTING POLICIES

s. Investments

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 the income statement 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.

t. 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 incurred during the construction period 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.

u. 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.

v. Construction contracts

The accounting policy for contract revenue is set out in note 2(e)(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 estimated value of work performed, 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".

2. PRINCIPAL ACCOUNTING POLICIES

w. Cash equivalents

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.

x. Provisions

A provision is recognized when, and only when a company has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

y. Borrowing costs

Borrowing costs are expensed as incurred, except to the extent that they are 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.

z. 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 to the extent that it is probable that a liability or asset will crystallize.

aa. Retirement benefit costs

The Group operates both defined contribution plans (including the Mandatory Provident Funds ("MPF")) and defined benefit plans. Contributions related to defined contribution plans are expensed as incurred and are reduced, where appropriate, 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 costs arising from periodic actuarial valuations are allocated to the income statement over the expected remaining service lives of the members.

bb. 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 net investment 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.

2. PRINCIPAL ACCOUNTING POLICIES

cc. 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 not reflected in the 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 29).

dd. Management estimates

The presentation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts and disclosures reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

ee. Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, segment expenses and segment performance include transfers between segments. Such inter-segment pricing is based on similar terms as those available to unaffiliated customers for similar services. Those transfers are eliminated upon consolidation.

Segment capital expenditure represents the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets and liabilities, interest-bearing loans, borrowings and corporate and financing expenses.

3. 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:

	2001 HK$ million	2000 HK$ million
Convertible bond interest payable to the ultimate holding company	**293**	23
Telecommunication service fees, rental charges and subcontracting charges from an associate and a jointly controlled company	**1,150**	–
Purchase of telecommunications services from an associate and a jointly controlled company	**1,826**	–

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. In respect of transactions for which the price or volume has not yet been agreed with the relevant related parties, the directors have determined the relevant amounts based on their best estimation.

b. Advances from customers include an amount of HK$150 million (2000: HK$157 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. Balances with related parties other than as specified in this note are unsecured, non-interest bearing and have no fixed repayment terms.

d. A wholly-owned subsidiary of the Company and Reach have entered into a Hong Kong Domestic Connectivity Agreement and an International Services Agreement for providing domestic and international connectivity services in Hong Kong and between Hong Kong and other countries. Pursuant to the International Services Agreement, for the first five years of operations subsequent to the formation of Reach, the Group is required to acquire 90%, 90%, 80%, 70% and 60% per annum, respectively, of its total annual purchases of “Committed Services” (being international public switched telephone network terminating access, international transmission capacity and Internet gateway access services) from Reach. The Hong Kong Domestic Connectivity Agreement contemplates a reciprocal arrangement, whereby the Group will provide local connectivity services to Reach under similar terms and conditions. Both agreements are subject to renegotiation when the agreements expire in 2006.

The Group has agreed in principle to enter into one year fixed price bulk purchase arrangements for international connectivity service from January 1, 2002, which will commit the Group to aggregate purchase levels. The Group’s proposed commitments under these arrangements have regard to its future capacity needs and opportunities for growth as well as Reach’s minimum earnings requirements under its financing arrangements. Regulated services in Hong Kong will be acquired in accordance with tariffs approved by the relevant regulatory authority and unregulated services will be acquired in accordance with market prices. The amount to be acquired from Reach for 2002 is approximately HK$1,650 million and compares with a total spending of approximately HK$1,700 million in 2001.

4. SEGMENT INFORMATION

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more consistent with the Group's internal financial reporting.

a. Business segments

The Group comprises the following main business segments:

Core Telecommunications Services ("Core Telecommunications") is the leading provider of fixed line telecommunications network services and equipment businesses in Hong Kong; Business eSolutions and Internet Data Centers offer IT solutions, business broadband Internet access, hosting and facilities management services within Hong Kong, Taiwan and the PRC.

Internet Services offer consumer Internet access and multimedia content services.

Infrastructure and Property ("Infrastructure") covers the Group's property portfolio in Hong Kong and the PRC including the Cyberport development in Hong Kong.

Others include CyberWorks Ventures' investments and the Group's overseas investments.

4. SEGMENT INFORMATION

a. Business segments

	Core Telecommunications HK$ million		Internet Services HK$ million		Infrastructure HK$ million		Others HK$ million		Eliminations HK$ million		Consolidated HK$ million	
	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000 (Restated) (note 34)
REVENUE												
External revenue	18,956	6,224	1,311	462	1,238	426	454	179	–	–	21,959	7,291
Inter-segment revenue	1,626	1,046	–	–	130	33	–	–	(1,756)	(1,079)	–	–
Total revenue	20,582	7,270	1,311	462	1,368	459	454	179	(1,756)	(1,079)	21,959	7,291
RESULT												
Segment result	7,901	2,314	(1,711)	(1,809)	309	(50)	(501)	(5,114)	–	–	5,998	(4,659)
Unallocated corporate expenses											(548)	(122,410)
Profit/(Loss) from operations											5,450	(127,069)
Finance costs, net											(3,056)	(2,356)
Share of results of associates, jointly controlled companies and unconsolidated subsidiaries	1,020	726	(187)	(98)	–	(1)	–	–	–	–	833	627
Profit/(Loss) before taxation											3,227	(128,798)
Taxation											(1,433)	(522)
Profit/(Loss) after taxation											1,794	(129,320)
Minority interests											98	23
Profit/(Loss) for the year attributable to shareholders											1,892	(129,297)
OTHER INFORMATION												
Capital expenditure (including fixed assets, intangible assets and goodwill) incurred during the year	3,321	16,802	75	1,228	16	5,612	495	119				
Depreciation and amortization	2,079	790	184	104	201	8	86	18				
Impairment loss recognized in income statement	–	10	–	299	63	3	28	–				
Significant non-cash expenses (excluding depreciation, amortization and impairment loss)	126	108	27	132	–	–	430	4,648				

4. SEGMENT INFORMATION

a. Business segments

	Core Telecommunications HK$ million		Internet Services HK$ million		Infrastructure HK$ million		Others HK$ million		Eliminations HK$ million		Consolidated HK$ million	
	2001	2000	**2001**	2000	**2001**	2000	**2001**	2000	**2001**	2000	**2001**	2000 (Restated) (note 34)
ASSETS												
Segment assets	**18,875**	18,182	**804**	1,370	**11,451**	10,160	**2,710**	2,655	**–**	–	**33,840**	32,367
Investment in associates, jointly controlled companies and unconsolidated subsidiaries	**6,752**	20,289	**160**	241	**4**	3	**–**	–	**–**	–	**6,916**	20,533
Unallocated corporate assets											**11,765**	16,303
Consolidated total assets											**52,521**	69,203
LIABILITIES												
Segment liabilities	**5,186**	3,941	**674**	1,117	**952**	443	**585**	185	**–**	–	**7,397**	5,686
Unallocated corporate liabilities											**52,221**	77,650
Consolidated total liabilities											**59,618**	83,336

b. Geographical segments

The Group's business is managed on a worldwide basis, but participates in three principal economic environments. In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of the assets.

	Revenue from external customers		Segment assets		Capital expenditure incurred during the year	
	2001 HK$ million	2000 HK$ million	**2001 HK$ million**	2000 HK$ million	**2001 HK$ million**	2000 HK$ million
Hong Kong	**21,010**	7,044	**27,027**	26,601	**3,429**	23,305
The PRC and Taiwan	**853**	197	**4,501**	3,973	**92**	445
Others	**96**	50	**2,312**	1,793	**400**	46
	21,959	7,291	**33,840**	32,367	**3,921**	23,796

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

	The Group	
	2001 HK$ million	2000 HK$ million
Turnover	**21,959**	7,291
Cost of sales	**(6,855)**	(2,228)
General and administrative expenses	**(10,369)**	(4,845)
Other income	**39**	302
Operating profit before net gains/(losses) on investments and provisions for impairment losses	**4,774**	520

6. PROFIT/(LOSS) BEFORE TAXATION

Profit/(Loss) before taxation is stated after crediting and charging the following:

	The Group	
	2001 HK$ million	2000 HK$ million
Crediting:		
Dividend income from		
Listed investment securities and other investments	**–**	1
Unlisted investment securities and other investments	**–**	4
An unconsolidated subsidiary	**125**	–
Contract revenue	**495**	253
Realized gain on disposal of other investments recorded as gains/(losses) on investments, net	**–**	50
Realized gain on disposal of investment in subsidiaries, a jointly controlled company and associates recorded as gains/(losses) on investments, net	**264**	181
Realized gain on disposal of investment securities	**14**	–
Release of provision for onerous contracts	**477**	–
Gross rental income	**251**	134
Less: outgoings	**(9)**	(11)
Charging:		
Unrealized holding losses on other investments recorded as gains/(losses) on investments, net	**194**	1,076
Realized losses on disposal of other investments recorded as gains/(losses) on investments, net	**2**	–
Provision for impairment of		
– investment securities	**236**	3,911
– investment in jointly controlled companies and associates	**27**	77
– goodwill (note 34(a))	**–**	122,390
Provision for impairment of fixed assets (included in operating expenses)	**27**	50
Write-off of intangible assets	**4**	98
Provision for property held for development	**60**	–
Provision for losses on contract commitments	**–**	231
Depreciation	**2,437**	892
Amortization of intangible assets (included in operating expenses)	**76**	28
Amortization of goodwill (included in operating expenses)	**50**	–
Staff costs (excluding directors' emoluments and pension scheme contributions for other staff)	**4,069**	1,836
Pension scheme contributions for other staff (a)	**327**	131
Cost of inventories	**1,735**	626
Loss on disposal of fixed assets	**63**	8
Exchange losses, net	**22**	22
Auditors' remuneration		
– current year	**8**	8
– underprovision in previous year	**4**	–
Operating lease rental		
– land and buildings	**310**	115
– equipment	**163**	12
Provision for inventory obsolescence	**38**	113

6. PROFIT/(LOSS) BEFORE TAXATION

a. Information regarding pension scheme contributions

The Group operates both defined contribution (including MPF) 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 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 HK$256 million (2000: HK$122 million) which was determined in accordance with the accounting policy described in note 2(aa) to these financial statements. The assumptions adopted for the purpose of determining the charge were the same as those described below.

The latest actuarial valuation of the retirement funds was carried out at December 31, 2000 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 111 percent of the aggregate vested liability as at December 31, 2000, that is, the total value of the benefits which would be payable had the scheme been discontinued at that date.

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. For employees joining the MPF, the contributions payable by the Group to the scheme are immediately vested upon the completion of their service in the relevant service period.

7. FINANCE COSTS, NET

	The Group	
	2001 HK$ million	2000 HK$ million
Bank loans and overdrafts wholly repayable within 5 years	**887**	3,391
Bank loans not wholly repayable within 5 years	**1,853**	–
Other loans wholly repayable within 5 years	**645**	72
Other loans not wholly repayable within 5 years	**359**	1
	3,744	3,464
Interest capitalized in properties under development and fixed assets	**(140)**	(110)
Finance costs	**3,604**	3,354
Interest income on bank deposits	**(548)**	(998)
Finance costs, net	**3,056**	2,356

Finance costs of HK$3,604 million (2000: HK$3,354 million) include amortization of arrangement fees of approximately HK$517 million (2000: HK$896 million) incurred in respect of the bank loans and other borrowings utilized by the Group during the year.

During the year, the capitalization rate used to determine the amount of interest eligible for capitalization ranged from 3.3 percent to 7.1 percent (2000: 5.9 percent to 7.5 percent).

8. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

Details of directors' emoluments are set out below:

	The Group	
	2001 HK$ million	2000 HK$ million
Non-executive directors		
Fees	**2**	1
Executive directors		
Fees	**–**	–
Salaries, allowances and other allowances and benefits in kind *(i)*	**68**	633
Pension scheme contributions	**5**	2
Bonuses paid and payable	**51**	132
	124	767
Total	**126**	768

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. Such difference is nil for the year (2000: HK$597 million).

8. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

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

			Number of directors The Group	
			2001	2000
Up to HK$1,000,000			**10**	4
HK$2,000,001	–	HK$2,500,000	**–**	2
HK$2,500,001	–	HK$3,000,000	**1**	–
HK$3,000,001	–	HK$3,500,000	**–**	1
HK$3,500,001	–	HK$4,000,000	**–**	1
HK$4,000,001	–	HK$4,500,000	**1**	–
HK$5,500,001	–	HK$6,000,000	**2**	–
HK$6,500,001	–	HK$7,000,000	**1**	–
HK$7,000,001	–	HK$7,500,000	**1**	1
HK$9,000,001	–	HK$9,500,000	**1**	–
HK$10,000,001	–	HK$10,500,000	**1**	–
HK$10,500,001	–	HK$11,000,000	**1**	–
HK$11,500,001	–	HK$12,000,000	**–**	1
HK$13,000,001	–	HK$13,500,000	**1**	–
HK$14,000,001	–	HK$14,500,000	**–**	2
HK$21,000,001	–	HK$21,500,000	**1**	–
HK$21,500,001	–	HK$22,000,000	**–**	1
HK$25,500,000	–	HK$26,000,000	**1**	–
HK$140,000,001	–	HK$140,500,000	**–**	1
HK$261,000,001	–	HK$261,500,000	**–**	1
HK$283,000,001	–	HK$283,500,000	**–**	1
			22	16

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

Of the five highest paid individuals in the Group, all (2000: three) are directors of the Company whose emoluments are included above.

During the year, a lump sum payment was made to a director as compensation for termination of a long term employment contract.

9. TAXATION

Hong Kong profits tax has been provided at the rate of 16 percent (2000: 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	
	2001 HK$ million	2000 HK$ million
The Company and subsidiaries:		
Hong Kong profits tax		
– Provision for current year	**1,227**	348
Overseas income tax		
– Provision for current year	**28**	3
(Recovery of)/Provision for deferred taxation (note 26)		
– Hong Kong	**(42)**	31
	1,213	382
A jointly controlled company:		
Hong Kong profits tax		
– Provision for current year	**160**	–
Overseas income tax		
– Provision for current year	**6**	–
An associate:		
Hong Kong profits tax		
– Provision for current year	**60**	3
Unconsolidated subsidiaries:		
Hong Kong profits tax		
– (Recovery of)/Provision for current year	**(6)**	137
Total	**1,433**	522

10. PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS

Profit of HK$867 million (2000: loss of HK$126,850 million) attributable to shareholders was dealt with in the financial statements of the Company.

11. EARNINGS/(LOSS) PER SHARE

The calculation of basic and diluted earnings/(loss) per share is based on the following data:

	2001	2000 (Restated) (note 34)
Earnings/(Loss) (HK$ million)		
Earnings/(loss) for the purposes of basic and diluted earnings/(loss) per share	**1,892**	(129,297)
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings/(loss) per share	**22,373,078,260**	14,528,166,900
Effect of dilutive potential ordinary shares	**693,936,406**	
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**23,067,014,666**	

12. FIXED ASSETS

	Investment properties HK$ million	Land and buildings HK$ million	Exchange equipment HK$ million	Transmission plant HK$ million	Other plant and equipment HK$ million	Projects under construction HK$ million	Total HK$ million
THE GROUP							
Cost or valuation							
Beginning of year	3,574	3,296	4,555	6,725	3,057	2,182	23,389
Additions							
– through acquisition of subsidiaries	–	2	–	69	67	–	138
– others	–	57	338	226	376	1,418	2,415
Revaluation	(301)	–	–	–	–	–	(301)
Transfers	(238)	210	803	276	602	(1,653)	–
Transfer from property under development	1,962	19	–	–	–	–	1,981
Transfer from property held for sale	525	–	–	–	–	–	525
Disposals	–	–	(60)	(36)	(154)	–	(250)
Exchange differences	3	6	–	–	(9)	–	–
End of year	5,525	3,590	5,636	7,260	3,939	1,947	27,897
Representing:							
At cost	–	3,590	5,636	7,260	3,939	1,947	22,372
At valuation	5,525	–	–	–	–	–	5,525
	5,525	3,590	5,636	7,260	3,939	1,947	27,897
Accumulated depreciation							
Beginning of year	–	23	281	173	407	–	884
Charge for the year	–	92	761	551	1,033	–	2,437
Provision for impairment in value	–	–	–	–	42	–	42
Disposals	–	–	(4)	(1)	(50)	–	(55)
Exchange differences	–	(8)	–	–	(2)	–	(10)
End of year	–	107	1,038	723	1,430	–	3,298
Net book value							
End of year	5,525	3,483	4,598	6,537	2,509	1,947	24,599
Beginning of year	3,574	3,273	4,274	6,552	2,650	2,182	22,505

12. FIXED ASSETS

Land and buildings with an aggregate carrying value of approximately HK$73 million (2000: HK$102 million) were pledged as security for certain bank borrowings of the Group.

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

	Investment properties		Land and buildings	
	2001 HK$ million	2000 HK$ million	**2001 HK$ million**	2000 HK$ million
Held in Hong Kong				
On long lease (over 50 years)	**1,542**	2,127	**1,646**	1,514
On medium-term lease (10 – 50 years)	**232**	285	**1,614**	1,627
On short lease (less than 10 years)	**–**	–	**4**	–
Held outside Hong Kong				
Freehold	**–**	–	**126**	70
Leasehold				
On long lease (over 50 years)	**–**	–	**58**	45
On medium-term lease (10 – 50 years)	**3,751**	1,162	**35**	17
	5,525	3,574	**3,483**	3,273

Investment properties held in and outside Hong Kong were revalued as at December 31, 2001 by a professionally qualified surveyor of the Group who is an associate member of the Hong Kong Institute of Surveyors and by independent valuers, CB Richard Ellis Limited, respectively.

Approximately HK$2,703 million (2000: HK$1,061 million) of the investment properties were mortgaged as collateral for banking facilities of the Group.

13. PROPERTIES HELD FOR/UNDER DEVELOPMENT

	The Group	
	2001 HK$ million	2000 HK$ million
Leasehold land, at cost:		
Located in Hong Kong	**13**	15
Located in the PRC	**–**	51
Properties held for development	**13**	66
Properties under development	**–**	1,675
Properties under development for sale	**2,034**	655
	2,034	2,330
Less: Properties under development for sale classified as current assets	**–**	(169)
Properties under development	**2,034**	2,161
Total	**2,047**	2,227

No properties held for/under development were pledged as at December 31, 2001 (2000: HK$1,345 million of properties under development were pledged as security for banking facilities).

14. GOODWILL

	The Group	
	Goodwill carried on consolidated balance sheet HK$ million	Goodwill carried in reserves HK$ million
Cost		
Beginning of year, as previously stated	–	176,665
Effect of adoption of new accounting standards (note 34(a))	–	(122,390)
Opening balance, as restated	–	54,275
Addition arising on acquisitions of subsidiaries	1,033	–
Addition arising on acquisitions of minority interests of subsidiaries	335	–
Realization of goodwill on disposal of a subsidiary	–	(33)
Realization of goodwill on contribution of assets to a jointly controlled company	–	(6,382)
Adjustment to goodwill arising from acquisition of an associate	–	39
End of year	1,368	47,899
Amortization		
Beginning of year	–	–
Charge for the year	50	–
End of year	50	–
Carrying amount		
End of year	1,318	47,899
Beginning of year (Restated)	–	54,275

In March 2001, the Group acquired a 100 percent interest in TTIL, together with a shareholder's loan of approximately HK$546 million, for an aggregate consideration of HK$803 million, satisfied by the issue of 183,634,285 new shares of the Company. The acquisition of TTIL did not have a significant impact on the Group's profit for the year and the shareholders' deficit as at year end.

In March 2001, the Group acquired an additional 49 percent interest in PCCW Directories Limited (formerly Telecom Directories Limited) for a cash consideration of HK$311 million. The acquisition of PCCW Directories Limited did not have a significant impact on the Group's profit for the year and the shareholders' deficit as at year end.

In April 2001, the Company's publicly listed Japanese subsidiary, Pacific Century CyberWorks Japan Co., Ltd. ("PCCW Japan"), acquired a 100 percent interest in 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$35 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. The acquisition of the four games software companies did not have a significant impact on the Group's profit for the year and the shareholders' deficit as at year end.

15. INTANGIBLE ASSETS

	The Group		
	2001		
	Trademarks HK$ million	Others HK$ million	Total HK$ million
Cost			
Beginning of year	**1,516**	**19**	**1,535**
Write-off	**–**	**(4)**	**(4)**
End of year	**1,516**	**15**	**1,531**
Amortization			
Beginning of year	**28**	**–**	**28**
Charge for the year	**76**	**–**	**76**
End of year	**104**	**–**	**104**
Net book value			
End of year	**1,412**	**15**	**1,427**
Beginning of year	**1,488**	**19**	**1,507**

16. INVESTMENT IN SUBSIDIARIES

	The Company	
	2001 HK$ million	2000 HK$ million (Restated) (note 34)
Unlisted shares, at cost	**24,552**	7,026
Amounts due from subsidiaries	**192,069**	157,626
	216,621	164,652
Less: Provision for impairment in value	**(127,584)**	(127,584)
	89,037	37,068
Amounts due to subsidiaries	**(43,757)**	(525)
	45,280	36,543

The provision for impairment in value of HK$127,584 million relates to certain subsidiaries of the Company, which hold the Group's investments in subsidiaries, associates, jointly controlled companies, investment securities and other investments.

Balances with subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment, except for an aggregate amount of HK$3,822 million (2000: HK$1,689 million) due from two subsidiaries, which bear interest at commercial rates.

16. INVESTMENT IN SUBSIDIARIES

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, 2001, the Group has financed the operations of certain of its PRC joint ventures in the form of shareholders' loans amounting to approximately US$191 million (2000: US$191 million) which have not been registered with the State Administration of Foreign Exchange. As a result, remittances in foreign currency of these amounts outside the PRC may be restricted.

As at December 31, 2001, particulars of the principal subsidiaries of the Company are as follows:

Company name	Place of incorporation/ operations	Principal activities	Nominal value of issued capital/ registered capital	Equity interest attributable to the Group Directly	Equity interest attributable to the Group Indirectly
Pacific Century Systems Limited	Hong Kong	Customer premises equipment related business	HK$1,000,000	100%	–
Carlyle International Limited	Hong Kong	Entrustment work	HK$2	–	100%
Corporate Access Limited	Cayman Islands/ Asia Pacific	Transponder leasing	US$10	–	100%
Cyber-Port Limited	Hong Kong	Property development	HK$2	–	100%
Cyber-Port Management Limited	Hong Kong	Management services	HK$2	100%	–
電訊盈科(北京)有限公司	The PRC	System integration, consulting and informatization project	US$1,750,000	–	100%
Beijing Jing Wei House and Land Estate Development Co., Ltd.	The PRC	Property development	US$50,000,000	–	100%
Monance Limited	Hong Kong	Property investment	HK$20	–	100%
Yinggao Real Estate Development (Shenzhen) Co., Ltd.	The PRC	Property development and management	US$10,000,000	–	100%
Pacific Convergence Corporation, Ltd.	Cayman Islands/ Hong Kong	IT Management	US$1,180	–	84.98%
Pacific Century CyberWorks Japan Co., Ltd.	Japan	Software and game development, Internet content, e-commerce, broadband services and other businesses	Yen19,742,711,522	–	75.39%
PCCW Business eSolutions Limited	Hong Kong	Provision of IP/IT related, value-added services to business customers	HK$2	–	100%
PCCW Business eSolutions (HK) Limited (formerly PCCW Computasia Limited)	Hong Kong/ Asia Pacific	Computer services and provision of IP/IT related value-added services to business customers	HK$1,200	–	100%
PCCW-HKT Business Services Limited	Hong Kong	Provision of business customer premises equipment and ancillary business services	HK$2	–	100%
PCCW-HKT Consumer Services Limited	Hong Kong	Provision of consumer premises equipment and ancillary consumer services	HK$2	–	100%

16. INVESTMENT IN SUBSIDIARIES

Company name	Place of incorporation/ operations	Principal activities	Nominal value of issued capital/ registered capital	Equity interest attributable to the Group Directly	Indirectly
PCCW-HKT Limited	Hong Kong	Telecommunications services	HK$6,092,100,052	–	100%
PCCW-HKT Network Services Limited	Hong Kong	Provision of retail international data and value-added services, and local value-added telecommunications services	HK$2	–	100%
PCCW-HKT Products & Services Limited*	Hong Kong	Manages a customer loyalty program "Number One partners" for members of the program	HK$8,437,500	–	100%
PCCW-HKT Telephone Limited*	Hong Kong	Telecommunications services	HK$2,163,783,209	–	100%
Power Logistics Limited	Hong Kong	Delivery services	HK$100,000	–	100%
Telecom Directories Limited (name changed to PCCW Directories Limited with effect from January 7, 2002)*	Hong Kong	Sale of advertising in the Business White Pages, Yellow Pages for businesses and Yellow Pages for customers, publication of directories, provision of Internet directory services and sale of on-line advertising	HK$10,000	–	100%
FIC Network Service, Inc.	Taiwan	Internet services	NT$148,662,880	–	86.51%
Taiwan Telecommunication Network Services Co., Ltd.	Taiwan	Type II Telecommunications services provider	NT$1,087,000,000	–	56.56%
Integrated E-Commerce Development (Shenzhen) Limited	The PRC	Software and information systems development	HK$7,000,000	–	100%
Netplus Telecommunications Taiwan Ltd.	Taiwan	Telecommunications services/ investment holding	NT$203,614,460	–	100%
PCCW IMS Limited	Hong Kong	Interactive multimedia services, support services and asset leasing to a subsidiary	HK$2	–	100%
PCCW VOD Limited	Hong Kong	Interactive multimedia services	HK$3,500,000,100 (HK$3,500,000,095 ordinary shares, HK$1 "A" Class share and HK$4 "B" Class shares)	–	100%
PCCW Powerbase Data Center Services (HK) Limited	Hong Kong	Data Center services	HK$2	–	100%
PCCW Teleservices (Hong Kong) Limited (formerly PCCW Teleservices Limited)	Hong Kong	Provision of customer relationship management and customer contact management solutions and services	HK$2	–	100%
PCCW Teleservices Operations (Hong Kong) Limited	Hong Kong	Provision of customer relationship management and customer contact management solutions and services	HK$2	–	100%
PCCA Pte Ltd	Singapore	Provision of satellite-based and network telecommunication systems and customer support services to the user groups	S$100,000	–	100%

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

* Subsidiary having accounting year end date of March 31

17. INVESTMENT IN JOINTLY CONTROLLED COMPANIES

	The Group	
	2001 HK$ million	2000 HK$ million
Share of net assets of jointly controlled companies	**3,600**	411
Provision for impairment	**(36)**	(60)
	3,564	351
Loans due from a jointly controlled company	**93**	93
Amounts due from jointly controlled companies	**43**	13
Amounts due to jointly controlled companies	**(427)**	(266)
	3,273	191
Investments at cost, unlisted shares	**3,482**	730

Balances with the jointly controlled companies are unsecured, non-interest bearing and have no fixed terms of repayment 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 from the date of drawdown in 2000.

As at December 31, 2001, particulars of the principal jointly controlled company of the Group are as follows:

Company name	Place of incorporation/ operations	Principal activities	Nominal value of issued capital/ registered capital	Equity interest attributable to the Group Directly	Indirectly
Reach Ltd. ("Reach")	Bermuda/Asia	Provision of international telecommunication services	US$5,000,000,000	–	50%

17. INVESTMENT IN JOINTLY CONTROLLED COMPANIES

Summarized financial information of the significant jointly controlled company, Reach, is as follows:

Condensed consolidated balance sheet information as at December 31, 2001	HK$ million
Non-current assets	24,316
Current assets	3,588
Total assets	27,904
Non-current liabilities	(13,817)
Current liabilities	(4,719)
Minority interests	(162)
Net assets	9,206

Condensed consolidated income statement information for the period from February 1 to December 31, 2001	
Turnover	9,978
Profit after taxation	411

The Company contributed its IP backbone business to Reach and received cash of approximately US$1,125 million (approximately HK$8,775 million) and a 50 percent equity in Reach. This led to a realization of goodwill of HK$6,382 million which had previously been written off to reserves (note 25).

18. INVESTMENT IN ASSOCIATES

	The Group	
	2001 HK$ million	2000 HK$ million
Share of net assets of associates	**3,344**	767
Provision for impairment	**(5)**	(17)
	3,339	750
Amounts due from associates	**307**	166
Amounts due to associates	**(3)**	(7)
	3,643	909
Investment at cost:		
Unlisted shares	**3,550**	1,200
Shares listed in Hong Kong	**72**	404
	3,622	1,604
Market value of listed shares	**227**	341

Balances with associates are unsecured, non-interest bearing and have no fixed terms of repayment.

18. INVESTMENT IN ASSOCIATES

As at December 31, 2001, particulars of the principal associates of the Company are as follows:

Company name	Place of incorporation/ operations	Principal activities	Nominal value of issued capital/ registered capital	Equity interest attributable to the Group Directly	Equity interest attributable to the Group Indirectly
Hong Kong CSL Limited*	Hong Kong	Sale of telecommunications products and provision of mobile telecommunications services	HK$4,380,008,000	–	40%
iLink Holdings Limited	Cayman Islands/ Hong Kong and the PRC	Provision of Internet connectivity, server hosting and co-location services, other value-added services and sales of equipment and software	HK$105,347,492	–	47.90%
ChinaBig.com Limited	Hong Kong	Production and distribution of trade directory	HK$192,308	–	37.65%
Unicom Yellow Pages Information Co., Ltd.	The PRC	Production and distribution of trade directory	US$6,000,000	–	30.12%
Great Eastern Telecommunications Limited#	Cayman Islands	Investment holding	US$43,112,715	–	49%
SecureNet Asia Limited	Hong Kong	Provision of Internet security audit and consultancy services as well as a full range of smart card, security products and solutions for e-Commerce transactions	HK$72,462,299	–	49.99%
Abacus Distribution Systems (Hong Kong) Limited	Hong Kong	Provision of computer reservation systems and travel related services	HK$15,600,000	–	37.04%

* Associate having accounting year end date of June 30
\# Associate having accounting year end date of March 31

Summarized financial information of the significant associate, Hong Kong CSL Limited, a wholly-owned subsidiary of RWC, is as follows:

Unaudited condensed consolidated balance sheet information as at December 31, 2001	HK$ million
Non-current assets	4,836
Current assets	1,716
Total assets	6,552
Non-current liabilities	(5)
Current liabilities	(1,212)
Net assets	5,335

Unaudited condensed consolidated income statement information for the period from February 1 to December 31, 2001	
Turnover	4,271
Profit after taxation	289

19. INVESTMENT IN UNCONSOLIDATED SUBSIDIARIES

In February 2001, the Group completed the formation of a strategic alliance with Telstra. The Group's continuing interest in Reach and RWC have been reflected as components of investments in jointly controlled companies and associates, respectively, in 2001. There were no profits or losses arising from the formation of Reach and the disposal of the Group's 60 percent interest in RWC. In 2000, these investments were recorded as investment in unconsolidated subsidiaries.

20. INVESTMENTS

Investments are analyzed as follows:

	The Group	
	2001 HK$ million	2000 HK$ million
Held-to-maturity securities	**62**	83
Investment securities (a)	**1,630**	2,238
Other investments – long-term portion (b)	**–**	87
	1,692	2,408

a. Investment securities

	The Group	
	2001 HK$ million	2000 HK$ million
Unlisted, at cost	**2,034**	2,129
Less: Provision for impairment in value	**(713)**	(643)
	1,321	1,486
Listed, at cost		
Hong Kong	**106**	75
Overseas	**1,360**	3,945
	1,466	4,020
Less: Provision for impairment in value	**(1,157)**	(3,268)
	309	752
	1,630	2,238
Quoted market value of listed investment securities as at December 31	**299**	581

20. INVESTMENTS

b. Other investments

	The Group	
	2001 HK$ million	2000 HK$ million
Listed, at quoted market value		
Hong Kong	**526**	284
Overseas	**104**	110
	630	394
Less: Current portion classified as current assets	**(630)**	(307)
	–	87

During the year, certain listed securities were transferred from investment securities to other investments. These transfers were effected at fair value. The aggregate unrealized holding losses at the dates of transfer which had not been previously recognized of approximately HK$193 million (2000: aggregate unrealized holding gains of approximately HK$544 million) were recognized in the income statement at the dates of transfer.

c. During 1999, the Group 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. During 2000, the Group entered into certain other equity option contracts which effectively closed out the equity option contracts entered into in 1999 and removed the limits of the specified ranges. Accordingly, the Group has recorded losses from declines in the fair value of the related other investments during 2001 by reference to the market prices of these investments as at December 31, 2001. The equity option contracts entered into in 1999 were terminated during the year.

d. Certain investment securities and other investments with a carrying value of approximately HK$191 million (2000 : HK$830 million) are subject to restrictions on sale (i) for a period of six months to three years from the date of purchase, or (ii) unless the securities are registered with the Securities and Exchange Commission of the United States or exemption from registration is obtained.

21. CURRENT ASSETS AND LIABILITIES

a. Properties held for sale

	The Group	
	2001 HK$ million	2000 HK$ million
Properties held for sale:		
Located in the PRC	**–**	525
	–	525

b. Inventories

	The Group	
	2001 HK$ million	2000 HK$ million
Raw materials	**15**	4
Work-in-progress	**187**	306
Finished goods	**147**	116
Consumable inventories	**23**	48
	372	474

c. Accounts receivable

An aging analysis of trade receivable is set out below:

	The Group	
	2001 HK$ million	2000 HK$ million
0 – 30 days	**1,490**	1,317
31 – 60 days	**235**	209
61 – 90 days	**54**	32
91 – 120 days	**65**	79
Over 120 days	**99**	82
	1,943	1,719

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

21. CURRENT ASSETS AND LIABILITIES

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

	The Group	
	2001 HK$ million	2000 HK$ million
Contract costs incurred plus attributable profit less foreseeable losses	**700**	306
Less: estimated value of work performed	**(748)**	(253)
	(48)	53

The total amount of progress billings, included in the estimated value of work performed as at December 31, 2001 is approximately HK$591 million (2000: HK$253 million).

Included in non-current assets at December 31, 2001 is approximately HK$6 million (2000: HK$2.5 million) representing retentions receivable from customers in respect of construction contracts in progress.

e. Short-term borrowings

	The Group	
	2001 HK$ million	2000 HK$ million
Bank loans	**167**	64,708
Loan from a shareholder	**10**	10
Other loans	**99**	217
Current portion of long-term borrowings	**2**	–
	278	64,935
Secured	**144**	59,940
Unsecured	**134**	4,995

Please refer to note 32 to the financial statements for details of the Group's banking facilities.

At December 31, 2001, the Company had unsecured loans of approximately HK$10 million (2000: HK$2,147 million).

21. CURRENT ASSETS AND LIABILITIES

f. Accounts payable

An aging analysis of accounts payable is set out below:

	The Group	
	2001 HK$ million	2000 HK$ million
0 – 30 days	**317**	285
31 – 60 days	**93**	97
61 – 90 days	**16**	30
91 – 120 days	**21**	3
Over 120 days	**244**	27
	691	442

g. Provisions

	The Group				The Company
	Staff related costs HK$ million	**Onerous contract HK$ million**	**Others HK$ million**	**Total HK$ million**	**Onerous contract HK$ million**
Balance as of December 31, 2000	**–**	**–**	**231**	**231**	**–**
Transitional effect of adopting SSAP28 (note 34(b))	**–**	**3,234**	**–**	**3,234**	**3,234**
Balance as of January 1, 2001	**–**	**3,234**	**231**	**3,465**	**3,234**
Additional provisions made	**230**	**–**	**–**	**230**	**–**
Provisions reversed during the year (note 34 (b))	**–**	**(477)**	**–**	**(477)**	**(477)**
Provisions used during the year	**–**	**(1,753)**	**(91)**	**(1,844)**	**(1,753)**
Balance of December 31, 2001	**230**	**1,004**	**140**	**1,374**	**1,004**

Management considers all provisions to be current in nature.

22. LONG-TERM LIABILITIES

	The Group	
	2001 HK$ million	2000 HK$ million
Long-Term Borrowings (a)	**33,222**	1,007
Convertible Bonds (b)	**14,653**	8,580
	47,875	9,587

22. LONG-TERM LIABILITIES

a. Long-Term Borrowings

	The Group	
	2001 HK$ million	2000 HK$ million
Repayable within a period		
– not exceeding one year	**2**	–
– over one year, but not exceeding two years	**2**	148
– over two years, but not exceeding five years	**16,523**	858
– over five years	**16,697**	1
	33,224	1,007
Less: Amounts repayable within one year included under current liabilities	**(2)**	–
	33,222	1,007
Secured	**1,009**	1,004
Unsecured	**32,213**	3

Details of major long-term borrowings of HK$33,222 million are presented below:–

i. Term Loan

In February 2001, the Group arranged syndicated bank borrowings of US$4,700 million (approximately HK$36,660 million) through PCCW-HKT Telephone Limited ("HKTC"), an indirect wholly-owned subsidiary of the Company. Approximately US$2,377 million was denominated in US dollars and the rest was denominated in Hong Kong dollars. The Term Loan consists of three tranches (A, B & C) which are repayable in three to seven years. Each tranche carries interest at rates ranging from London Interbank Offered rates ("LIBOR") plus 0.85 percent to LIBOR plus 1.45 percent for the US dollar portion and Hong Kong Interbank Offered rates ("HIBOR") plus 0.95 percent to HIBOR plus 1.55 percent for the Hong Kong dollar portion. As of December 31, 2001, the Group had prepaid a total of approximately US$1,809 million of the principal amount. Subsequent to the year end, a further prepayment of approximately US$454 million was made to the banks.

In relation to the Term Loan, HKTC is required to comply with certain financial and general covenants. The financial covenants are as follows:

HKTC's EBITDA (i.e. Earnings before Interest, Tax, Depreciation and Amortization) to Interest ratio must not be less than 2 to 1 for the Relevant Period ended December 31, 2001 and any Relevant Periods ending in 2002 and 2003. For Relevant Periods ending in 2004 and thereafter, HKTC's EBITDA to Interest ratio must not be less than 2.5 to 1. A Relevant Period refers to the twelve-month period ended on December 31, 2001 and thereafter, each twelve month period ending on March 31 and each twelve month period ending on September 30.

HKTC's Total Debt to EBITDA ratio must not exceed 5.5 to 1 for the Relevant Period ended on December 31, 2001; 5 to 1 for the Relevant Periods ending in 2002 and 2003; and 3.5 to 1 for the Relevant Periods ending in 2004 and thereafter.

As of the date of the approval of these financial statements, management believes that HKTC has complied with all the financial and general covenants in all material respects as required by the Term Loan agreement.

22. LONG-TERM LIABILITIES

a. Long-Term Borrowings

ii. Yen 30,000 million guaranteed notes

On October 26, 2001, Profit Century Finance Limited ("PCF"), an indirect wholly-owned subsidiary of the Company, completed the placement of Yen 30,000 million (approximately HK$1,950 million) 3.65 percent guaranteed notes due 2031 (the "Yen Notes"). Interest is payable semi-annually in arrears. The Yen Notes are redeemable at the option of PCF on any interest payment date falling on or after October 27, 2006.

iii. US$1,000 million guaranteed notes

In November 2001, PCCW-HKT Capital Limited ("PCL"), an indirect wholly-owned subsidiary of the Company issued US$1,000 million (approximately HK$7,800 million) 7.75 percent guaranteed notes due 2011 (the "Notes due on 2011"). Interest is payable semi-annually in arrears. The interest rate payable on the Notes due on 2011 will be subject to adjustment from time to time if the relevant rating agencies downgrade the rating ascribed to the Notes due on 2011 below a pre-agreed level.

Both the Yen Notes and the Notes due on 2011 are unconditionally and irrevocably guaranteed by HKTC and will rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTC.

Please refer to note 32 to the financial statements for details of the Group's banking facilities.

b. Convertible Bonds

	The Group		The Company	
	2001 HK$ million	2000 HK$ million	**2001 HK$ million**	2000 HK$ million
Beginning of year	**8,580**	882	**–**	–
Conversion	**–**	(882)	**–**	–
Issuance, (i) & (ii)	**5,850**	8,580	**5,850**	–
Capitalization of interest on principal amount of Telstra Bonds, (i)	**223**	–	**223**	–
End of the year	**14,653**	8,580	**6,073**	–

i. On February 7, 2001 (the "Issue Date"), the Company issued convertible bonds due 2007 with the principal amount of US$750 million (approximately HK$5,850 million) to Telstra ("Telstra Bonds") as part of the Telstra Alliance. The Telstra Bonds are convertible into ordinary shares of the Company at an initial conversion price of the US dollar equivalent of HK$6.886 per share at any time on or after the Issue Date and ends on the day which is 14 business days prior to the end of the sixth year from the Issue Date. At the end of the fourth year and the end of the sixth year from the Issue Date, the Company is entitled to require full but not partial conversion depending on the share price of the Company. The Telstra Bonds bear interest at 5 percent per annum compounding quarterly which will increase to 7 percent per annum compounding quarterly in 2005, and interest is payable quarterly. Telstra irrevocably directs that interest shall be capitalized and added to the principal amount so as to become part of the principal amount and therefore capable of conversion which, accordingly, shall itself accrue interest quarterly. Unless previously cancelled, redeemed or converted, the Telstra Bonds will be redeemed in US dollars at par together with accrued interest upon maturity. The Telstra Bonds are initially secured with 50 percent of the Group's interest in Reach, which may be adjusted in accordance with the terms of the Telstra Bonds.

ii. On December 5, 2000, convertible bonds due 2005 with the principal amount of US$1,100 million (approximately HK$8,580 million) were issued by PCCW Capital Limited, a wholly-owned subsidiary of the Company. These bonds are listed on the Luxembourg Stock Exchange. They are convertible into ordinary shares of the Company at US$1.0083 (approximately HK$7.865), subject to adjustments, per share at any time on or after January 5, 2001 and up 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, these bonds will be redeemed in US dollars at 120.12 percent of the principal amount together with accrued interest on December 5, 2005. If these 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, 2001, none of the above convertible bonds had been converted into shares of the Company.

23. SHARE CAPITAL

	The Company 2001 Number of shares	2001 Nominal value HK$ million	2000 Number of shares	2000 Nominal value HK$ million
Authorized:				
Ordinary shares of HK$0.05 each	**32,000,000,000**	**1,600**	32,000,000,000	1,600
Issued and fully paid ordinary shares of HK$0.05 each:				
Beginning of year	**21,880,913,125**	**1,094**	9,067,035,875	453
Exercise of warrants (a)	**22,938**	**–**	–	–
Exercise of staff share options (b)	**2,388,998**	**–**	78,489,638	4
Exercise of other share options (c)	**626,390,000**	**32**	–	–
Issued for acquisition of investments (d)	**183,634,285**	**9**	–	–
Issued for acquisition of 100% holding in HKT	**–**	**–**	8,669,938,322	434
Issued for cash	**–**	**–**	583,000,000	29
Rights issue	**–**	**–**	637,288,324	32
Conversion of convertible bonds	**–**	**–**	2,845,160,966	142
End of year	**22,693,349,346**	**1,135**	21,880,913,125	1,094

a. During the year, the warrants of the Company with a total subscription value of HK$172,035 were exercised at a subscription price of HK$7.50 per share, resulting in the issue of an aggregate of 22,938 new ordinary shares of HK$0.05 each.

b. During the year, 40,000, 2,318,998 and 30,000 staff share options were exercised by the eligible optionholders at their respective subscription prices of HK$2.356, HK$3.368 and HK$4.552 for a total cash consideration of HK$8,041,185 resulting in the issue of 2,388,998 new ordinary shares of HK$0.05 each.

c. A total of 626,390,000 new ordinary shares of HK$0.05 each were issued to the minority shareholder of PCC Holdings Ltd. ("PCCH"), as a result of its conversion of part of its interest in PCCH into ordinary shares of the Company pursuant to the options granted to the minority shareholder in September 1999 (note 24(b)).

d. In March 2001, 183,634,285 new ordinary shares of HK$0.05 each were issued at a price of HK$4.375 per share as consideration for the acquisition of 100 percent of TTIL, together with a shareholder's loan of approximately HK$546 million.

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

24. 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 for incentive purposes. 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 maximum number of shares in respect of which options may be granted under the scheme to any one participant (including shares issued and issuable to him under all the options previously granted to him) is limited to 25 percent of the maximum aggregate number of shares of the Company subject to the scheme at the time of the proposed grant of options to such participant. The offer of a grant of options may be accepted within 30 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. 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 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 number of share options granted under the scheme during the year is as follows:

Exercise price range per share	HK$1.01 to HK$5.00	HK$5.01 to HK$8.00	HK$11.01 to HK$14.00	HK$14.01 to HK$17.00	Total
Beginning of year	324,477,626	30,730,000	251,619,000	2,433,500	609,260,126
Granted during the year	297,777,200	–	–	–	297,777,200
Exercised during the year	(2,388,998)	–	–	–	(2,388,998)
Cancelled/lapsed during the year	(84,262,912)	(29,650,000)	(192,521,000)	(2,000,000)	(308,433,912)
End of year	535,602,916	1,080,000	59,098,000	433,500	596,214,416

b. Other Share Options

In September 1999, as part of the acquisition of Pacific Convergence Corporation, Ltd. ("PCC"), the Company entered into an agreement, as subsequently amended, with the minority shareholder of PCCH, under which the minority shareholder can exchange its effective 40 percent shareholding in PCCH, the holding company of PCC, for 1,003,070,000 new ordinary shares of the Company at no further consideration. The option is exercisable for 10 years. 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. As of December 31, 2001 and March 20, 2002, the minority shareholder had exercised a portion of the options and the Company had issued 626,390,000 new ordinary shares to the minority shareholder.

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, 63,201,097 share options were granted to a non-executive director of the Company on January 10, 2001 at an exercise price of HK$2.356 per share.

c. Warrants

In accordance with the conditions attaching to the warrants of the Company which were issued in December 2000 (the "2001 Warrants"), each of the 2001 Warrants conferred rights on the registered holder to subscribe for one new ordinary share of the Company at a subscription price of HK$7.50 per share. During the year, a total of 22,938 of the 2001 Warrants were exercised. On December 4, 2001, all of the remaining outstanding 2001 Warrants, which entitled the registered holders to subscribe for 1,274,553,710 ordinary shares of HK$0.05 each in the Company lapsed.

25. RESERVES/(DEFICIT)

	2001				
	Share premium HK$ million	Property revaluation reserve HK$ million	Currency translation reserve HK$ million	Accumulated Deficit HK$ million (Restated) (note 34)	Total HK$ million (Restated) (note 34)
THE GROUP					
Beginning of year, as previously stated	167,035	343	(65)	(183,263)	(15,950)
Effect of adoption of new accounting standards (note 34(b))	–	–	–	(3,234)	(3,234)
Opening balances, as restated	167,035	343	(65)	(186,497)	(19,184)
Issue of ordinary shares and exercise of options, net of issuing expenses	2,600	–	–	–	2,600
Realization of goodwill on disposal of subsidiaries	–	–	–	33	33
Deficit on revaluation of investment properties	–	(301)	–	–	(301)
Translation exchange differences	–	–	(159)	–	(159)
Realization of goodwill on contribution of assets to a jointly controlled company	–	–	–	6,382	6,382
Adjustment to goodwill arising from acquisition of an associate	–	–	–	(39)	(39)
Profit for the year	–	–	–	1,892	1,892
End of year	169,635	42	(224)	(178,229)	(8,776)
Attributable to:					
– The Company and subsidiaries	169,635	42	(224)	(184,748)	(15,295)
– Jointly controlled companies	–	–	–	90	90
– Associates	–	–	–	(752)	(752)
– Unconsolidated subsidiaries	–	–	–	7,181	7,181
End of year	169,635	42	(224)	(178,229)	(8,776)
THE COMPANY					
Beginning of year, as previously stated	167,035	–	–	(126,890)	40,145
Effect of adoption of new accounting standards (note 34(b))	–	–	–	(3,234)	(3,234)
Opening balances, as restated	167,035	–	–	(130,124)	36,911
Issue of ordinary shares and exercise of options, net of issuing expenses	2,600	–	–	–	2,600
Profit for the year	–	–	–	867	867
End of year	169,635	–	–	(129,257)	40,378

25. RESERVES/(DEFICIT)

	Share premium HK$ million	Property revaluation reserve HK$ million	Currency translation reserve HK$ million	Accumulated Deficit HK$ million (Restated) (note 34)	Total HK$ million (Restated) (note 34)
	2000				
THE GROUP					
Beginning of year	14,614	124	(2)	(3,838)	10,898
Issue of ordinary shares and exercise of options, net of issuing expenses	147,612	–	–	–	147,612
Issue of shares under rights issue, net of issuing expenses	4,069	–	–	–	4,069
Issue of shares upon conversion of convertible bonds	740	–	–	–	740
Write-off of goodwill arising from acquisitions of subsidiaries	–	–	–	(172,014)	(172,014)
Write-off of goodwill arising from acquisitions of associates	–	–	–	(376)	(376)
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
Translation exchange differences	–	–	(63)	–	(63)
Write off of goodwill impaired during the year (note 34(a))	–	–	–	122,390	122,390
Loss for the year	–	–	–	(129,297)	(129,297)
End of year	167,035	343	(65)	(183,263)	(15,950)
Attributable to:					
– The Company and subsidiaries	167,035	343	(65)	(183,744)	(16,431)
– Jointly controlled companies	–	–	–	(100)	(100)
– Associates	–	–	–	(72)	(72)
– Unconsolidated subsidiaries	–	–	–	653	653
End of year	167,035	343	(65)	(183,263)	(15,950)
THE COMPANY					
Beginning of year	14,614	–	–	(40)	14,574
Issue of ordinary shares and exercise of options, net of issuing expenses	147,612	–	–	–	147,612
Issue of shares under rights issue, net of issuing expenses	4,069	–	–	–	4,069
Issue of shares upon conversion of convertible bonds	740	–	–	–	740
Loss for the year	–	–	–	(126,850)	(126,850)
End of year	167,035	–	–	(126,890)	40,145

26. DEFERRED TAXATION

	The Group	
	2001 HK$ million	2000 HK$ million
Beginning of year	**738**	1
Acquisition of subsidiaries	**–**	706
(Recovery)/Provision for net timing differences (note 9)	**(42)**	31
End of year	**696**	738

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

	The Group	
	2001 HK$ million	2000 HK$ million
Leasing partnership	**520**	555
Accelerated depreciation allowances	**180**	187
Tax losses	**(4)**	(4)
	696	738

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

	The Group	
	2001 HK$ million	2000 HK$ million
Accelerated depreciation allowances	**1,866**	2,431
Tax losses and others	**(2,160)**	(1,727)
	(294)	704

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.

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	The Group	
	2001 HK$ million	2000 HK$ million (Restated) (Note 34)
Profit/(Loss) before taxation	**3,227**	(128,798)
Provision for inventory obsolescence	**38**	113
Write-off of intangible assets	**4**	98
Interest income	**(548)**	(998)
Interest expense	**3,108**	2,458
Finance charges	**545**	896
Depreciation	**2,437**	892
Unrealized loss on other investments, net	**194**	1,076
Realized loss/(gain) on disposal of other investments	**2**	(50)
Realized gain on disposal of investment in subsidiaries, a jointly controlled company and associates	**(264)**	(181)
Realized gain on disposal of investment securities	**(14)**	–
Provision for other than temporary decline in value of		
– investment securities	**236**	3,911
– investment in jointly controlled companies and associates	**27**	77
– goodwill	**–**	122,390
Provision for impairment of fixed assets	**27**	50
Release of provision for onerous contracts	**(477)**	–
Provision for losses on contract commitments	**–**	231
Loss on disposal of fixed assets	**63**	8
Provision for doubtful debts	**57**	4
Amortization of intangible assets	**76**	28
Amortization of goodwill	**50**	–
Amortization of deferred income	**(361)**	–
Provision for property held for development	**60**	–
Dividend income	**(125)**	(5)
Share of results of associates and jointly controlled companies	**(681)**	163
Share of results of unconsolidated subsidiaries	**(152)**	(790)
Decrease/(Increase) in operating assets:		
– properties held for sale	**–**	(10)
– properties under development	**(1,260)**	(472)
– inventories	**64**	(61)
– accounts receivable	**(207)**	(150)
– prepayments, deposits and other current assets	**293**	–
– gross amounts due from customers for contract work	**53**	(53)
– amount due from jointly controlled companies and associates	**(1,238)**	–
– amounts due from related companies	**(33)**	(34)
– other assets	**–**	(59)
Increase/(Decrease) in operating liabilities:		
– accounts payable, provisions, accruals, other payables and deferred income	**1,067**	1,918
– amount due to minority shareholders of subsidiaries	**(5)**	–
– gross amount due to customers for contract work	**48**	–
– amounts due to related companies	**450**	28
– advances from customers	**(48)**	118
– other liabilities	**–**	24
Unrealized exchange differences	**1**	16
Net cash inflow from operating activities	**6,714**	2,838

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

b. Acquisitions of subsidiaries

	The Group	
	2001 HK$ million	2000 HK$ million
Net assets acquired:		
Fixed assets	**138**	19,886
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	**92**	4,186
Bank deposits maturing over three months	**–**	331
Cash and bank balances	**27**	6,664
Short-term borrowings	**–**	(2,015)
Accounts payable, accruals and other payables	**(115)**	(4,725)
Long-term borrowings	**–**	(21)
Deferred taxation	**–**	(706)
Other long-term liabilities	**(26)**	(57)
Minority interests	**(13)**	(716)
	103	56,425
Goodwill arising on acquisition	**1,033**	172,014
	1,136	228,439
Satisfied by:		
Issuance of ordinary shares	**1,043**	136,464
Cash proceeds from Bridge Loan	**–**	88,281
Cash from internal resources	**93**	3,694
	1,136	228,439
Analysis of the net outflow of cash and cash equivalents in respect of the purchase of subsidiaries:		
Cash	**(93)**	(91,975)
Cash and bank balances acquired	**27**	6,664
Net cash outflow in respect of acquisitions of subsidiaries	**(66)**	(85,311)

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

c. Analysis of changes in financing

	2001					2000
	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	**168,129**	**65,942**	**8,580**	**723**	**243,374**	16,888
Net cash inflow/(outflow) from financing	**8**	**(32,500)**	**5,850**	**50**	**(26,592)**	87,449
Reduction of minority interests arising from disposals of subsidiaries	**–**	**–**	**–**	**(75)**	**(75)**	(17)
Increase in minority interests arising from acquisitions of subsidiaries	**–**	**–**	**–**	**261**	**261**	716
Gain on dilution of investment	**–**	**–**	**–**	**(131)**	**(131)**	(59)
Interest capitalized	**–**	**–**	**223**	**–**	**223**	–
Shares issued for acquisitions of subsidiaries	**803**	**–**	**–**	**–**	**803**	136,464
Acquisition of additional interest in subsidiaries	**1,830**	**–**	**–**	**(152)**	**1,678**	–
Increase in loans arising from acquisitions of subsidiaries	**–**	**–**	**–**	**–**	**–**	2,036
Decrease in loans arising from disposals of subsidiaries	**–**	**–**	**–**	**–**	**–**	(60)
Minority interests in share of loss of subsidiaries	**–**	**–**	**–**	**(98)**	**(98)**	(23)
Dividends paid to minority interests	**–**	**–**	**–**	**–**	**–**	(44)
Realization of goodwill on disposal of a subsidiary	**–**	**–**	**–**	**(33)**	**(33)**	–
Exchange differences	**–**	**58**	**–**	**(1)**	**57**	24
End of year	**170,770**	**33,500**	**14,653**	**544**	**219,467**	243,374

d. Analysis of cash and cash equivalents

	The Group	
	2001 HK$ million	2000 HK$ million
Cash and bank balances	**8,923**	13,819
Bank loans and overdrafts	**(75)**	(114)
Restricted cash (included in "prepayments, deposits and other current assets" on consolidated balance sheet (note 32))	**(1,405)**	–
	7,443	13,705

e. Major non-cash transactions

As described in note 23(c), a total of 626,390,000 ordinary shares of HK$0.05 each were issued to the minority shareholder of PCCH, as a result of its conversion of part of its interest in PCCH into ordinary shares of the Company.

As described in note 23(d), in March 2001, 183,634,285 new shares were issued at a price of HK$4.375 per share as the consideration for the acquisition of TTIL, together with a shareholder's loan.

28. 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	
	2001 HK$ million	2000 HK$ million
The net investment in relation to these finance leases comprises:		
Net lease payments receivable	**475**	490
Less: Current portion of net lease payments receivable	**–**	(21)
	475	469

Non-recourse finance of HK$2,847 million (2000: HK$2,952 million) has been offset against net rentals receivable in arriving at the above net investment in finance leases.

29. FINANCIAL INSTRUMENTS

a. Equity options

As at December 31, 2001, the Group had outstanding written equity call options with a total notional amount of approximately US$20 million or approximately HK$157 million (2000: approximately US$228 million or approximately HK$1,775 million). The Group also received premiums of approximately US$7 million or approximately HK$53 million (2000: approximately US$54 million or approximately HK$425 million) on writing new equity options in 2001. 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.

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

b. Interest rate options

The Group entered into interest rate options to manage its interest rate risk. At December 31, 2001, the total notional amount of such instruments was HK$190 million (2000: HK$390 million).

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

c. Cross currency swap

As at December 31, 2001, the Group had outstanding cross currency swap contracts to buy US$1,100 million and Yen 30,000 million (2000: Nil) at various rates totaling approximately HK$8,580 million and US$250 million, respectively, to hedge against the Group's exposure to foreign currencies and interest rate fluctuations.

30. COMMITMENTS

a. Capital

	The Group	
	2001 HK$ million	2000 HK$ million
Authorized and contracted for	**4,045**	5,016
Authorized but not contracted for	**11,378**	14,484
	15,423	19,500

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

	The Group	
	2001 HK$ million	2000 HK$ million
Investments	**419**	455
Property development (note i)	**13,974**	17,091
Development of Internet business	**524**	1,045
Construction contracts	**125**	432
Acquisition of fixed assets	**378**	443
Others	**3**	34
	15,423	19,500

i. The Group has a project agreement with the Government of the Hong Kong Special Administrative Region ("Government") to design, build and market the Cyberport at Telegraph Bay on the Hong Kong Island (the "Cyberport Project"). The total construction costs of the Cyberport Project are estimated to be approximately HK$15.8 billion. The total construction costs incurred for the Cyberport Project up to December 31, 2001 were approximately HK$2.0 billion (2000: HK$0.4 billion). Accordingly, the outstanding commitment for the Cyberport Project as at December 31, 2001 was approximately HK$13.8 billion (2000: HK$15.4 billion).

30. COMMITMENTS

b. Operating leases

At December 31, 2001, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

Land and buildings

	The Group	
	2001 **HK$ million**	2000 HK$ million
Within 1 year	**181**	231
After 1 year but within 5 years	**255**	359
After 5 years	**161**	123
	597	713

Equipment

	The Group	
	2001 **HK$ million**	2000 HK$ million
Within 1 year	**49**	30
After 1 year but within 5 years	**51**	43
After 5 years	**–**	1
	100	74

30. COMMITMENTS

c. Acquisition of Licence to Use Sports Archive and Programmes

On December 31, 2001, the Group agreed to acquire the licence to use existing and future sports archive and programming owned by Trans World International, Inc. ("TWI") pursuant to an archive licence and a programme licence (the "Content Licences") between the Group and TWI. The Content Licences grant to the Group a 10-year royalty free non-exclusive licence to use existing and future sports archive and programming owned by TWI in connection with the Group's Network of the World ("NOW") service in Hong Kong and elsewhere in Asia. The consideration for the grant of such licences was approximately US$48 million (approximately HK$375 million) which was satisfied in full by the issue and allotment of 175 million ordinary shares of the Company to a wholly-owned subsidiary of TWI on January 24, 2002.

On December 31, 2001, the Group and TWI entered into certain other agreements relating to, inter alia, the establishment of a new venture for the provision of on-line games, the provision of certain consultancy services by TWI to the Group, and the termination of various agreements previously signed with TWI. The amount for the termination of these various agreements of approximately US$11 million (approximately HK$86 million) has been included in the results for the year ended December 31, 2001.

d. Others

As at December 31, 2001, the Group had outstanding forward foreign exchange contracts to buy US$290 million (2000: US$2,450 million) at various rates totaling approximately HK$2,264 million (2000: HK$19,080 million).

31. CONTINGENT LIABILITIES

	The Group		The Company	
	2001 HK$ million	2000 HK$ million	**2001 HK$ million**	2000 HK$ million
Performance guarantee	**48**	630	**7**	8
Guarantees given to banks in respect of credit facilities granted to				
– subsidiaries	**–**	–	**8,580**	9,158
– jointly controlled company	**4**	4	**4**	4
Guarantee in lieu of cash deposit	**3**	1	**2**	1
Guarantee in respect of an investment commitment of an associate	**104**	104	**–**	–
Revenue guarantee	**–**	68	**–**	–
	159	807	**8,593**	9,171

32. BANKING FACILITIES

Aggregate banking facilities as at December 31, 2001 were HK$27,958 million (2000: HK$66,004 million) of which the unused facilities as at the same date amounted to HK$4,250 million (2000: HK$288 million).

A summary of major loan agreement terms is set out in note 22(a).

Security pledged for certain banking facilities includes:

	The Group	
	2001 **HK$ million**	2000 HK$ million
Investment properties	**2,703**	1,061
Land and buildings	**73**	102
Properties under development	**–**	1,345
Other non-current assets	**–**	10
Accounts receivable	**–**	4
Fixed deposit	**–**	7
	2,776	2,529

Cyber-Port Limited, an indirect wholly-owned subsidiary of the Company, was granted a standby letter of credit facility amounting to approximately HK$1,400 million from a bank for the purpose of providing a cashflow guarantee covering an amount equal to the 6-month forecast net cashflow requirements of the Cyberport Project, defined in and pursuant to the terms of the Cyberport Project Agreement. Such facility is secured by a bank fixed deposit of approximately US$180 million (approximately HK$1,405 million) (2000: nil) placed by the Company. The amount of restricted cash is included in “prepayments, deposits and other current assets” on the balance sheet. The facility was replaced by another similar facility amounting to HK$1,725 million and would be available for drawdown during the period from January 1, 2002 to June 30, 2002. The replacement facility was secured by a fixed deposit of approximately US$220 million (approximately HK$1,716 million) placed by the Company with the bank. As at December 31, 2001, the facility remained unutilized.

As of December 31, 2000, substantially all of the assets of HKT Group amounting to approximately HK$44 billion, the entire issued share capital of HKT and certain additional assets of the Company and one of its subsidiaries were subject to fixed or floating charge to secure the Bridge Loan obtained to finance the acquisition of HKT. Such securities were released during the year.

33. POST BALANCE SHEET EVENTS

The following events occurred subsequent to December 31, 2001 up to the date of approval of these financial statements by the Board of Directors:–

a. On January 24, 2002, the Company issued 175 million ordinary shares totaling Hong Kong dollars equivalent of US$48 million (approximately HK$375 million) to a wholly-owned subsidiary of TWI for the acquisition of a licence to use its sports archive and programmes.

b. On January 29, 2002, PCCW Capital No. 2 Limited, an indirect wholly-owned subsidiary of the Company, issued US$450 million 1 percent guaranteed convertible bonds due 2007, unconditionally and irrevocably guaranteed on a joint and several basis by the Company and HKTC. The net proceeds from the bonds were used to repay two portions of the Group's bank term loans and to provide for the Group's general working capital.

c. On March 7, 2002, HKTC entered into an agreement for a HK$5,000 million 6-year term loan facility and subsequently on March 15, 2002 drew down the full amount pursuant to this facility for the purpose of prepaying a portion of the outstanding Term Loan. The 6-year term loan carries interest at HIBOR plus 0.55 percent per annum.

34. ADJUSTMENTS RETROSPECTIVELY APPLIED UPON ADOPTION OF NEW ACCOUNTING STANDARDS IN HONG KONG

a. Adoption of SSAP 30 "Business Combinations", SSAP 31 "Impairment of Assets" and Interpretation 13 "Goodwill – continuing requirements for goodwill and negative goodwill previously eliminated against/ credited to reserves"

SSAP 31 prescribes procedures to be applied to ensure that assets are carried at not more than their recoverable amounts. The Group is required to assess at each balance sheet date whether there are any indications that assets may be impaired, and if there are such indications, the recoverable amount of the assets is to be determined. Any resulting impairment losses identified are charged to the income statement.

In accordance with the provisions of Interpretation 13, assessments of impairment of goodwill also apply to goodwill previously eliminated against reserves which will not be restated at the time of adoption of SSAP 30. Any impairment loss identified in respect of goodwill previously eliminated against reserves is to be recognized as an expense in the income statement. The amendments to SSAP 30 and the provisions of Interpretation 13 are required to be reflected in accordance with the requirements of SSAP 2 and the transitional provisions in SSAP 30.

The Group has performed an assessment of the fair value of its assets, including the related goodwill that had previously been charged to reserves, as at December 31, 2000. As a result, the Group and the Company have retrospectively restated their previously reported net loss for the year ended December 31, 2000 by HK$122,390 million for the impairment of goodwill arising from the acquisitions of subsidiaries, associates and jointly controlled companies.

b. Adoption of SSAP 28, "Provisions, Contingent Liabilities, and Contingent Assets"

SSAP 28 clarifies the measurement and disclosures for provisions, contingent liabilities, and contingent assets.

34. ADJUSTMENTS RETROSPECTIVELY APPLIED UPON ADOPTION OF NEW ACCOUNTING STANDARDS IN HONG KONG

In performing its assessment of the effects of adopting SSAP 28 (including the potential effects on prior years), the Group determined that its share option agreement with the minority shareholder of a subsidiary company would require the Company to issue, at the option of the holder, 1,003,070,000 new ordinary shares of the Company in exchange for the minority shareholder's remaining interests in the subsidiary even though the fair value of that subsidiary had substantially declined since entering into the option agreement in 1999. As a result of the Group's assessment of the prospective financial performance of the core business of that subsidiary since its launch in June 2000, management believes the minority shareholder's exercise of the option is assured. The minority shareholder began exercising its option in 2001.

The Company's additional investments in the subsidiary would initially have to be recorded at the fair value of the shares issued. Given the decline in value of the subsidiary, the Company experienced an immediate loss on its additional investment in the subsidiary. Accordingly, the option agreement is considered to be an onerous contract as at December 31, 2000. In accordance with the provisions of SSAP 28, the Group has recorded a provision of HK$3,234 million relating to its obligation under the share option agreement. The effect of this adjustment has been reported as an adjustment to the balance of accumulated deficit of the Group as at January 1, 2001. Comparative financial information for the year ended December 31, 2000 has not been restated as permitted by the transitional provisions of SSAP 28. Changes in the estimated fair value of the Group's unsettled obligation have been and will be reported as a component of income or expense.

As of March 20, 2002, the minority shareholder of that subsidiary had exercised options for the issuance of 626,390,000 new ordinary shares. During the year, a total amount of approximately HK$477 million has been adjusted to income of the Group as gain on investments due to the exercise of the said options and the change in estimated fair value of the Group's unsettled obligation. These adjustments have been reflected as a component of gains/(losses) on investments in the Group's consolidated results.