

# Report of the Directors

The directors present their annual report together with the audited consolidated financial statements of PCCW Limited (the “Company”) and its subsidiaries (the “Group”) for the year ended December 31, 2002.

## CHANGE OF COMPANY NAME

On August 9, 2002, the English name of the Company was changed from “Pacific Century CyberWorks Limited” to “PCCW Limited” in order to align the legal name of the Company with the Company’s logo and brand. The Chinese name of the Company remains unchanged as “電訊盈科有限公司”.

## PRINCIPAL ACTIVITIES

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

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

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended December 31, 2002 are set out in the accompanying consolidated financial statements on page 81.

No interim dividend was paid during the year. The directors do not recommend the payment of a final dividend for the year ended December 31, 2002.

## FINANCIAL SUMMARY

A summary of the consolidated results and of the assets and liabilities of the Group for the last five financial years is set out on page 138.

## SUBSIDIARIES, JOINTLY CONTROLLED COMPANIES AND ASSOCIATES

Particulars of the Company’s principal subsidiaries, jointly controlled companies and associates are set out in notes 20 to 22 to the consolidated financial statements.

## FIXED ASSETS

Details of movements in the fixed assets of the Group during the year are set out in note 16 to the consolidated financial statements.

## BORROWINGS AND CONVERTIBLE BONDS

Particulars of the Group's and the Company's borrowings and convertible bonds are set out in notes 24e and 25 to the consolidated financial statements.

## SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in note 26 to the consolidated financial statements.

Subsequent to the year end, an ordinary resolution was passed at an extraordinary general meeting of the Company held on January 7, 2003 pursuant to which every five issued and unissued ordinary shares of HK\$0.05 each in the capital of the Company were consolidated into one new share of HK\$0.25 with effect from January 8, 2003 (the "Share Consolidation"). All references to the share capital of the Company in this Report of the Directors relate to the year ended December 31, 2002 and therefore have not been adjusted to take into account the effect of the Share Consolidation.

## RESERVES

Details of the movements in reserves of the Group and the Company during the year are set out in note 29 to the consolidated financial statements.

## MAJOR CUSTOMERS AND SUPPLIERS

For the year ended December 31, 2002, the aggregate amount of turnover attributable to the Group's five largest customers represented less than 30 percent of the Group's total turnover.

The largest supplier for the year ended December 31, 2002 represented 32 percent of the Group's total purchases (not including purchases of a capital nature), and the combined total of the five largest suppliers accounted for 54 percent of the Group's total purchases for the year. At no time during the year have the directors, their associates or any shareholder of the Company who to the knowledge of the directors owns more than 5 percent of the Company's share capital had any interests in these major suppliers.

## DIRECTORS

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

### Executive Directors

Li Tzar Kai, Richard *Chairman and Chief Executive*

Yuen Tin Fan, Francis *Deputy Chairman*

Cheung Wing Lam, Linus *Deputy Chairman*

Peter Anthony Allen

Alexander Anthony Arena

John Todd Bonner

Michael John Butcher (appointed on June 1, 2002)

Chung Cho Yee, Mico

Lee Chi Hong, Robert (appointed on September 5, 2002)

Jeffrey Amsden Bowden (resigned on September 5, 2002)

Cheung Kam Hung, William (resigned on May 22, 2002)

Ma Si Hang, Frederick (resigned on June 24, 2002)

David Norman Prince (resigned on May 31, 2002)

Peter To (resigned on June 30, 2002)

**DIRECTORS (continued)****Non-Executive Directors**

Sir David Ford, KBE, LVO (appointed on June 1, 2002)

The Hon Raymond George Hardenbergh Seitz

Avram Miller (resigned on September 5, 2002)

**Independent Non-Executive Directors**

Prof Chang Hsin-kang

Dr Fung Kwok King, Victor

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

Sir Roger Lobo, CBE, JP

In accordance with Article 92 of the Company's Articles of Association, Michael John Butcher, Lee Chi Hong, Robert and Sir David Ford shall retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

In accordance with Articles 101A, 101B and 101C of the Company's Articles of Association, Yuen Tin Fan, Francis, Peter Anthony Allen, John Todd Bonner and Chung Cho Yee, Mico shall retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

**DIRECTORS' SERVICE CONTRACTS**

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

**DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES**

As at December 31, 2002, the interests of the directors and chief executive of the Company in the equity or debt securities of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) as recorded in the register required to be kept under Section 29 of the SDI Ordinance or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

**1. Interests in the Company***A. Ordinary Shares*

Name of director/chief executive	Personal interests	Number of ordinary shares		
		Family interests	Corporate interests	Other interests
Li Tzar Kai, Richard	–	–	8,519,983,074 (Note 1(a))	183,634,285 (Note 1(b))
Cheung Wing Lam, Linus	30,409	–	–	–
Peter Anthony Allen	1,266,000	–	–	–
Alexander Anthony Arena	3,801,000 (Note 4)	–	–	–
Michael John Butcher (Note 5)	4,000,000	–	–	–
Chung Cho Yee, Mico	5,881,300	92,276 (Note 6(a))	–	–
Lee Chi Hong, Robert	4,963,000 (Note 7(a))	2,559 (Note 7(b))	–	–
Prof Chang Hsin-kang	320,000	–	–	–
Dr The Hon Li Kwok Po, David	3,000,000	–	–	–

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES (continued)

### 1. Interests in the Company (continued)

#### B. Share Options

Certain directors of the Company have been granted options to subscribe for shares in the Company pursuant to the Company's share option scheme. Details of such directors' interests under the share option scheme are set out in the section headed "SHARE OPTION SCHEME".

### 2. Interests in Associated Corporations

#### Pacific Century Regional Developments Limited ("PCRD")

##### A. Ordinary Shares

Name of director/chief executive	Personal interests	Number of ordinary shares		
		Family interests	Corporate interests	Other interests
Li Tzar Kai, Richard	–	–	2,332,300,230 (Note 2)	–
Peter Anthony Allen	5,010,000	–	–	–
Chung Cho Yee, Mico	8,000,000	–	–	–

##### B. Share Options

Name of director	Date of grant (Note)	Exercisable period (Note)	Exercise price S\$	Number of share options
Alexander Anthony Arena	11.24.1999	10.25.2001 to 10.24.2009	0.7584	15,300,000
John Todd Bonner	11.24.1999	10.25.2001 to 10.24.2009	0.7584	5,000,000

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

#### Pacific Century Insurance Holdings Limited ("PCIHL")

##### A. Ordinary Shares

Name of director/chief executive	Personal interests	Number of ordinary shares		
		Family interests	Corporate interests	Other interests
Li Tzar Kai, Richard	–	–	370,352,700 (Note 3)	–
Peter Anthony Allen	360,000	–	–	–

##### B. Share Options

Name of director	Date of grant (Note)	Exercisable period (Note)	Exercise price HK\$	Number of share options
Yuen Tin Fan, Francis	07.07.1999	07.07.2000 to 07.06.2009	5.233	19,440,000
Peter Anthony Allen	07.07.1999	07.07.2000 to 07.06.2009	5.233	600,000
John Todd Bonner	07.07.1999	07.07.2000 to 07.06.2009	5.233	16,560,000
Chung Cho Yee, Mico	07.07.1999	07.07.2000 to 07.06.2009	5.233	2,280,000

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

**DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES (continued)****2. Interests in Associated Corporations (continued)****Pacific Century CyberWorks Japan Co., Ltd. ("PCCW Japan")****A. Ordinary Shares**

Name of director	Personal interests	Number of ordinary shares		
		Family interests	Corporate interests	Other interests
John Todd Bonner	110,000	–	–	–

**B. Exchangeable Notes**

Name of director/chief executive	Aggregate principal amount of exchangeable notes outstanding (Japanese Yen)
Li Tzar Kai, Richard	199,752,000 (Note 8)

**iLink Holdings Limited ("iLink")****Ordinary Shares**

Name of director	Personal interests	Number of ordinary shares		
		Family interests	Corporate interests	Other interests
Chung Cho Yee, Mico	–	–	–	400,500,000 (Note 6(b))

**PCCW Capital Limited****Convertible Bonds**

Name of director/chief executive	Aggregate principal amount of convertible bonds outstanding (US\$)
Li Tzar Kai, Richard	18,000,000 (Note 9)

**Notes:**

- (a) Li Tzar Kai, Richard holds the entire issued share capital of Pacific Century Group Holdings Limited ("PCG"). PCG holds the entire issued share capital of Pacific Century International Limited ("PCIL") and Borsington Limited ("Borsington"). Borsington holds 2,242,000 ordinary shares of PCRD. PCIL holds the entire issued share capital of Pacific Century Group (Cayman Islands) Limited ("PCG(CI)"). PCG(CI) holds the entire issued share capital of Anglang Investments Limited ("Anglang"). Anglang holds 1,169,067,180 ordinary shares which represent more than one-third of the issued share capital of PCRD. PCG(CI) holds 1,160,991,050 ordinary shares which also represent more than one-third of the issued share capital of PCRD. Accordingly, Li Tzar Kai, Richard is deemed to be interested in an aggregate of 2,332,300,230 ordinary shares of PCRD (held through Borsington, Anglang and PCG(CI)).

PCRD holds 7,633,866,517 shares of the Company, including 3,395,000 shares held in the form of 339,500 American depository receipts ("ADRs"), each ADR representing 10 shares of the Company. PCG holds 103,709,434 shares of the Company. Li Tzar Kai, Richard also holds the entire issued share capital of Chiltonlink Limited which holds the entire issued share capital of Pacific Century Diversified Limited ("PCD"). PCD holds 782,407,123 shares of the Company. Accordingly, Li Tzar Kai, Richard is deemed to be interested in an aggregate of 8,519,983,074 shares (directly held by PCRD, PCG and PCD) of the Company.

(b) Yue Shun Limited, a subsidiary of Hutchison Whampoa Limited ("HWL"), holds 183,634,285 shares of the Company.

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

By virtue of being a director of the Company and his deemed interest in the shares of HWL as a discretionary beneficiary under such discretionary trusts as described above, Li Tzar Kai, Richard is taken to have an interest in 183,634,285 shares of the Company held by the subsidiary of HWL.
- Li Tzar Kai, Richard is deemed to be interested in these shares by virtue of his deemed interests in Borsington, Anglang and PCG(CI) as described in Note 1(a) above.
- These shares are held by PCRD. Li Tzar Kai, Richard is deemed to be interested in 370,352,700 shares of PCIHL, a subsidiary of PCRD, by virtue of his deemed interest in PCRD as described in Note 1(a) above.
- Alexander Anthony Arena holds 1,000 shares in the form of 100 ADRs, each ADR representing 10 shares of the Company.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES (continued)

### Notes: (continued)

5. On May 22, 2002, Michael John Butcher and Li Tzar Kai, Richard entered into an agreement pursuant to which, Li Tzar Kai Richard agreed, subject to further terms and conditions, to transfer legal and beneficial ownership of an aggregate of 5,814,000 shares of the Company in three equal annual installments on April 3, 2003, April 3, 2004 and April 3, 2005 to Michael John Butcher.
6. (a) Chung Cho Yee, Mico is deemed to be interested in 92,276 shares of the Company held by his spouse.  
(b) Chung Cho Yee, Mico is deemed to be interested in 400,500,000 ordinary shares of iLink, an associated corporation in which the Company holds a 47.9 percent interest, by virtue of being a beneficiary under a trust.
7. (a) Lee Chi Hong, Robert and his spouse jointly hold 4,963,000 shares of the Company.  
(b) Lee Chi Hong, Robert is deemed to be interested in 2,559 shares of the Company held by his spouse.
8. Li Tzar Kai, Richard is deemed to be interested in the exchangeable notes of PCCW Japan (convertible into an aggregate of 609,000 ordinary shares of Yen 50 each of PCCW Japan) issued to Internet Ventures Technologies Limited, a company wholly-owned by Li Tzar Kai, Richard.
9. Li Tzar Kai, Richard is deemed to be interested in the convertible bonds held by a subsidiary of PCIHL and PCG. These convertible bonds are issued by PCCW Capital Limited, a wholly-owned subsidiary of the Company and are convertible into shares of the Company at a conversion price of US\$1.0083 per share.

Save as disclosed above, none of the directors or chief executive of the Company or their associates had any personal, family, corporate or other interests in any securities of the Company or any of its associated corporations as defined in the SDI Ordinance as at December 31, 2002.

## SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") under which the board of directors (the "Board") may, at its discretion, grant share options to any eligible person to subscribe for shares in the Company subject to the terms and conditions stipulated therein. The Scheme provides an opportunity for eligible persons to acquire proprietary interests in the Company and to encourage eligible persons to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole. Eligible persons include, but are not limited to, any director, officer, employee, consultant, adviser, supplier, customer or sub-contractor of the Group or any member of it or any other person who has contributed to the development, growth or benefit of the Group as determined by the Board. The Scheme was adopted on September 20, 1994 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

At an extraordinary general meeting of the Company held on May 23, 2002, the Scheme was amended in order to, amongst other things, comply with the new requirements of Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") which came into effect on September 1, 2001.

The maximum number of shares in respect of which options may be granted under the Scheme shall not in aggregate exceed 10 percent of the shares of the Company in issue as at the date of approval of the limit. As at December 31, 2002, the total number of shares of the Company that may be issued upon exercise of all share options granted and yet to be exercised under the Scheme was 547,799,564, which represented 2.4 percent of the issued share capital of the Company as at that date. The maximum entitlement for any eligible person (other than a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates) is that the total number of shares issued and to be issued upon exercise of all options granted and to be granted in any 12-month period up to and including the date of the latest grant does not exceed 1 percent of the shares of the Company in issue at the relevant time. Any further grant of share options in excess of this limit is subject to shareholders' approval in general meeting.

The period within which an option may be exercised will be determined by the Board in its absolute discretion, save that no option may be exercised later than 10 years from the date of grant of the option.

The exercise price in relation to each option shall be determined by the Board in its absolute discretion, but in any event shall not be less than the highest of: (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the date of grant of such option; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of such option; and (iii) the nominal value of a share on the date of grant of such option.

**SHARE OPTION SCHEME (continued)**

Details of the options which have been granted under the Scheme during the year are as follows:

**1. Outstanding options at January 1, 2002 and at December 31, 2002**

Name or category of participant	Date of grant (Notes 1 & 2)	Vesting period (Note 1)	Exercisable period (Note 1)	Exercise price HK\$	Number of options	
					Outstanding at 01.01.2002	Outstanding at 12.31.2002
<b>Directors</b>						
Yuen Tin Fan, Francis	08.28.1999	08.17.2000 to 08.17.2004	08.17.2003 to 08.17.2009	2.356	10,670,000	10,670,000
	08.26.2000	08.26.2001 to 08.26.2005	08.26.2001 to 08.26.2010	12.024	16,000,000	16,000,000
	02.20.2001	08.26.2001 to 08.26.2005	08.26.2001 to 01.22.2011	3.368	16,000,000	16,000,000
Cheung Wing Lam, Linus	02.20.2001	08.26.2001 to 08.26.2005	08.26.2001 to 01.22.2011	3.368	16,000,000	16,000,000
Peter Anthony Allen	08.28.1999	08.17.2000 to 08.17.2002	08.17.2000 to 08.17.2009	2.356	1,360,000	1,360,000
	08.26.2000	08.26.2001 to 08.26.2005	08.26.2001 to 08.26.2010	12.024	893,000	893,000
	02.20.2001	08.26.2001 to 08.26.2005	08.26.2001 to 01.22.2011	3.368	893,000	893,000
Alexander Anthony Arena	08.28.1999	08.17.2000 to 08.17.2004	08.17.2000 to 08.17.2009	2.356	16,000,000	16,000,000
	08.26.2000	08.26.2001 to 08.26.2005	08.26.2001 to 08.26.2010	12.024	8,000,000	8,000,000
	02.20.2001	08.26.2001 to 08.26.2005	08.26.2001 to 01.22.2011	3.368	8,000,000	8,000,000
John Todd Bonner	11.13.1999	08.17.2000 to 10.25.2004	08.17.2000 to 10.25.2009	4.552	5,000,000	5,000,000
	08.26.2000	08.26.2001 to 08.26.2005	08.26.2001 to 08.26.2010	12.024	2,400,000	2,400,000
	02.20.2001	08.26.2001 to 08.26.2005	08.26.2001 to 01.22.2011	3.368	2,400,000	2,400,000
Michael John Butcher	05.28.2002	04.29.2003 to 04.29.2007	04.29.2003 to 04.29.2012	1.990	–	28,000,000
Cheung Kam Hung, William	02.20.2001	08.26.2001 to 08.26.2005	08.26.2001 to 01.22.2011	3.368	4,800,000	(Note 9)
Chung Cho Yee, Mico	08.28.1999	08.17.2000 to 08.17.2004	08.17.2001 to 08.17.2009	2.356	17,876,000	17,876,000
	08.26.2000	08.26.2001 to 08.26.2005	08.26.2001 to 08.26.2010	12.024	5,300,000	5,300,000
	02.20.2001	08.26.2001 to 08.26.2005	08.26.2001 to 01.22.2011	3.368	5,300,000	5,300,000
Ma Si Hang, Frederick	05.18.2001	05.07.2002 to 05.07.2006	05.07.2002 to 05.07.2011	2.232	12,000,000	(Note 10)
David Norman Prince	02.20.2001	08.26.2001 to 08.26.2005	08.26.2001 to 01.22.2011	3.368	8,000,000	(Note 11)
Peter To	08.28.1999	08.17.2000 to 08.17.2004	08.17.2001 to 08.17.2009	2.356	21,800,000	(Note 12)
Jeffrey Amsden Bowden	02.20.2001	Fully vested on 01.22.2002	01.22.2002 to 01.31.2004	3.368	12,000,000	(Note 13)

SHARE OPTION SCHEME (continued)

1. Outstanding options at January 1, 2002 and at December 31, 2002 (continued)

Name or category of participant	Date of grant (Notes 1 & 2)	Vesting period (Note 1)	Exercisable period (Note 1)	Exercise price HK\$	Number of options	
					Outstanding at 01.01.2002	Outstanding at 12.31.2002
<b>Employees</b>						
In aggregate	08.17.1999 to 09.15.1999	(Note 3)	08.17.2000 to 08.17.2009	2.356	59,827,354	77,835,352 (Note 12)
	10.25.1999 to 11.23.1999	(Note 3)	10.25.2000 to 10.25.2009	4.552	31,803,000	27,046,000
	12.20.1999 to 01.18.2000	(Note 3)	12.20.2000 to 12.20.2009	6.712	1,080,000	1,080,000
	02.08.2000 to 03.08.2000	02.08.2001 to 02.08.2003	02.08.2001 to 02.08.2010	15.048	433,500	433,500
	08.26.2000 to 09.24.2000	(Note 4)	(Note 4)	12.024	26,505,000	24,575,000
	10.27.2000 to 11.25.2000	(Note 5)	(Note 5)	4.872	106,863,160	73,731,010
	01.22.2001 to 02.20.2001	(Note 6)	(Note 6)	3.368	129,982,702	87,364,902
	02.20.2001	02.08.2002 to 02.08.2004	02.08.2002 to 02.08.2011	3.752	433,500	433,500
	04.17.2001 to 05.16.2001	(Note 7)	(Note 7)	2.060	20,928,200	18,971,000
	07.16.2001 to 09.15.2001	07.16.2002 to 07.16.2004	07.16.2002 to 07.16.2011	1.832	4,206,000	3,723,800
	08.03.2001	Fully vested on 03.31.2002	03.31.2002 to 08.01.2011	3.368	4,000,000	4,000,000
	09.27.2001	09.27.2001 to 09.07.2003	09.27.2001 to 09.07.2011	1.363	18,000,000	18,000,000
	10.15.2001 to 11.13.2001	10.15.2002 to 10.15.2004	10.15.2002 to 10.15.2011	1.728	1,460,000	1,460,000
	05.10.2002	(Note 3)	04.11.2003 to 04.11.2012	1.583	–	1,158,500
	06.19.2002	(Note 8)	(Note 8)	2.018	–	2,895,000
	08.01.2002	08.01.2003 to 08.01.2005	08.01.2003 to 07.31.2012	1.612	–	1,000,000
	11.13.2002	11.13.2003 to 11.13.2005	11.13.2003 to 11.12.2012	1.230	–	35,600,000
<b>Others</b>	02.20.2001	Fully vested on 01.22.2002	01.22.2002 to 01.31.2004	3.368	–	2,400,000 (Note 13)
	10.11.2002	Fully vested on 10.11.2002	10.11.2002 to 10.10.2007	1.7233	–	6,000,000



## SHARE OPTION SCHEME (continued)

## 2. Options granted during the year ended December 31, 2002

Name or category of participant	Date of grant (Note 1)	Vesting period (Note 1)	Exercisable period (Note 1)	Exercise price HK\$	Number of options granted	Market value per share at date of grant HK\$
<b>Director</b>						
Michael John Butcher	05.28.2002	04.29.2003 to 04.29.2007	04.29.2003 to 04.29.2012	1.990	28,000,000	1.970
<b>Employees</b>						
In aggregate	05.10.2002	(Note 3)	04.11.2003 to 04.11.2012	1.583	1,158,500	2.050
	06.19.2002	(Note 8)	(Note 8)	2.018	2,895,000	1.900
	08.01.2002	08.01.2003 to 08.01.2005	08.01.2003 to 07.31.2012	1.612	1,000,000	1.640
	11.13.2002	11.13.2003 to 11.13.2005	11.13.2003 to 11.12.2012	1.230	35,600,000	1.230
<b>Others</b>						
	10.11.2002	Fully vested on 10.11.2002	10.11.2002 to 10.10.2007	1.7233	6,000,000	0.920

The share options granted are not recognized in the financial statements until they are exercised. The weighted average values per option granted in 2002 and 2001 estimated at the date of grant using the trinomial option pricing model were HK\$0.95 and HK\$3.59 respectively. The weighted average assumptions used are as follows:

	2002	2001
Risk-free interest rate	5.2 percent	6.2 percent
Expected life (in years)	10	10
Volatility	0.49	0.46
Expected dividend per share	-	-

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

## 3. Options exercised during the year ended December 31, 2002

During the year under review, no share options were exercised by any director or employee of the Group.

## SHARE OPTION SCHEME (continued)

### 4. Options cancelled or lapsed during the year ended December 31, 2002

Name or category of participant	Exercise price HK\$	Number of options cancelled	Number of options lapsed
<b>Directors</b>			
Cheung Kam Hung, William ( <i>Note 9</i> )	3.368	–	4,800,000
Ma Si Hang, Frederick ( <i>Note 10</i> )	2.232	–	12,000,000
David Norman Prince ( <i>Note 11</i> )	3.368	–	8,000,000
Jeffrey Amsden Bowden ( <i>Note 13</i> )	3.368	–	9,600,000
<b>Employees</b>			
In aggregate	2.356	–	3,792,002
	4.552	–	4,757,000
	12.024	–	1,930,000
	4.872	43,000	33,089,150
	3.368	480,000	42,137,800
	2.060	–	1,957,200
	1.832	–	482,200

#### Notes:

- All dates are shown month/day/year.
- Due to the large number of employees participating in the share option scheme, certain information such as the date of grant can only be shown within a reasonable range in this report. For options granted to employees, the options were granted, where applicable, during the underlying periods for acceptance of the offer of such options by the employees concerned.
- These options vest in installments during a period starting from the first anniversary of the offer date of such options ("Offer Date") and ending on either the third or fifth anniversary of the Offer Date inclusive.
- These options vest in installments during a period starting from: (i) May 26, 2001 and ending on May 26, 2003 inclusive; (ii) the first anniversary of the Offer Date and ending on the third anniversary of the Offer Date inclusive; or (iii) the first anniversary of the Offer Date and ending on the fifth anniversary of the Offer Date inclusive. All these options are exercisable in installments from the commencement of the relevant vesting period until the tenth anniversary of the Offer Date.
- These options vest in installments during a period starting from: (i) March 15, 2001 and ending on March 15, 2005 inclusive; or (ii) the first anniversary of the Offer Date and ending on the third anniversary of the Offer Date inclusive. All these options are exercisable in installments from the commencement of the relevant vesting period until the tenth anniversary of the Offer Date.
- These options vest in installments during a period starting from: (i) dates ranging between the date of grant to August 26, 2001 and ending on dates ranging between December 7, 2002 to August 26, 2005 inclusive; (ii) the first anniversary of the Offer Date and ending on the third anniversary of the Offer Date inclusive; or (iii) the first anniversary of the Offer Date and ending on the fifth anniversary of the Offer Date inclusive. All these options are exercisable in installments from the commencement of the relevant vesting period until the tenth anniversary of the Offer Date.
- These options vest in installments during a period starting from: (i) May 26, 2001 and ending on May 26, 2005 inclusive; (ii) the first anniversary of the Offer Date and ending on the third anniversary of the Offer Date inclusive; or (iii) the first anniversary of the Offer Date and ending on the fifth anniversary of the Offer Date inclusive. All these options are exercisable in installments from the commencement of the relevant vesting period until the tenth anniversary of the Offer Date.
- These options vest in installments during a period starting from: (i) the date of grant and ending on either May 26, 2003 or October 27, 2003 inclusive; or (ii) May 21, 2003 and ending on May 21, 2005 inclusive. All these options are exercisable in installments from the commencement of the relevant vesting period until the tenth anniversary of the Offer Date.
- Cheung Kam Hung, William resigned as a director of the Company on May 22, 2002. His outstanding 4,800,000 options at an exercise price of HK\$3.368 per share lapsed following his resignation.
- Ma Si Hang, Frederick resigned as a director of the Company on June 24, 2002. His outstanding 12,000,000 options at an exercise price of HK\$2.232 per share lapsed following his resignation.
- David Norman Prince resigned as a director of the Company on May 31, 2002. His outstanding 8,000,000 options at an exercise price of HK\$3.368 per share lapsed following his resignation.
- Peter To resigned as a director of the Company on June 30, 2002. His outstanding 21,800,000 options at an exercise price of HK\$2.356 per share remain exercisable as at December 31, 2002. As a result, an adjustment was made to transfer these options from "Directors" category to "Employees" category.
- Out of the 12,000,000 options granted to Jeffrey Amsden Bowden, 9,600,000 options lapsed following a change of the terms of his employment with the Group during the year. Mr Bowden resigned as a director of the Company on September 5, 2002. As at December 31, 2002, Mr Bowden held 2,400,000 options which remain exercisable until January 31, 2004. As a result, an adjustment was made to transfer these options from "Directors" category to "Others" category.

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

## SUBSTANTIAL SHAREHOLDERS

As at December 31, 2002, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that the following shareholders had an interest of 10 percent or more in the issued share capital of the Company:

Name of shareholder	Note	Number of shares	Percentage of total issued shares
UBS AG ("UBS")	1	3,285,099,270	14.1
Cable and Wireless plc ("C&W plc")	1	3,259,384,610	14.0
Cable and Wireless (Investments) Limited ("CWIL")	1	3,259,384,610	14.0
Cable and Wireless (Far East) Limited ("CWFE")	1	3,259,384,610	14.0
PCRD	2	7,633,866,517	32.8
Anglang	2	7,633,866,517	32.8
PCG(CI)	2	7,633,866,517	32.8
PCIL	2	7,633,866,517	32.8
PCG	2	7,737,575,951	33.3
Li Tzar Kai, Richard	3	8,519,983,074	36.6

### Notes:

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

As a result of the above transactions, C&W plc, CWIL and CWFE are each deemed to be interested in 3,259,384,610 shares of the Company under the SDI Ordinance, including 1,659,384,610 shares of the Company held by C&W plc through CWIL and CWFE.

In addition to the above, CWIL purchased certain of the C&W Exchangeable Bonds exchangeable into an aggregate of 1,733,328,000 shares of the Company from UBS up to December 31, 2002.
- PCRD holds 7,633,866,517 shares of the Company, including 3,395,000 shares held in the form of 339,500 ADRs, each ADR representing 10 shares of the Company. Anglang and PCG(CI) each hold more than one-third of the issued share capital of PCRD. The entire issued share capital of Anglang is held by PCG(CI). In turn, the entire issued share capital of PCG(CI) is held by PCIL and the entire issued share capital of PCIL is held by PCG. As a result, each of the companies mentioned in this paragraph is deemed to be interested in the 7,633,866,517 shares of the Company held by PCRD. In addition to its deemed interest in the shares held by PCRD, PCG also has a direct holding of 103,709,434 shares of the Company.
- Li Tzar Kai, Richard holds the entire issued share capital of PCG. PCG holds the entire issued share capital of PCIL and Borsington. Borsington holds 2,242,000 ordinary shares of PCRD. PCIL holds the entire issued share capital of PCG(CI). PCG(CI) holds the entire issued share capital of Anglang. Anglang holds 1,169,067,180 ordinary shares which represent more than one-third of the issued share capital of PCRD. PCG(CI) holds 1,160,991,050 ordinary shares which also represent more than one-third of the issued share capital of PCRD. Accordingly, Li Tzar Kai, Richard is deemed to be interested in an aggregate of 2,332,300,230 ordinary shares of PCRD (held through Borsington, Anglang and PCG(CI)). As described above, PCRD holds 7,633,866,517 shares of the Company and PCG holds 103,709,434 shares of the Company. Li Tzar Kai, Richard also holds the entire issued share capital of Chiltonlink Limited which holds the entire issued share capital of PCD. PCD holds 782,407,123 shares of the Company. Accordingly, Li Tzar Kai, Richard is deemed to be interested in an aggregate of 8,519,983,074 shares (directly held by PCRD, PCG and PCD) of the Company.

Save as disclosed above, the Company has not been notified of any other interests representing 10 percent or more of the issued share capital of the Company as at December 31, 2002.

## DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance (as defined in Appendix 16 of the Listing Rules and subject to the Modified Calculation Concession described in the section headed "APPLICATION OF CHAPTER 14 OF THE LISTING RULES TO THE COMPANY" in this report) to which the Company, its subsidiaries, its holding companies or any of its fellow subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year. However, during the year, Li Tzar Kai, Richard had an interest, through his associates including Pacific Century Group Japan Co., Ltd. ("PCGJ"), Pacific Century Matrix Limited ("PC Matrix"), Pacific Century Insurance Company Limited ("PCI") and PCRD, in certain transactions which constituted "connected transactions" of the Company under the Listing Rules. Particulars of these transactions are set out in the section headed "CONNECTED TRANSACTIONS" in this report.

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

The interests of the directors of the Company in competing business as at December 31, 2002 required to be disclosed pursuant to Rule 8.10 of the Listing Rules were as follows:

Name of director	Name of investee companies	Nature of business	Nature of interest
Li Tzar Kai, Richard ( <i>Note 1</i> )	HWL and its subsidiaries ("Hutchison Group")	Property business and satellite transmission in Asia	Certain personal and deemed interests in HWL
Chung Cho Yee, Mico	iLink ( <i>Note 2</i> )	Provision of data center services, including Internet connectivity, server hosting and co-location services, other value-added services and sales of equipment and software, and also the development, distribution and operation of network games	Director

### Notes:

- Li Tzar Kai, Richard was a director of HWL and certain of its subsidiaries until August 16, 2000, the day before the acquisition of Cable & Wireless HKT Limited (now known as PCCW-HKT Limited) became effective. Certain businesses of the Hutchison Group compete with certain aspects of the business of the Group. Li Tzar Kai, Richard has a personal interest in 110,000 shares in HWL, and is one of the discretionary beneficiaries of certain discretionary trusts which hold units in unit trusts which in turn are interested in certain shares of HWL. Subsequent to the date of this report and effective April 1, 2003, Li Tzar Kai, Richard holds one-third of the issued share capitals of two companies, which own all the shares in the trustee companies which act as trustees of such discretionary trusts and unit trusts. These trustee companies perform their functions as trustees independently without any reference to Li Tzar Kai, Richard. Notwithstanding the above, and in view of his small personal shareholding, his being a discretionary beneficiary and that the trustee companies act independently of him, the Company considers that Li Tzar Kai, Richard is not able to exert control or influence over the Hutchison Group.
- As at December 31, 2002, 47.9 percent of the issued share capital of iLink was held by an indirect wholly-owned subsidiary of the Company. Details of the potential competition between the Group and iLink were disclosed at pages 113 to 119 of the prospectus dated February 28, 2001 of iLink regarding its listing on The Growth Enterprise Market of the Stock Exchange by way of placing and updated in iLink's subsequent periodic reports.

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

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

## CHARITABLE DONATIONS

During the year, the Group made charitable donations and other donations totaling approximately HK\$0.1 million (2001: HK\$0.6 million).

## POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events are set out in note 37 to the consolidated financial statements.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

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

Chapter 14 of the Listing Rules requires listed companies to disclose details of transactions that fall into certain categories, to publish an announcement and/or issue a circular to shareholders giving information about those transactions and, in the case of certain material transactions or certain transactions with connected persons (as defined in the Listing Rules), to obtain the prior approval of shareholders in respect of the relevant transaction. Certain categories of transactions are not subject to any disclosure or approval requirements under Chapter 14 of the Listing Rules.

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

**APPLICATION OF CHAPTER 14 OF THE LISTING RULES TO THE COMPANY (continued)**

As a result of the negative net tangible asset value of the Company as described above, difficulties arise in relation to those provisions of the Listing Rules which require comparisons to be made on the basis of its net tangible assets or net assets. Accordingly, the Company during 2000, 2001 and 2002 applied for and was granted waivers and concessions by the Stock Exchange with respect to certain provisions of the Listing Rules. Details of the waivers and concessions granted by the Stock Exchange during 2000 and 2001 were set out in the Company's 2001 Annual Report. Details of the concessions granted by the Stock Exchange for the year 2002 are described below.

**Adoption of De-minimis Concession and Modified Calculation Concession**

On April 18, 2002 the Stock Exchange approved the Company's application for the continued application of (A) the De-minimis Concession (as described in the Company's announcement dated April 19, 2002 (the "April 19 Announcement")) and (B) the Modified Calculation Concession (also described in the April 19 Announcement) for the purposes of, amongst other things, determining the "assets test" and the "consideration test" (as defined in the Listing Rules) (the "Relevant Tests") under rules 14.06, 14.09, 14.12 and 14.20 of the Listing Rules and the net tangible assets or net assets (as applicable) in rules 14.24(5), 14.25(1) and 14.25(2)(b)(i) of the Listing Rules.

Details of the application of the De-minimis Concession and Modified Calculation Concession were set out in the April 19 Announcement and are summarised below. Following the publication of the Company's Unaudited Condensed Consolidated Balance Sheet as at June 30, 2002 in the Company's Interim Report for the six months ended June 30, 2002, the applicable thresholds for the purpose of the Relevant Tests were modified as set out in the summary below and the details were set out in the Company's announcement dated September 16, 2002.

**1. Application of De-minimis Concession**

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

**2. Application of Modified Calculation Concession**

The Stock Exchange has permitted the Company to apply the "modified assets test" and "modified consideration test" under the Modified Calculation Concession as follows:

**A. Modified Assets Test and Modified Consideration Test for the purposes of Notifiable Transactions**

Based on the Company's Unaudited Condensed Consolidated Balance Sheet as at June 30, 2002, the percentage ratios and the monetary thresholds against which the "gross assets less intangibles and current liabilities of the asset to be acquired or realised" for the "assets test" and the "consideration for the asset to be acquired or realised" for the "consideration test" are to be determined for the purposes of the Modified Calculation Concession to ascertain the applicable type of notifiable transaction (for the purposes of Chapter 14 of the Listing Rules) are as follows:

- a. ratio of 5 percent or above but below 15 percent (approximately HK\$1,905 million or above but below approximately HK\$5,714 million) – the requirements for discloseable transactions apply;
- b. ratio of 15 percent or above but below 25 percent (approximately HK\$5,714 million or above but below approximately HK\$9,523 million) – the requirements for major transactions apply;
- c. ratio of 25 percent or above (approximately HK\$9,523 million or above) – the requirements for very substantial acquisitions apply; and
- d. for acquisition of assets (including securities but excluding cash) by the Company or any of its subsidiaries for consideration that includes securities for which listing will be sought, the requirements for share transactions apply if the ratio is less than 5 percent (approximately HK\$1,905 million).

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

## APPLICATION OF CHAPTER 14 OF THE LISTING RULES TO THE COMPANY (continued)

### 2. Application of Modified Calculation Concession (continued)

#### B. Modified Assets Test Only while Maintaining the Percentage Ratios Prescribed under the Relevant Listing Rules

In relation to references to net tangible assets or net assets, as applicable, in the provisions of the rules set out below, the basis set out in the modified assets test under the Modified Calculation Concession has been adopted as the basis for comparison to determine any relevant disclosure and/or shareholder approval requirements relating to these rules:

- Paragraph 17(2) of Appendix 7A;
- Paragraph 5.1 of Practice Note 13;
- Paragraph 3(e)(ii) of Practice Note 15;
- Paragraph 36 of Appendix 16; and
- Paragraph 1.3 of Practice Note 19.

Since the numerator and denominator are using the same modified basis, there has been no need to change the current percentage ratios prescribed under these rules.

#### C. Modified Assets Test and Different Percentage Ratios

In relation to references to net tangible assets or net assets, as applicable, in the provisions of the rules set out below, the basis set out in the modified assets test under the Modified Calculation Concession has been adopted as the basis for comparison to determine any relevant disclosure and/or shareholder approval requirements relating to these rules. In addition, percentage ratio thresholds prescribed under these rules have been amended as a result of the change in basis:

- Paragraph 15.2 of Appendix 16 – ratio of 1 percent;
- Paragraph 23 of Appendix 16 – ratio of 5 percent;
- Paragraph 3.2.1 of Practice Note 19 – ratio of 8 percent;
- Paragraph 3.2.2 of Practice Note 19 – ratio of 3 percent; and
- Paragraph 3.3 of Practice Note 19 – ratio of 8 percent.

#### D. Modified Assets Test to Connected Transactions

In relation to references to net tangible assets or the net assets, as applicable, set out in rules 14.24(5), 14.25(1) and 14.25(2)(b)(i) (which relate to connected transactions), the basis set out in the modified assets test under the Modified Calculation Concession has been adopted. In addition, the percentage ratio thresholds to determine any relevant disclosure and/or shareholder approval requirements relating to these rules have been amended as follows:

**a.** in rule 14.24(5) the applicable threshold is the higher of either:

- i. HK\$1 million, or
- ii. 0.01 percent of the modified assets basis.

Based on the Company's Unaudited Condensed Consolidated Balance Sheet as at June 30, 2002, the relevant threshold in sub-item (ii) above is equal to approximately HK\$3.81 million.

**b.** in rule 14.25(1) the applicable threshold is the higher of either:

- i. HK\$10 million, or
- ii. 1 percent of the modified assets basis.

Based on the Company's Unaudited Condensed Consolidated Balance Sheet as at June 30, 2002, the relevant threshold in sub-item (ii) above is equal to approximately HK\$381 million.

**c.** in rule 14.25(2)(b)(i) the applicable threshold is 5 percent of the modified assets basis.

Based on the Company's Unaudited Condensed Consolidated Balance Sheet as at June 30, 2002, the relevant threshold is equal to approximately HK\$1,905 million.

## APPLICATION OF CHAPTER 14 OF THE LISTING RULES TO THE COMPANY (continued)

### Period for which the De-minimis Concession, the Modified Calculation Concession and the Modified Assets Test will Apply

The Stock Exchange's approvals for the use of the De-minimis Concession and the Modified Calculation Concession described above remain in effect until the publication or the due date of publication of this annual report, whichever is earlier. Accordingly, the Company has applied to the Stock Exchange for a renewal of the application of the De-minimis Concession, the Modified Calculation Concession and the "modified assets test" based on the Company's results for the year ended December 31, 2002.

## CONNECTED TRANSACTIONS

In the period since the publication of the Company's 2001 Annual Report, members of the Group entered into (or continued to be party to) certain transactions which were "connected transactions" as defined by the Listing Rules and which are subject to disclosure obligations under Chapter 14 of the Listing Rules (as modified by the Company's Modified Calculation Concession described in the previous section of this report entitled "APPLICATION OF CHAPTER 14 OF THE LISTING RULES TO THE COMPANY"). Details of such transactions are as follows:

1. On February 26, 2003 a wholly-owned subsidiary of the Company, PCC Investments Limited ("PCCI"), Commercial Radio Productions Limited ("CRP"), and PCC Skyhorse Holding Limited ("Skyhorse") entered into an agreement (the "Agreement") pursuant to which Skyhorse agreed to repurchase CRP's entire shareholding in Skyhorse for HK\$80 million. Skyhorse was a joint venture company established on November 7, 2000 in which PCCI held 60 percent of the issued share capital and CRP 40 percent. At the time the Agreement was entered into CRP was a substantial shareholder in Skyhorse and therefore a connected person of the Company. The repurchase was conducted on normal commercial terms. Further details of this transaction were set out in the Company's announcement dated February 26, 2003.
2. In March 2003 the Company agreed to provide a loan of HK\$10 million to Omnilink Technology Limited (a non wholly-owned subsidiary of the Company). The loan is repayable upon the giving of one month's notice by the Company and bears interest at 195 basis points over three-month HIBOR. The loan will be used by Omnilink Technology Limited to fund its working capital and capital expenditure requirements.
3. On November 19, 2001 (as disclosed in the Company's announcement of the same date and in the Company's 2001 Annual Report) PCCW Communications (Japan) K.K. ("PCCW Communications"), an indirect wholly-owned subsidiary of the Company, entered into a five-year lease agreement (the "Lease") with PCGJ regarding the lease of certain office space in Pacific Century Place Marunouchi, Tokyo, Japan (the "Building") owned by PCGJ at a monthly rent of approximately Yen 7.4 million (approximately HK\$0.5 million) plus other monthly management expenses and a sub-lease agreement (the "Sub-Lease") regarding the sub-lease of office space in the Building to PCGJ at a monthly rent of approximately Yen 3.1 million (approximately HK\$0.2 million) plus other monthly management expenses and renovation costs. The Sub-Lease has a term of approximately four years and ten months. PCCW Communications also entered into a five-year lease agreement (the "Display Lease") with The Pacific Century Place Marunouchi Owners Union ("PCPMOU") regarding the lease of space for display of the Company's logo outside the Building at a monthly rent of Yen 0.95 million (approximately HK\$0.06 million). A change was made to the arrangements described above when, on December 2, 2002, PCCW Communications entered into an agreement (the "Novation") with PCGJ and a newly incorporated company ("New PCGJ Co., Ltd"). The Novation was required in connection with certain financing arrangements PCGJ entered into with a third party and does not impact on the substance of the arrangements. Its effect was to transfer PCGJ's rights and obligations under the Sub-Lease to New PCGJ Co., Ltd. In the calendar year 2002 PCCW Communications paid HK\$6,143,261 and HK\$728,988 under the Lease and Display Lease respectively and received HK\$2,624,674 under the Sub-Lease.

Li Tzar Kai, Richard indirectly holds a 55 percent interest in the issued share capital of PCGJ and New PCGJ Co., Ltd. PCGJ is able to exercise 94 percent of the voting rights of PCPMOU. As PCGJ, New PCGJ Co., Ltd and PCPMOU are each associates of Li Tzar Kai, Richard, they are therefore connected persons of the Company.

#### CONNECTED TRANSACTIONS (continued)

4. During the year ended December 31, 2002, the Company and its wholly-owned subsidiaries, PCCW Services Limited (“PCCW Services”) and PCCW-HKT Limited (“HKT”), made advances from time to time to PCC Holdings Ltd. (“PCC”) and its subsidiaries (the “PCC Group Companies”) for financing their operations. The PCC Group Companies ceased to be connected persons of the Company following the exercise, on October 31, 2002, by Intel Pacific, Inc. of its right to dispose of its remaining shareholding in PCC pursuant to the option agreement dated September 15, 1999 made between the Company, Intel Pacific, Inc. and PCC. In the period from January 1, 2002 to the time the PCC Group Companies ceased to be connected persons of the Company a total amount of approximately HK\$855 million was provided to the PCC Group Companies by the Company, PCCW Services and HKT. The loan financing is unsecured, bears interest at a rate of 1.5 percent above the one month HIBOR rate and is repayable on demand.
5. As disclosed in the Company's 2001 Annual Report, on April 25, 2000, the Company provided a guarantee as security for certain banking facilities to PCC for an amount up to US\$477,000 (approximately HK\$3.7 million) from The Hongkong and Shanghai Banking Corporation Limited (“HSBC”). This guarantee (which was required in connection with the operations of an associated company of PCC) remained in place during the year ended December 31, 2002.
6. On March 22, 2002 the Company executed a corporate guarantee of HK\$5,000,000 in respect of PCC (HK) Limited's obligations to HSBC. PCC (HK) Limited is a PCC Group Company and therefore at the time of the execution of the corporate guarantee was a non wholly-owned subsidiary of the Company. This corporate guarantee was required in connection with the extension by HSBC of certain of the Company's guarantee/bonding facilities to PCC (HK) Limited.
7. During the year ended December 31, 2002, HKT provided funding of approximately NT\$37 million (approximately HK\$8.5 million) to FIC Network Service, Inc. (a non wholly-owned subsidiary of the Company) for financing its operations. The funding is unsecured, bears interest at a rate of 1.5 percent above the one month HIBOR rate and is repayable on demand.
8. In July 1999, Intel Corporation, the holding company of Intel Pacific, Inc., entered into a non-exclusive Technology Agreement with PCC which provides for the supply by Intel Corporation of comprehensive set-top and server-based solutions (the “Services”) to assist in the delivery of the combined content broadcast and Internet services generated by PCC. The contract sum for the Technology Agreement was US\$11.1 million (approximately HK\$87 million). Details of this arrangement have been previously disclosed by the Company in a shareholders' circular dated August 21, 1999 and were approved by the shareholders of the Company at an extraordinary general meeting held on September 7, 1999. During the year ended December 31, 2002, Intel Corporation did not provide the Services to PCC and PCC did not pay any amount to Intel Corporation under the Technology Agreement.

Intel Pacific, Inc. and its associates (including Intel Corporation) ceased to be connected persons of the Company on April 22, 2002 when Intel Pacific, Inc. reduced its shareholding in PCC and thereby ceased to be a connected person of the Company.

9. As disclosed in the Company's 2001 Annual Report, during the year ended December 31, 2001, the Company's publicly listed Japanese subsidiary, PCCW Japan, made advances from time to time to CS Now Corporation (“CS NOW”), a non wholly-owned subsidiary of PCCW Japan and discharged certain payments on behalf of CS NOW to independent third parties. A total amount of Yen 120 million (approximately HK\$7.1 million) was provided by PCCW Japan to CS NOW. The loan financing was unsecured, bore interest at the Japanese prime plus 50 basis points and was repayable at the end of 2002. On October 31, 2002 PCCW Japan disposed of its entire shareholding in CS NOW and, as part of that transaction, the outstanding amount of the loan (approximately Yen 118.8 million (approximately HK\$7.7 million)) was waived at the time of this disposal.



### CONNECTED TRANSACTIONS (continued)

**10.** As disclosed in the Company's 2001 Annual Report, on November 29, 2001, PCCW Japan made a loan to B-Factory Inc. (a non wholly-owned subsidiary of PCCW Japan) of approximately Yen 30 million (approximately HK\$1.8 million), which was unsecured, bore interest at the rate of 1.375 percent per annum and was repayable twelve months from that date. This loan was repaid in full (together with the interest thereon) on June 6, 2002. On the same day PCCW Japan provided a guarantee of up to Yen 60 million (approximately HK\$3.9 million) to UFJ Bank for the benefit of B-Factory, Inc.

**11.** During the year ended December 31, 2002, PCCW Services provided certain office, staff, administrative and support services to PC Matrix. The services were provided on normal commercial terms and were within the ordinary course of business of PCCW Services and PC Matrix. For the year ended December 31, 2002, the total charges for such services amounted to approximately HK\$24.2 million in respect of which PC Matrix had paid HK\$19.4 million as at December 31, 2002.

Li Tzar Kai, Richard holds an indirect 70 percent interest (approximately) in PC Matrix. As PC Matrix is an associate of Li Tzar Kai, Richard, it is a connected person of the Company.

**12.** During the year ended December 31, 2002, the Group paid to PCI insurance premiums amounting to approximately HK\$6.5 million in respect of group life and medical insurance (including clinical and hospitalisation) coverage for employees of the Group.

PCI is a wholly-owned subsidiary of PCIHL, of which PCRD held 45 percent as at December 31, 2002. PCRD is a substantial shareholder of the Company.

PCI is continuing to provide group life and medical insurance to the Group. The policies are on normal commercial terms and within the ordinary course of business of PCI and the Group. The Group has as of March 1, 2003 paid to PCI insurance premiums in respect of the current financial year amounting to approximately HK\$2.7 million.

**13.** PCRD, a substantial shareholder of the Company, has provided a rental guarantee on each of Towers A and B and the 6-storey commercial podium of Pacific Century Place, Beijing, the PRC. The two-year rental guarantee on Tower A expired in 2001. The two-year rental guarantee on Tower B of not less than US\$3,573,549 (approximately HK\$28 million) per annum commenced in June 2000. The two year rental guarantee of not less than US\$12,028,526 (approximately HK\$94 million) in respect of the podium commenced in July 2002.

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

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

### CODE OF BEST PRACTICE

Throughout the year, the Company complied fully with the Code of Best Practice as set out in Appendix 14 to the Listing Rules save that the non-executive directors are not appointed for a specific term of office. With effect from the 2003 annual general meeting, the directors (including non-executive directors) are subject to retirement by rotation and re-election at annual general meetings in accordance with the Company's Articles of Association as amended on January 7, 2003.

## AUDITORS

Arthur Andersen & Co acted as the Auditors of the Company in respect of the financial years ended December 31, 2000 and 2001. Following the combination of the practices of Arthur Andersen & Co and PricewaterhouseCoopers on July 1, 2002, PricewaterhouseCoopers was appointed by the Board to fill the casual vacancy arising from the resignation of Arthur Andersen & Co as the Auditors of the Company effective July 15, 2002.

The financial statements have been audited by PricewaterhouseCoopers who will retire upon the conclusion of the forthcoming annual general meeting and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of PricewaterhouseCoopers as Auditors of the Company is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

**Fiona Nott**

*Company Secretary*

Hong Kong,

March 20, 2003