

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, 2003.

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 5 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended December 31, 2003 are set out in the accompanying consolidated financial statements on page 71.

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, 2003.

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 130.

SUBSIDIARIES, JOINTLY CONTROLLED COMPANIES AND ASSOCIATES

Particulars of the Company’s principal subsidiaries, jointly controlled companies and associates are set out in notes 22 to 24 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 18 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 26(g) and 27 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 29 to the consolidated financial statements.

RESERVES

Details of the movements in reserves of the Group and the Company during the year are set out in note 32 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended December 31, 2003, 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, 2003 represented 34 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 69 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*

So Chak Kwong, Jack *Deputy Chairman and Group Managing Director* (appointed on July 25, 2003)

Yuen Tin Fan, Francis *Deputy Chairman*

Peter Anthony Allen

Alexander Anthony Arena

Michael John Butcher

Chung Cho Yee, Mico

Lee Chi Hong, Robert

John Todd Bonner

(retired on May 22, 2003)

Cheung Wing Lam, Linus *Deputy Chairman*

(resigned on February 29, 2004)

Non-Executive Directors

Sir David Ford, KBE, LVO

The Hon Raymond George Hardenbergh Seitz

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

Aman Mehta

(appointed on February 10, 2004)

In accordance with Article 92 of the Company's Articles of Association, So Chak Kwong, Jack and Aman Mehta 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, Li Tzar Kai, Richard, Alexander Anthony Arena, Sir Roger Lobo and Dr The Hon Li Kwok Po, David shall retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

So Chak Kwong, Jack entered into a service contract with the Company for a period of 3 years commencing on July 25, 2003. Mr So's service contract provides for a compensation payment from the Company for early termination by the Company during the term of the contract.

Save as disclosed above, no director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract with the Group which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at December 31, 2003, the directors and chief executive of the Company and their associates had the following interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO 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 (the "Model Code"):

1. The Company

A. Interests in the Company

The table below sets out the aggregate long positions in the shares and underlying shares of each director and the chief executive of the Company.

Name of director/chief executive	Number of ordinary shares				Number of underlying shares held under equity derivatives	Total	Percentage of issued share capital
	Personal interests	Family interests	Corporate interests	Other interests			
Li Tzar Kai, Richard	–	–	1,716,654,012 (Note 1(a))	36,726,857 (Note 1(b))	3,489,962 (Note 1(c))	1,756,870,831	32.72%
So Chak Kwong, Jack	–	–	–	–	18,483,000 (Note 3)	18,483,000	0.34%
Yuen Tin Fan, Francis	–	–	–	–	17,068,000 (Note 2)	17,068,000	0.32%
Cheung Wing Lam, Linus	6,081	–	–	–	3,200,000 (Note 2)	3,206,081	0.06%
Peter Anthony Allen	253,200	–	–	–	2,629,200 (Note 2)	2,882,400	0.05%
Alexander Anthony Arena	760,000	–	–	–	12,800,200 (Note 4)	13,560,200	0.25%
Michael John Butcher	–	–	–	–	14,375,200 (Note 5)	14,375,200	0.27%
Chung Cho Yee, Mico	1,176,260	18,455 (Note 6)	–	–	11,390,400 (Note 2)	12,585,115	0.23%
Lee Chi Hong, Robert	992,600 (Note 7(a))	511 (Note 7(b))	–	–	5,000,000 (Note 2)	5,993,111	0.11%
Sir David Ford	–	–	–	–	2,000,000 (Note 2)	2,000,000	0.04%
Prof Chang Hsin-kang	64,000	–	–	–	–	64,000	0.001%
Dr The Hon Li Kwok Po, David	600,000	–	–	–	–	600,000	0.01%

Notes:

1. (a) These interests represented Li Tzar Kai, Richard's interests through corporations he controlled as follows:
 - (i) an interest in 20,354,286 shares of the Company held by Pacific Century Group Holdings Limited ("PCG"), which was 100 percent owned by Li Tzar Kai, Richard;
 - (ii) an interest in 1,526,094,302 shares of the Company held by Pacific Century Regional Developments Limited ("PCRD"), a company in which PCG had, through certain wholly-owned subsidiaries including Anglang Investments Limited, Pacific Century Group (Cayman Islands) Limited, Pacific Century International Limited and Borsington Limited, an aggregate 75.32 percent interest; and
 - (iii) an interest in 170,205,424 shares of the Company held by Pacific Century Diversified Limited ("PCD"), a wholly-owned subsidiary of Chiltonlink Limited, which was 100 percent owned by Li Tzar Kai, Richard.
- (b) These shares were held by Yue Shun Limited, a subsidiary of Hutchison Whampoa Limited ("HWL"). Cheung Kong (Holdings) Limited ("Cheung Kong") through certain subsidiaries held more than one-third of the issued share capital of HWL. Li Tzar Kai, Richard was a beneficiary of certain discretionary trusts which held interests in Cheung Kong and HWL. Li Tzar Kai, Richard was also interested in one-third of the issued share capital of two companies, which owned all the shares in the trustee companies which acted as trustees of such discretionary trusts. Accordingly, Li Tzar Kai, Richard was taken, under the SFO, to have an interest in the 36,726,857 shares of the Company held by Yue Shun Limited.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(continued)*

1. The Company *(continued)*

A. Interests in the Company *(continued)*

Notes: *(continued)*

- (c) These interests represented Li Tzar Kai, Richard's interests under listed equity derivatives through corporations he controlled as follows:
- (i) an interest in 679,000 underlying shares held by PCRDC in the form of 67,900 American depository receipts ("ADRs"), each representing 10 shares of the Company; and
 - (ii) an interest in respect of 2,810,962 underlying shares arising as a result of the holding of an aggregate of US\$14,000,000 of convertible bonds issued by a wholly-owned subsidiary of the Company which were held by PCG and a wholly-owned subsidiary of Pacific Century Insurance Holdings Limited ("PCIHL") (a company in which PCRDC had a 45.09 percent interest) and were convertible into 2,810,962 shares of the Company.
2. These interests represented the interests in underlying shares in respect of share options granted by the Company to these directors as beneficial owners, the details of which are set out in the section headed "SHARE OPTION SCHEME" below.
 3. These interests represented So Chak Kwong, Jack's beneficial interest in: (i) 6,483,000 underlying shares which will be transferred to him in three equal annual installments commencing from the first anniversary of his employment with the Company pursuant to an agreement made with PCD which constituted unlisted physically settled equity derivatives; and (ii) 12,000,000 underlying shares in respect of share options granted by the Company to So Chak Kwong, Jack as beneficial owner, the details of which are set out in the section headed "SHARE OPTION SCHEME".
 4. These interests represented Alexander Anthony Arena's beneficial interest in: (i) 200 underlying shares held in the form of 20 ADRs which constituted listed equity derivatives; and (ii) 12,800,000 underlying shares in respect of share options granted by the Company to Alexander Anthony Arena as beneficial owner, the details of which are set out in the section headed "SHARE OPTION SCHEME" below.
 5. These interests represented Michael John Butcher's beneficial interest in: (i) 775,200 underlying shares which will be transferred to him in two equal annual installments on April 3, 2004 and April 3, 2005 pursuant to an agreement made on May 22, 2002 with Li Tzar Kai, Richard which constituted unlisted physically settled equity derivatives; and (ii) 13,600,000 underlying shares in respect of share options granted by the Company to Michael John Butcher as beneficial owner, the details of which are set out in the section headed "SHARE OPTION SCHEME" below.
 6. These shares were held by the spouse of Chung Cho Yee, Mico.
 7. (a) These shares were held jointly by Lee Chi Hong, Robert and his spouse.
(b) These shares were held by the spouse of Lee Chi Hong, Robert.

B. Short Positions in the Shares and Underlying Shares of the Company

Under the SFO, Li Tzar Kai, Richard was taken as at December 31, 2003 to have short positions held pursuant to equity derivatives in respect of an aggregate of 328,434,671 underlying shares, representing 6.12 percent of the total issued share capital of the Company, details of which are as follows:

- (a) a short position in respect of 91,764,706 underlying shares in the Company (such shares being beneficially held by PCRDC) which arose under certain unlisted physically settled equity derivatives issued by PCRDC pursuant to which the derivative holder has the right to call for the delivery of 91,764,706 shares in the Company;
- (b) a short position in respect of 229,411,765 underlying shares in the Company (such shares being beneficially held by PCRDC) which arose under certain unlisted physically settled equity derivatives issued by PCRDC pursuant to which the derivative holders have the right to call for the delivery of 229,411,765 shares in the Company;
- (c) a short position in respect of 775,200 underlying shares in the Company which arose under an agreement entered into with Michael John Butcher, such interest constituted, for the purposes of the SFO, a short position under an unlisted physically settled equity derivative pursuant to which such shares in the Company will be transferred to Michael John Butcher in two equal annual installments on April 3, 2004 and April 3, 2005; and
- (d) through PCD (a corporation 100 percent controlled by Li Tzar Kai, Richard - see above) a short position in respect of 6,483,000 underlying shares in the Company which arose under an agreement entered into with So Chak Kwong, Jack, such interest constituted, for the purposes of the SFO, a short position of a corporation controlled by Li Tzar Kai, Richard under an unlisted physically settled equity derivative pursuant to which such shares in the Company will be transferred to So Chak Kwong, Jack in three equal annual installments commencing from the first anniversary of his employment with the Company.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (continued)

2. Interests in Associated Corporation

PCG and a subsidiary of PCIHL held, respectively, US\$4,000,000 and US\$10,000,000 of convertible bonds issued by PCCW Capital Limited, an associated corporation of the Company. Accordingly, Li Tzar Kai, Richard had, through his controlled corporations, PCG and PCIHL, an aggregate interest in US\$14,000,000 of convertible bonds issued by PCCW Capital Limited.

Save as disclosed above, none of the directors, the chief executive of the Company or their associates had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") under which the board of directors (the "Board"), may at their 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 canceled 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, 2003, 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 222,177,528, which represented 4.14 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.

Details of the options which have been granted under the Scheme during the year ended December 31, 2003 are as follows:

1. Outstanding options at January 1, 2003 and at December 31, 2003

Name or category of participant	Date of grant (Notes 1 & 2)	Vesting period (Note 1)	Exercisable period (Note 1)	Exercise price HK\$ (Note 3)	Number of options	
					Outstanding at 01.01.2003 (Note 3)	Outstanding at 12.31.2003
Directors						
So Chak Kwong, Jack	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.3500	–	12,000,000

SHARE OPTION SCHEME (continued)

1. Outstanding options at January 1, 2003 and at December 31, 2003 (continued)

Name or category of participant	Date of grant (Notes 1 & 2)	Vesting period (Note 1)	Exercisable period (Note 1)	Exercise price HK\$ (Note 3)	Number of options	
					Outstanding at 01.01.2003 (Note 3)	Outstanding at 12.31.2003
Directors (continued)						
Yuen Tin Fan, Francis	08.28.1999	08.17.2000 to 08.17.2004	08.17.2003 to 08.17.2009	11.7800	2,134,000	2,134,000
	08.26.2000	08.26.2001 to 08.26.2005	08.26.2001 to 08.26.2010	60.1200	3,200,000	3,200,000
	02.20.2001	08.26.2001 to 08.26.2005	08.26.2001 to 01.22.2011	16.8400	3,200,000	3,200,000
	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.3500	–	8,534,000
Cheung Wing Lam, Linus	02.20.2001	08.26.2001 to 08.26.2005	08.26.2001 to 01.22.2011	16.8400	3,200,000	3,200,000
Peter Anthony Allen	08.28.1999	08.17.2000 to 08.17.2002	08.17.2000 to 08.17.2009	11.7800	272,000	272,000
	08.26.2000	08.26.2001 to 08.26.2005	08.26.2001 to 08.26.2010	60.1200	178,600	178,600
	02.20.2001	08.26.2001 to 08.26.2005	08.26.2001 to 01.22.2011	16.8400	178,600	178,600
	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.3500	–	2,000,000
Alexander Anthony Arena	08.28.1999	08.17.2000 to 08.17.2004	08.17.2000 to 08.17.2009	11.7800	3,200,000	3,200,000
	08.26.2000	08.26.2001 to 08.26.2005	08.26.2001 to 08.26.2010	60.1200	1,600,000	1,600,000
	02.20.2001	08.26.2001 to 08.26.2005	08.26.2001 to 01.22.2011	16.8400	1,600,000	1,600,000
	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.3500	–	6,400,000
John Todd Bonner	11.13.1999	08.17.2000 to 10.25.2004	08.17.2000 to 10.25.2009	22.7600	1,000,000	(Note 10)
	08.26.2000	08.26.2001 to 08.26.2005	08.26.2001 to 08.26.2010	60.1200	480,000	(Note 10)
	02.20.2001	08.26.2001 to 08.26.2005	08.26.2001 to 01.22.2011	16.8400	480,000	(Note 10)
Michael John Butcher	05.28.2002	04.29.2003 to 04.29.2007	04.29.2003 to 04.29.2012	9.9500	5,600,000	5,600,000
	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.3500	–	8,000,000
Chung Cho Yee, Mico	08.28.1999	08.17.2000 to 08.17.2004	08.17.2001 to 08.17.2009	11.7800	3,575,200	3,575,200
	08.26.2000	08.26.2001 to 08.26.2005	08.26.2001 to 08.26.2010	60.1200	1,060,000	1,060,000
	02.20.2001	08.26.2001 to 08.26.2005	08.26.2001 to 01.22.2011	16.8400	1,060,000	1,060,000
	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.3500	–	5,695,200
Lee Chi Hong, Robert	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.3500	–	5,000,000
Sir David Ford	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.3500	–	2,000,000

SHARE OPTION SCHEME (continued)

1. Outstanding options at January 1, 2003 and at December 31, 2003 (continued)

Name or category of participant	Date of grant (Notes 1 & 2)	Vesting period (Note 1)	Exercisable period (Note 1)	Exercise price HK\$ (Note 3)	Number of options	
					Outstanding at 01.01.2003 (Note 3)	Outstanding at 12.31.2003
Employees						
In aggregate	08.17.1999 to 09.15.1999	(Note 4)	08.17.2000 to 08.17.2009	11.7800	15,567,056	10,343,988
	10.25.1999 to 11.23.1999	(Note 4)	10.25.2000 to 10.25.2009	22.7600	5,409,200	4,509,200
	12.20.1999 to 01.18.2000	(Note 4)	12.20.2000 to 12.20.2009	33.5600	216,000	–
	02.08.2000 to 03.08.2000	02.08.2001 to 02.08.2003	02.08.2001 to 02.08.2010	75.2400	86,700	86,700
	08.26.2000 to 09.24.2000	(Note 5)	(Note 5)	60.1200	4,915,000	4,270,000
	10.27.2000 to 11.25.2000	(Note 6)	(Note 6)	24.3600	14,746,202	12,966,082
	01.22.2001 to 02.20.2001	(Note 7)	(Note 7)	16.8400	17,472,978	13,559,838
	02.20.2001	02.08.2002 to 02.08.2004	02.08.2002 to 02.08.2011	18.7600	86,700	86,700
	04.17.2001 to 05.16.2001	(Note 8)	(Note 8)	10.3000	3,794,200	3,542,960
	07.16.2001 to 09.15.2001	07.16.2002 to 07.16.2004	07.16.2002 to 07.16.2011	9.1600	744,760	689,760
	08.03.2001	Fully vested on 03.31.2002	03.31.2002 to 08.01.2011	16.8400	800,000	–
	09.27.2001	09.27.2001 to 09.07.2003	09.27.2001 to 09.07.2011	6.8150	3,600,000	3,600,000
	10.15.2001 to 11.13.2001	10.15.2002 to 10.15.2004	10.15.2002 to 10.15.2011	8.6400	292,000	292,000
	05.10.2002	(Note 4)	04.11.2003 to 04.11.2012	7.9150	231,700	231,700
	06.19.2002	(Note 9)	(Note 9)	10.0900	579,000	279,000
	08.01.2002	08.01.2003 to 08.01.2005	08.01.2003 to 07.31.2012	8.0600	200,000	200,000
	11.13.2002	11.13.2003 to 11.13.2005	11.13.2003 to 11.12.2012	6.1500	7,120,000	7,040,000
	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.3500	–	75,722,000
	09.16.2003	09.16.2004 to 09.15.2006	09.16.2004 to 09.14.2013	4.9000	–	1,190,000
Others	02.20.2001	Fully Vested on 01.22.2002	01.22.2002 to 01.31.2004	16.8400	480,000	480,000
	10.11.2002	Fully vested on 10.11.2002	10.11.2002 to 10.10.2007	8.6165	1,200,000	1,200,000
	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.3500	–	2,200,000

SHARE OPTION SCHEME (continued)**2. Options granted during the year ended December 31, 2003**

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\$
Directors						
So Chak Kwong, Jack	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.3500	12,000,000	4.3500
Yuen Tin Fan, Francis	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.3500	8,534,000	4.3500
Peter Anthony Allen	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.3500	2,000,000	4.3500
Alexander Anthony Arena	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.3500	6,400,000	4.3500
Michael John Butcher	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.3500	8,000,000	4.3500
Chung Cho Yee, Mico	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.3500	5,695,200	4.3500
Lee Chi Hong, Robert	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.3500	5,000,000	4.3500
Sir David Ford	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.3500	2,000,000	4.3500
Employees						
In aggregate	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.3500	79,837,000	4.3500
	09.16.2003	09.16.2004 to 09.16.2006	09.16.2004 to 09.14.2013	4.9000	1,190,000	4.9000
Others						
	07.25.2003	07.25.2004 to 07.25.2006	07.25.2004 to 07.23.2013	4.3500	2,200,000	4.3500

The share options granted are not recognized in the financial statements until they are exercised. The weighted average values per option granted in 2003 and 2002 estimated at the date of grant using the trinomial option pricing model were HK\$2.68 and HK\$4.75 respectively. The weighted average assumptions used are as follows:

	2003	2002
Risk-free interest rate	4.8 percent	5.2 percent
Expected life (in years)	10	10
Volatility	0.44	0.49
Expected dividend per share	–	–

The trinomial option pricing model was developed for use in estimating the fair value of traded options that are fully transferable. 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.

SHARE OPTION SCHEME *(continued)***3. Options exercised during the year ended December 31, 2003**

During the year under review, no share options were exercised by the directors or employees of the Group.

4. Options canceled or lapsed during the year ended December 31, 2003

Name or category of participant	Exercise price HK\$ (Note 11)	Number of options canceled	Number of options lapsed (Note 11)
Director			
John Todd Bonner (Note 10)	22.7600	–	1,000,000
	60.1200	–	480,000
	16.8400	–	480,000
Employees			
In aggregate	11.7800	–	5,223,068
	22.7600	–	900,000
	33.5600	–	216,000
	60.1200	–	645,000
	24.3600	–	1,780,120
	16.8400	–	3,913,140
	10.3000	–	251,240
	9.1600	–	55,000
	16.8400	–	800,000
	10.0900	–	300,000
	6.1500	–	80,000
	4.3500	–	4,115,000

Notes:

- All dates are shown month/day/year.
- Due to the large number of employees participating in the Scheme, certain information such as the date of grant 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.
- The exercise price per share and the number of share options outstanding as at January 1, 2003 have been adjusted as a result of the share consolidation on January 8, 2003 (the "Share Consolidation").
- These options vest in installments during a period starting from the first anniversary of the offer date of such options (the "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.

SHARE OPTION SCHEME (continued)

Notes: (Continued)

10. John Todd Bonner retired as a director of the Company from May 22, 2003. His outstanding 1,000,000 options at an exercise price of HK\$22.7600 per share, 480,000 options at an exercise price of HK\$60.1200 per share and 480,000 options at an exercise price of HK\$16.8400 per share lapsed following his retirement.
11. The exercise price per share and the number of share options which lapsed during the year have been adjusted to reflect the effect of the Share Consolidation.

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.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As at December 31, 2003, the following persons (other than directors or the chief executive of the Company) were substantial shareholders of the Company (as defined in the Listing Rules) and had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Name of shareholder	Note	Number of shares/ underlying shares held	Percentage of issued share capital
Interests			
PCRD	1	1,528,781,132	28.48%
PCG	2	1,549,938,550	28.87%
Short Positions			
PCRD	3	321,176,471	5.98%
PCG	3	321,176,471	5.98%

Notes:

- These interests represented: (i) PCRD's beneficial interests in 1,526,094,302 shares and 679,000 underlying shares held in the form of 67,900 ADRs which constituted listed equity derivatives; and (ii) PCRD's interests through its 45.09 percent owned subsidiary, PCIHL, in 2,007,830 underlying shares in respect of US\$10,000,000 convertible bonds which constituted listed physically settled equity derivatives convertible into shares of the Company.
- These interests represented: (i) PCG's beneficial interests in 20,354,286 shares and 803,132 underlying shares in respect of US\$4,000,000 convertible bonds held by it which constituted listed physically settled equity derivatives convertible into shares of the Company; and (ii) PCG's interests through its controlled corporations (being its wholly-owned subsidiaries, Borsington Limited, Pacific Century International Limited, Pacific Century Group (Cayman Islands) Limited and Anglang Investments Limited, which together controlled 75.32 percent of PCRD) in shares and underlying shares of the Company held by PCRD (as described in Note 1 above).
- PCG was taken to have short positions in the same underlying shares held by its controlled corporation, PCRD, under the SFO pursuant to the arrangements as described in the section headed "DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES".

INTERESTS AND SHORT POSITIONS OF OTHER PERSONS REQUIRED TO BE DISCLOSED UNDER THE SFO

As at December 31, 2003, the following persons (not being directors, the chief executive or substantial shareholders of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Name of shareholder	Note	Number of shares/ underlying shares held	Percentage of issued share capital
Interests			
Intel Capital Corporation	1	291,703,219	5.43%
Intel Corporation	2	291,703,219	5.43%
Short Positions			
Intel Capital Corporation	1	291,703,219	5.43%
Intel Corporation	2	291,703,219	5.43%

Notes:

- Intel Capital Corporation held an interest and a short position in 135,279,496 shares of the Company by way of security and interests and short positions in an aggregate of 156,423,723 shares as beneficial owner. Intel Capital Corporation also had an interest in 114,821,323 shares and a short position in 52,423,723 shares pursuant to certain unlisted physically settled equity derivatives.
- The interests and short positions of its wholly-owned and controlled corporations were attributable to Intel Corporation.

INTERESTS AND SHORT POSITIONS OF OTHER PERSONS REQUIRED TO BE DISCLOSED UNDER THE SFO *(continued)*

Save as disclosed above in this section and the previous section headed "INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS", the Company had not been notified of any other person (other than directors or the chief executive of the Company) who had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO as at December 31, 2003.

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 Y.K. (formerly known as Pacific Century Group Japan Co., Ltd.) ("PCGJ"), Pacific Century Matrix (HK) Limited ("PC Matrix HK"), 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, 2003 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)</i>	HWL and its subsidiaries ("Hutchison Group")	Ports and related services, telecommunications, property and hotels, retail and manufacturing and energy and infrastructure	Certain personal and deemed interests in HWL

Note:

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. Li Tzar Kai, Richard holds one-third of the issued share capital 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.

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\$1.2 million (2002: HK\$0.1 million).

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events are set out in note 40 to the consolidated financial statements.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the listed securities of the Company.

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.

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 has since 2000 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, 2001 and 2002 were set out in the Company's 2001 and 2002 annual reports. Details of the concessions granted by the Stock Exchange for the year 2003 (as modified following the announcement of the Company's interim results for the six months ended June 30, 2003) are described below.

Adoption of De-minimis Concession and Modified Calculation Concession

On April 3, 2003 the Stock Exchange approved the Company's application for the continued application of (A) the De-minimis Concession and (B) the Modified Calculation Concession (the "Approval"), each of which is described in the Company's announcement dated April 7, 2003 (the "April 7 Announcement") for the purposes of, amongst other things, determining the "assets test" and the "consideration test" (the "Relevant Tests") under rules 14.06, 14.09, 14.12 and 14.20 of the Listing Rules and the net tangible assets or net assets (as applicable) under 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 7 Announcement. Following the announcement of the Company's interim results for the six months ended June 30, 2003, the applicable thresholds for the purpose of the Relevant Tests have been modified as detailed in the Company's announcement dated September 3, 2003 and as described below.

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 approved 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, 2003, the percentage ratios and monetary thresholds against which the "gross assets less intangibles and current liabilities of the asset to be acquired or realized" for the "assets test" and the "consideration for the asset to be acquired or realized" for the "consideration test" are to be determined for the purposes of the Modified Calculation Concession to ascertain the applicable type of notifiable transaction (other than connected transactions) for the purposes of Chapter 14 of the Listing Rules are as follows:

- a. ratio of 5 percent or above but below 15 percent (approximately HK\$2,058 million or above but below approximately HK\$6,174 million) – the requirements for discloseable transactions apply;
- b. ratio of 15 percent or above but below 25 percent (approximately HK\$6,174 million or above but below approximately HK\$10,290 million) – the requirements for major transactions apply;
- c. ratio of 25 percent or above (approximately HK\$10,290 million or above) – the requirements for very substantial acquisitions apply; and

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

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

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

- 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\$2,058 million).

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

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. 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 net assets, as applicable, set out in rules 14.24(5), 14.25(1) and 14.25(2)(b)(i) of the Listing Rules (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, 2003, the relevant threshold in sub-item (ii) above is equal to approximately HK\$4.12 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, 2003, the relevant threshold in sub-item (ii) above is equal to approximately HK\$412 million.

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

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

D. Modified Assets Test to Connected Transactions *(continued)*

- 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, 2003, the relevant threshold is equal to approximately HK\$2,058 million.

Period for which the De-minimis Concession and the Modified Calculation Concession will apply

The Stock Exchange's Approval for the adoption of the De-minimis Concession and the Modified Calculation Concession described above remains in effect until the publication or the due date of publication of this annual report, whichever is earlier.

As announced by the Stock Exchange on January 30, 2004, the current Listing Rules have been revised and will take effect from March 31, 2004 onwards. The percentage ratios under the revised Listing Rules deleted the reference to net asset value for both "assets test" and "consideration test" and introduced the reference to total assets and market capitalization. Following the amendment of the Listing Rules, the Company will be able to calculate the appropriate percentage ratios based on its financial statements in accordance with Rule 14.07 of the revised Listing Rules from March 31, 2004.

CONNECTED TRANSACTIONS

In the period since the publication of the Company's 2002 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:

- As disclosed in the Company's 2002 Annual Report, in March 2003, the Company provided a loan of HK\$10 million to Omnalink Technology Limited (a non wholly-owned subsidiary of the Company) for financing its working capital and capital expenditure requirements. 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. On June 17, 2003 and August 13, 2003, the Company provided two additional loans each of HK\$20 million to Omnalink Technology Limited for financing its working capital requirements. Each of these two loans is repayable upon the giving of one month's notice by the Company and bears interest at the prime rate per annum quoted from time to time by The Hongkong and Shanghai Banking Corporation Limited.
- On November 19, 2001 (as disclosed in the Company's 2002 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\$0.07 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 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 2003 PCCW Communications paid approximately HK\$7 million and approximately HK\$0.8 million under the Lease and Display Lease respectively and received approximately HK\$3 million 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.

- As disclosed in the Company's 2002 Annual Report, during the year ended December 31, 2002, PCCW-HKT Limited 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 was unsecured, bore interest at a rate of 1.5 percent above the one month HIBOR rate and was repayable on demand. FIC Network Service, Inc. was dissolved on July 23, 2003 and the funding was written-off.

CONNECTED TRANSACTIONS *(continued)*

4. As disclosed in the Company's 2002 Annual Report, on June 6, 2002, the Company's publicly listed Japanese subsidiary, JALECO LTD. ("JALECO"), provided a guarantee of up to Yen 60 million (approximately HK\$4.4 million) to UFJ Bank for the benefit of B-Factory Inc. (a non wholly-owned subsidiary of JALECO). This guarantee remained in place during the year ended December 31, 2003.
5. During the year ended December 31, 2003, PCCW Services Limited ("PCCW Services") provided certain staff, administrative and support services to PC Matrix HK. The services were provided on normal commercial terms and were within the ordinary course of business of PCCW Services and PC Matrix HK. For the year ended December 31, 2003, the total charges for such services amounted to approximately HK\$12 million in respect of which PC Matrix HK had paid approximately HK\$12 million as at December 31, 2003. Li Tzar Kai, Richard's interests in the issued share capital of PC Matrix HK was increased from 70 percent to 100 percent in May 2003. As PC Matrix HK is an associate of Li Tzar Kai, Richard, it is a connected person of the Company.
6. During the year ended December 31, 2003, the Group paid to PCI insurance premiums amounting to approximately HK\$4.6 million in respect of group life and medical insurance (including clinical and hospitalization) coverage for employees of the Group. PCI is a wholly-owned subsidiary of PCIHL, of which PCRD held approximately 45 percent as at December 31, 2003. 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, 2004 paid to PCI insurance premiums in respect of the current financial year amounting to approximately HK\$2.3 million.

7. 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 guarantees on Tower A and Tower B expired in 2001 and 2002 respectively. The two-year rental guarantee of not less than US\$12,028,526 (approximately HK\$93 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).

8. 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.
9. On April 8, 2003, the Company provided a loan of RMB100 million to Unihub Global Network Technology (China) Limited (a non wholly-owned subsidiary of the Company) for financing its working capital and capital expenditure requirements. 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.
10. On September 11, 2003, a non wholly-owned subsidiary of the Company, Unihub China Information Technology Company Limited ("UCIT") entered into an agreement with China Telecom Group Beijing Corporation ("CTB"), pursuant to which UCIT agreed to provide certain equipment services to CTB for approximately RMB22.5 million (approximately HK\$21 million). As at the date of the agreement and up to December 31, 2003, CTB was a wholly-owned subsidiary of China Telecommunications Corporation ("China Telecom") which indirectly held 50% equity interest in UCIT. As CTB is an associate of China Telecom, CTB was a connected person of the Company. Further details of this transaction were set out in the Company's announcement dated September 16, 2003.
11. On September 12, 2003, UCIT entered into an agreement with Jiangsu Telecom Company Limited ("JTCL"), pursuant to which UCIT agreed to provide certain systems integration and other services to JTCL for approximately RMB8.5 million (approximately HK\$8 million). At the time the agreement was entered into by the parties, JTCL was an indirect non wholly-owned subsidiary of China Telecom. JTCL was an associate of China Telecom and therefore was a connected person of the Company. Further details of this transaction were set out in the Company's announcement dated September 16, 2003.

CONNECTED TRANSACTIONS *(continued)*

- 12.** On September 18, 2003, UCIT entered into an agreement with Zhejiang Telecom Company Limited (“ZTCL”), pursuant to which UCIT agreed to provide certain consultancy services to ZTCL for approximately RMB4.8 million (approximately HK\$4.5 million). On the same day, UCIT entered into another agreement with ZTCL, pursuant to which UCIT agreed to provide certain equipment installment and related services to ZTCL for approximately RMB9.2 million (approximately HK\$8.7 million). At the time the agreements were entered into by the parties, ZTCL was an indirect non wholly-owned subsidiary of China Telecom. ZTCL was an associate of China Telecom and therefore was a connected person of the Company. Further details of these transactions were set out in the Company’s announcement dated September 19, 2003.
- 13.** On September 22, 2003, PCCW (Beijing) Limited (“PCCW Beijing”) entered into an agreement with China Unicom Corporation Limited Guangdong Branch (“CUCL”) and China Unicom Import & Export Co., Ltd. (“UEIL”), pursuant to which PCCW Beijing agreed to provide certain hardware, database software, systems integration and other related services to CUCL and UEIL for approximately RMB7.1 million (approximately HK\$6.7 million). At the time the agreement was entered into by the parties, both CUCL and UEIL were subsidiaries of China United Telecommunications Corporation (“CUTC”). Each of CUCL and UEIL was a connected person of the Company as (a) China United Telecommunications Corp. (HK) Limited (“CUTCHK”), an indirect non wholly-owned subsidiary of CUTC, was a substantial shareholder of ChinaBiG Limited (“ChinaBiG”); and (b) Unicom Xing Ye Science & Technology Company Limited (“UXYST”), an indirect non wholly-owned subsidiary of CUTC, was a substantial shareholder of Unicom Yellow Pages Information Co., Ltd. (“Unicom Yellow Pages”). ChinaBiG and Unicom Yellow Pages were both non wholly-owned subsidiaries of the Company. Therefore, each of CUCL and UEIL was a connected person of the Company as they were associates of each of CUTCHK and UXYST. Details of this transaction were set out in the Company’s announcement dated December 31, 2003.
- 14.** On September 24, 2003, UCIT entered into an agreement with China Telecom, pursuant to which UCIT agreed to provide certain planning, design and implementation services to China Telecom for approximately RMB2.7 million (approximately HK\$2.6 million). Further details of this transaction were set out in the Company’s announcement dated September 24, 2003.
- 15.** On September 24, 2003, UCIT entered into an agreement with China Telecom and China International Telecommunication Construction Corporation (“CITCC”), pursuant to which UCIT agreed to provide certain equipment and related installation services to China Telecom and CITCC for approximately RMB55.5 million (approximately HK\$52.4 million). Further details of this transaction were set out in the Company’s announcement dated September 24, 2003.
- 16.** On November 4, 2003, UCIT entered into an agreement with Guangdong Telecom Company Limited (“GTCL”), pursuant to which UCIT agreed to provide certain systems integration and other services to GTCL for approximately RMB9 million (approximately HK\$8.5 million). On December 30, 2003, UCIT entered into another agreement with GTCL, pursuant to which UCIT agreed to provide certain solutions, project management and consultancy services and other related services to GTCL for approximately RMB31.8 million (approximately HK\$30 million). At the time each of the agreements was entered into by the parties, GTCL was an indirect non wholly-owned subsidiary of China Telecom. GTCL was an associate of China Telecom and therefore was a connected person of the Company. Further details of this transaction were set out in the Company’s announcements dated November 4, 2003 and December 31, 2003 respectively.

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. Following the amendments to the Company’s Articles of Association with effect from January 7, 2003, the directors (including non-executive directors) are subject to retirement by rotation and shall be eligible for re-election at each annual general meeting.

AUDITORS

Arthur Andersen & Co acted as the Auditors of the Company in respect of the financial year ended December 31, 2001. The financial statements for the financial years ended December 31, 2002 and 2003 have been audited by PricewaterhouseCoopers who will retire upon the conclusion of the forthcoming annual general meeting. 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

Hubert Chak

Company Secretary

Hong Kong,

March 4, 2004