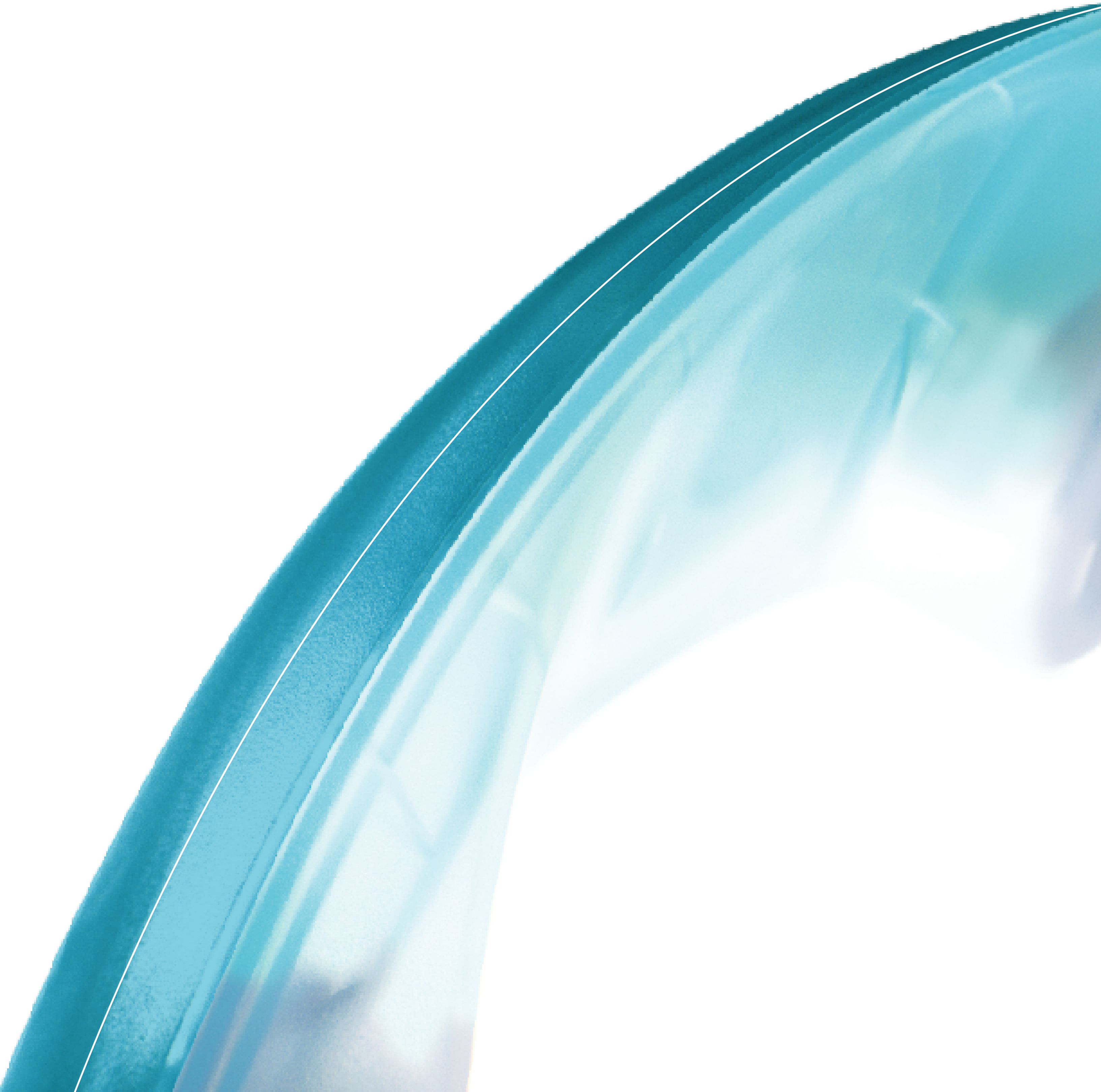
PCCW

clear lines

Annual Report 2002



1 Corporate Overview
2 Significant Events 2002
3 Financial Highlights
4 Corporate Profile
6 Chairman's Statement
8 PCCW at a Glance
10 Business Overview
28 Asia and Beyond
30 People Development
32 Community and Environment
34 Management's Discussion and Analysis
54 Board of Directors
58 Corporate Governance
61 Financial Information

FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements as defined in Section 27A of the US Securities Act of 1933, as amended, and Section 21E of the US Securities Exchange Act of 1934, as amended. These forward-looking statements are not historical facts. Rather, the forward looking statements are based on the current beliefs, assumptions, expectations, estimates and projections of the directors and management of PCCW Limited (the 'Company') about its business and the industry and markets in which it operates. These forward-looking statements include, without limitation, statements relating to revenues and earnings. The words "believe", "intend", "expect", "anticipate", "project", "estimate", "predict" and similar expressions are also intended to identify forward-looking statements.

These statements are not guarantees of future performance and are subject to risks, uncertainties and other factors, some of which are beyond the Company's control and are difficult to predict. Consequently, actual results could differ materially from those expressed, or forecast, in the forward-looking statements. Factors that could cause actual results to differ materially from those reflected in the forward-looking statements include: (a) increased competition from regulatory changes in the Hong Kong telecommunications markets and the Company's ability to deal with the negative effects of those changes; (b) the continuing effects of the currently contemplated regulatory initiatives relating to broadband access services; (c) the Company's ability to execute its business strategy including its ability to enter into business combinations, strategic investments and acquisitions; (d) the Company's ability to implement its business plan as a consequence of its substantial debt; (e) the risk of significant increase in interest rates as most of the Company's outstanding debt and guarantee obligations bear interest at a floating rate; (f) the risks related to the funding requirement of the Company's development of the Cyberport project, as affected by factors such as the demand for, and pricing of, the residential units for pre-sale and sale, and the overall costs and expenditures relating to the project and other obligations under the project agreement with the Hong Kong Government; (g) the adverse effect on the profitability of the Company's Internet protocol backbone joint venture business as a result of an increasingly competitive market; (h) the Company's ability to pursue its strategy with respect to some investments in which it shares control or does not have a controlling interest; and (i) the Risk Factors set out in the "Risk Factors" section of the Company's 2001 annual report on Form 20F, as filed with the United States Securities and Exchange Commission on July 1, 2002 and published on the Company's website. Reliance should not be placed on these forward-looking statements, which reflect the view of the Company's directors and management as of the date of this report only. The Company undertakes no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after publication.

Exchange Rates

This report contains translations of certain Hong Kong dollar amounts into US dollars, and vice versa, at the fixed rate of US$1 = HK$7.80, solely for illustrative purposes. This does not mean that the currency conversions have been, or could be, converted at that rate or at any other rate of exchange.

PCCW Limited (PCCW or the Company) is the largest telecommunications provider in Hong Kong and is recognized as one of Asia's leading integrated communications companies.

PCCW and its subsidiaries (the Group) generated HK$20,112 million (approximately US$2,578 million) in revenues during 2002.

Backed by a solid balance sheet and cash reserves of approximately US$1 billion, the Group employs approximately 11,600 staff worldwide. The ordinary shares of PCCW are listed on The Stock Exchange of Hong Kong Limited (SEHK: 0008), and in the form of American Depositary Receipts (ADR) on the New York Stock Exchange, Inc. (NYSE: PCW).

Significant Events 2002

February

PCCW and China Petroleum and Chemical Corporation (Sinopec) sign an agreement in Beijing to form the PCITC alliance to provide IT services in mainland China. PCITC is 55 percent owned by Sinopec, with 45 percent indirectly held by PCCW.

A consortium led by PCCW's Business eSolutions wins an IT contract worth HK$163 million from the Government of the Hong Kong Special Administrative Region (the Hong Kong Government) for the provision of hardware, software and services for Hong Kong's future Smart Identity Card System (SMARTICS).

March

PCCW's broadband portal service ***now.com.hk*** expands its international content with five channels – *MTV, Fashion TV, Nickelodeon, BBC World* and *Bloomberg Television*. The five 24-hour channel services are offered in real-time to *now.com.hk* subscribers at no extra cost to the standard monthly fee.

April

Internet-access service provider **NETVIGATOR** broadens its offering of value-added services by making Wireless LAN broadband – known as wi-fi – Internet 'hotspot' connectivity available in 50 retail outlets.

PCCW announces the appointment of Chief Operating Officer (COO) **Michael J Butcher**. He is a member of the Company's Executive Committee.

June

NETVIGATOR announces that it has boosted its number of Hong Kong wi-fi (Wireless LAN) hotspots to approximately 100 by teaming up with Swire Properties Ltd to offer Internet access at its major shopping and office developments.
PCCW entered into and completed an agreement to sell its 40 percent stake in **Joint Venture (Bermuda) No.2 Limited (RWC)** to its strategic partner Telstra Corporation Limited (Telstra) for approximately HK$4.79 billion (approximately US$614 million). The transaction resulted in a reduction of PCCW's debt, and sharpened the Company's focus on its core businesses.

July

PCCW and China Telecommunications Corporation (China Telecom), China's largest fixed-line network operator, announce intent to form a venture to provide IT business solutions to PCCW and China Telecom customers in the finance sector, including banks, insurance companies and securities firms, in mainland China.

PCCW announces the appointment of **Robert CH Lee** as chairman of PCCW Infrastructure. Mr Lee, former executive director of Sino Land, assumed his new position on August 19.

September

PCCW announces an initiative under which some staff are offered the opportunity to set up their own companies, with guaranteed contracts to provide services as **independent subcontractors.** The move involved approximately 1,600 PCCW employees forming 17 independent companies.

November

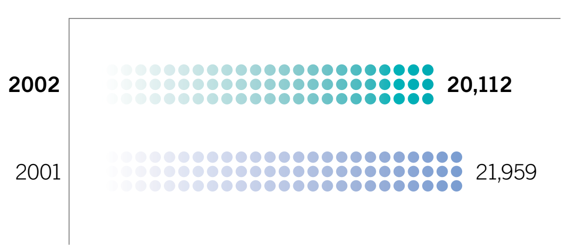
PCCW announces the formation of wholly-owned subsidiary **Cascade Limited (Cascade),** which, at its January 2003 launch, became one of Asia Pacific's leading technical services companies.

Financial Highlights

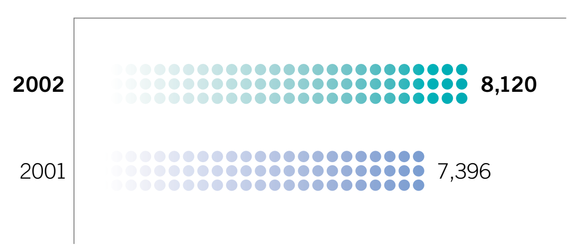
For the year ended December 31, 2002

(Amounts expressed in millions of Hong Kong dollars except for (loss)/earnings per share)	**2002**	2001 (Restated)
Turnover	**20,112**	21,959
Operating profit before net gains on investments, provision for impairment losses and restructuring costs	**5,212**	4,774
Gains on investments, net	**13**	767
Provision for impairment losses	**(534)**	(91)
Restructuring costs	**(311)**	–
Profit from operations	**4,380**	5,450
Finance costs, net	**(1,997)**	(3,056)
Share of results of jointly controlled companies	**550**	523
Share of results of associates	**281**	158
Share of results of unconsolidated subsidiaries	**–**	152
Impairment loss for goodwill attributable to the interest in Reach Ltd.	**(8,263)**	–
Losses on disposal of interests in RWC and MobileOne Ltd., net	**(1,433)**	–
(Loss)/Profit before taxation	**(6,482)**	3,227
Taxation, as previously stated	**(1,406)**	(1,433)
Prior period adjustment arising from adoption of new accounting standard for deferred taxation	**–**	(549)
Taxation, as restated	**(1,406)**	(1,982)
(Loss)/Profit after taxation	**(7,888)**	1,245
Minority interests	**126**	98
(Loss)/Profit for the year attributable to shareholders	**(7,762)**	1,343
Basic (loss)/earnings per share	**(168.53 cents)**	30.01 cents
Diluted earnings per share	**N/A**	29.11 cents

Turnover
HK$ million



EBITDA*
HK$ million



* Please refer to Note 1 on page 35 for definition of EBITDA.

Corporate Profile

PCCW is the largest telecommunications provider in Hong Kong and is recognized as one of Asia's leading integrated communications companies. Its 2002 consolidated turnover was HK$20,112 million (approximately US$2,578 million). Ordinary shares of PCCW are listed on The Stock Exchange of Hong Kong Limited (SEHK: 0008), with an ADR listing on the New York Stock Exchange, Inc. (NYSE: PCW). The Group comprises the following main business areas:

Telecommunications Services (TSS)

TSS is the largest provider of fixed-line services in Hong Kong. With the most extensive digital network in Hong Kong, and a broadband network that covers almost all Hong Kong households, TSS provides services including local telephony, local data, international telecommunications, contact centers, business consulting and customer premises equipment sales. Its local data services include Internet access and multimedia content.

In late 2002, PCCW focused on the network expertise of TSS's Network and Services Business to create one of Asia's leading technical services companies, in terms of size and experience.

Opening for business on January 1, 2003, Cascade provides PCCW's telecommunications network operations with support and maintenance services, ensuring its world-class 99.999 percent network availability rate. In addition, Cascade is pursuing business opportunities in Hong Kong and throughout Asia Pacific.

Business eSolutions

This unit encompasses systems integration, applications development, network integration and application management services, as well as Internet Data Centers in Hong Kong and Greater China. It provides integrated communications and IT services in four main areas – finance, public sector, telecoms and enterprise.

Backed by PCCW's considerable telecommunications experience, this unit is in the business of designing, building and operating systems solutions and applications.

Business eSolutions is involved in PCCW's IT&T expansion in Greater China and has played central roles in forming IT ventures with China Telecom, plus Sinopec.

The Group's business broadband Internet access and telecoms directory businesses are also part of this division.

Infrastructure

PCCW Infrastructure manages an infrastructure and property portfolio in Hong Kong and Greater China. It works to boost financial returns from PCCW's property assets, while reducing real estate costs of other PCCW business units.

PCCW Infrastructure also engages in developments such as the Cyberport project, which is now well under way in conjunction with the Hong Kong Government. Cyberport is a campus-style, low-density project tailored to the IT industry. It is made up of commercial, retail, hotel, entertainment and residential facilities. The development covers a total of 5.7 million square feet and is designed to attract and nurture IT and multimedia-related activities in Hong Kong.

Phase-one of Cyberport's commercial sector, comprising about 250,000 square feet of office space, was completed in early 2002, while early sales of the development's Residence Bel-Air units commenced in early 2003.

In October 2001, PCCW Infrastructure opened Pacific Century Place Beijing, a two-million-square-feet multipurpose complex in China's capital city, providing office space, residential accommodation and retail outlets.

Asia and Beyond (Others)

Specialized PCCW units operate on a regional and global scale.

For example, Reach Ltd. (REACH) – our 50:50 strategic alliance with Australia's Telstra – is Asia's largest international carrier of combined voice, private line and IP data services.

REACH's extensive portfolio of products and services also includes satellite connectivity. The company has interests in more than 50 submarine cable and satellite systems, including the largest satellite earth station in Asia, plus operating licenses, backhaul and landing rights in most major markets including Japan, Korea, Taiwan, Hong Kong, Singapore, Australia, North America and Europe.

REACH is headquartered in Hong Kong, with a significant business presence in Australia and offices across North America, Europe, and Asia.

PCCW also has communications interests in India, and is active in the online and console games business via PCCW Japan (JASDAQ: 7954).

Chairman's Statement

Dear Fellow Shareholders,

I am proud to deliver this year's annual report.

The world has heard nothing but gloom from the telecommunications and IT industry over the last year.

It *was* a difficult year. PCCW knows that because we work in a fiercely competitive environment under harsh economic conditions. Nevertheless, we fulfilled our promises.

- **We said we would continue to reduce debt – and we did.**
- **We said we would continue to improve free cash flow – and we did, on the strength of improved operating profitability.**
- **We said we would achieve organic growth – and we did, in broadband and Business eSolutions.**

Even as revenues fell, we increased operating profits and were able to report a 10 percent improvement in EBITDA, plus a 6 percent improvement in EBITDA margin.

Those improved operating results enabled us to pay down net debt[1] by 16 percent in 2002.

Economic conditions in year 2002 demanded some difficult decisions by the Company. The most recent example was the write-down in our REACH investment which resulted in a loss attributable to PCCW shareholders for the year of HK$7,762 million (approximately US$995 million).

But the operating profit[2] in our on-going business actually increased 9 percent in 2002 to HK$5,212 million (approximately US$668 million).

Our core free cash flow – that is, cash flow before including the investment in Cyberport – was expected in May to be HK$1,950 million (approximately US$250 million) for 2002. But we exceeded that expectation and achieved a core free cash flow of HK$3,351 million (approximately US$430 million).

We spent cautiously, managed efficiently and made sure we had the means to preserve the investment-grade credit rating of PCCW–HKT Telephone Limited (HKTC). Our debt reduction and ratings goals remain the same. What has changed is that the global political and economic situation has become increasingly uncertain. Bearing that in mind, we believe it prudent to continue to strengthen our balance sheet in the interests of shareholders. Therefore, we will not pay a dividend in 2004. Our objective remains to pay a dividend in the medium term. To do so we must continue to make significant progress towards further debt reduction and achieving the desired 'A' credit rating for HKTC's debt.

PCCW continues to perform well, contain costs and navigate through a difficult regulatory and economic environment, while delivering quality service.

Looking back to 2001, we became more customer-focused, developed our systems-integration business, kick-started growth in broadband, restructured our balance sheet and began operating more efficiently.

In 2002, we built on those achievements under the leadership of a revitalised management team.

Now looking forward, our primary objectives include debt reduction, along with prudent financial management and improving free cash flow through efficiencies, while limiting our future direct funding of Cyberport. We will also continue to look for ways to improve revenue by offering new products and services and by considering investments consistent with our financial priorities and strict criteria of investment.

Here is how we performed on meeting our main objectives for 2002, as laid out in last year's annual report:

We promised to improve our balance sheet

We reduced our net debt to US$4.22 billion at year-end 2002, from approximately US$8 billion after the merger with Cable & Wireless HKT Limited (HKT) in August 2000 (at which time gross debt included the bridge loan of US$12 billion). In addition, we strengthened our balance sheet by refinancing on better terms and by prepaying and lengthening the maturities of debt.

During 2002, we continued to refinance, or prepay, and reduce net debt from US$5.04 billion to US$4.22 billion year-on-year. We followed this in early 2003 by raising US$456 million through a private placement of a 10-year bond and a US$385 million term loan facility. Both were raised at the PCCW level and for general corporate purposes. These transactions demonstrate PCCW's ability to obtain long-tenured funding at attractive pricing levels.

Over the past two years, we have extended debt maturities through opportunistic financing, while making debt payments through internal cash flows. All this has been achieved while retaining cash reserves which currently total more than US$1 billion.

We promised greater efficiencies

Last year, PCCW decided to close businesses that were unlikely to contribute to our long-term growth. Then, we reset staffing levels for optimum efficiency from approximately 14,600 to approximately 11,600.

This included the creation of 17 commercial subcontracting companies which is expected to provide annualized savings in operating costs.

We also improved performance efficiency within our network-services workforce by creating Cascade, one of Asia's most capable technical services companies. It is now 'open for business' across the region, while continuing to serve PCCW.

We promised to provide innovative new products and services

Early in 2002, we unveiled our ConXerto Commerce Product Suite, which enables customers, designers, engineers and executives in different locations to work online simultaneously. This 'online collaboration' helps businesses achieve faster product development and better sharing of information. We also agreed to provide tailormade, managed-network solutions to LG.Philips Displays International Limited, linking 46 locations around the world.

On the consumer side, we expanded our wi-fi (Wireless LAN) coverage to more than 200 locations around Hong Kong, enabling people with laptops and handheld devices to get high-speed Internet-access without the need of a cable or phone-socket. And PCCW's total number of broadband access lines has risen to more than 559,000 – up 39 percent from 2001.

We promised growth, particularly in the Greater China IT&T sector

We made progress through our Business eSolutions unit, which spearheads our IT&T drive in Hong Kong and beyond. In February 2002, a PCCW-led consortium won a HK$163 million contract from the Hong Kong Government to provide hardware, software and services for the city's new computer-chip ID card (SMARTICS).

Later that same month, we formed an IT venture with Sinopec, one of China's largest energy and petrochemical companies. In July, we followed up with an agreement for a venture with China Telecom to provide IT solutions to China's finance sector. These agreements – plus our representative offices in Shanghai, Beijing and Guangzhou – are expanding our footprint in Greater China, one of the world's fastest-growing IT markets.

We continue to evaluate Business eSolutions opportunities to grow our presence in mainland China. Our timing is good – mainland China's IT services market is expected to show healthy growth in the next five years.

And the two major IT alliances we announced in 2002 – with China Telecom and Sinopec – are poised to serve the high-growth areas of finance, public sector, telecoms and enterprise.

Our position is further strengthened by operations in Hong Kong, making PCCW the ideal partner to provide IT&T solutions in Greater China.

We will seek better ways to boost the value of our offerings to customers, regardless of whether we serve them with large-scale solutions for their multinational corporations, or with a single fixed-line for their homes. For example, we are studying a number of exciting initiatives, including advanced wi-fi possibilities to provide customers with more flexible ways to enjoy high-speed Internet.

This Company has been getting into shape to handle itself well in a tough market and economic climate.

Our management believes that when conditions improve, PCCW will be fit and ready to turn opportunities into rewarding growth for its customers, shareholders and employees.

Sincerely,

Richard Li
Chairman and Chief Executive
March 20, 2003

1 Please see note 2 on page 35 for definition of net debt.

2 Operating profit before net gains on investments, provision for impairment losses and restructuring costs.

PCCW at a Glance

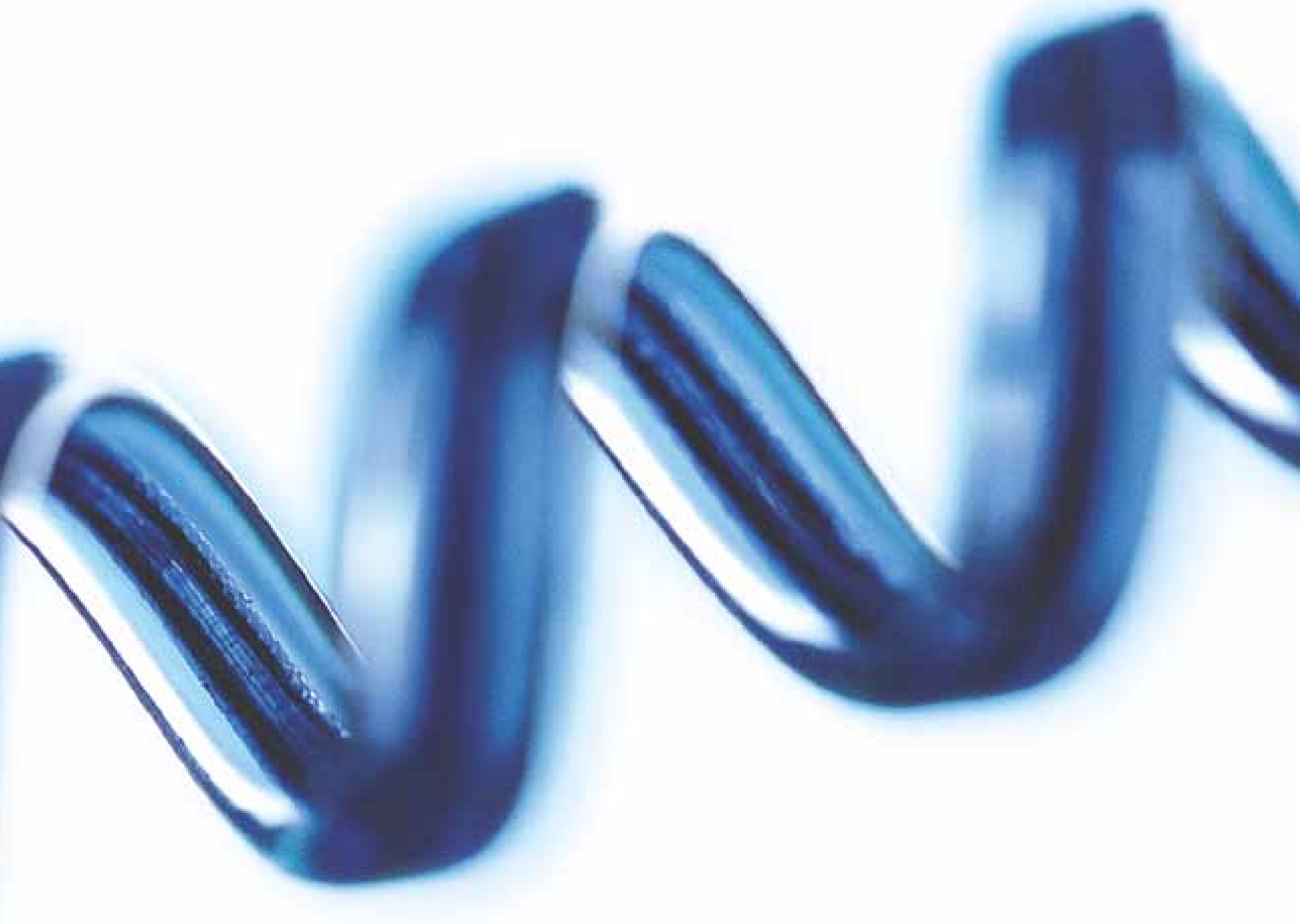
	2002 Highlights
Telecommunications Services (TSS) TSS provides local telephony and data, international telecommunications and other services	■ HK$18,007 million (approximately US$2,309 million) in revenues ■ Creation of Cascade, one of Asia's leading technical services companies ■ Implemented efficiency improvements and improved marketing efforts to reduce costs and enhance customer service
Local telephony Services include network infrastructure design, build-out and maintenance, consulting solutions, customer installation and maintenance services, project management, operating systems development and maintenance and technical support	■ HK$6,849 million (approximately US$879 million) in revenues, a decrease of 9 percent year on year ■ Became the first technical services provider in Asia to hold TL9000 certification
International telecommunications Provides outgoing IDD, retail international data services and termination of incoming international calls	■ HK$3,557 million (approximately US$456 million) in revenues, a reduction of 20 percent from 2001. This was mainly due to significant price competition in the retail IDD market and downward pricing pressure on international data products
Local data Provides data and network services, with wholesale broadband access lines utilizing PCCW's fiber-optic network	■ HK$4,457 million (approximately US$571 million) in revenues, representing an increase of 4 percent over previous year
Internet Access Services Provides broadband and narrowband Internet access and value-added services	■ A total broadband and narrowband Internet-access customer base of approximately 780,000 in Hong Kong as of end 2002 ■ Introduced four new value-added services for NETVIGATOR customers
Business eSolutions Provides end-to-end solutions from systems integration, application development, network integration, outsourcing and application management services and enterprise applications to meet requirements across Asia	■ Revenues of HK$2,234 million (approximately US$286 million) up 15 percent from 2001 ■ Hong Kong contracts include Hong Kong Special Administrative Region Smart Identity Card and Cyberport IT Infrastructure project
Internet Data Centers Provides managed hosting, security, network and facilities management and monitoring services to Greater China customers through the *Power***b@se** brand	■ Integrated into Business eSolutions to provide customers with seamless IT systems and hosting services
Infrastructure PCCW Infrastructure manages an infrastructure and property portfolio in Hong Kong and China. Activities include developments such as Hong Kong's technology-themed Cyberport	■ Revenues of HK$685 million (approximately US$88 million) as of year end 2002 ■ 173-room le Meridien Hotel 'topping-out' ceremony staged at Cyberport
REACH REACH, a 50-50 venture formed with Australia's Telstra, is Asia's largest international carrier of combined voice, private line and IP data services	■ Revenues of HK$9,854 million (approximately US$1,263 million) as of year end 2002 ■ PCCW's 50 percent share of profit before tax for 2002 was HK$738 million compared to HK$706 million for the 11-month period ended December 31, 2001

	2003 Objectives
■ HK$8,903 million (approximately US$1,142 million) in EBITDA ■ Continued rebalance of business, reducing reliance on IDD revenues to focus on growth through investments in value-added services, data, and broadband access services	■ Maximise profitability in competitive environment ■ Cascade to work on capturing additional contracts throughout Asia ■ Continued emphasis on quality and innovation – reinforce premium brand awareness
■ Became first in Hong Kong to launch local IP services ■ Established itself as a leader in Asia Pacific IP-Virtual Private Network (IP-VPN) services by launching regional IP-VPN offerings in early 2002	■ Continued world-class service levels
■ The Group has been able to sustain its market share in the competitive IDD market in 2002 through customer retention and win-back programs	■ Sharper focus on promotions to retain and win back customers in this fiercely competitive market
■ Local bandwidth sold increased by 23 percent from approximately 140 Gigabits per second (Gbps) to approximately 172 Gbps year-on-year	■ Continue to increase bandwidth sales
■ 39 percent growth in broadband access lines ■ Created more than 200 wi-fi (wireless LAN) hotspots	■ Continued growth in broadband market ■ Grow wi-fi, wireless broadband, offerings
■ Pivotal role in creation of major IT&T alliances in mainland China	■ Continued IT expansion into Greater China ■ Continued emphasis on fast-growing sectors – finance, enterprise, telecoms and public sector
■ *Power***b@se** won service contracts to design and build Internet data centers for a major telecoms provider (March 2002) and a major mobility provider (December 2002) in mainland China	■ Extend the *Power***b@se** brand into Greater China through alliances and ventures
■ Phase-one of the Cyberport commercial sector completed ■ Improved financial returns from PCCW's property assets while reducing real-estate costs of other business units	■ Positive start to Cyberport residential (Residence Bel-Air) sales ■ Remainder of commercial portion of Cyberport to be completed in 2003 and 2004
■ PCCW wrote down the value of its 50 percent investment in REACH by HK$8,263 million	■ REACH remains a strategic asset for PCCW

Business Overview

Telecommunications Services (TSS)

- ✔ Formed Cascade, one of Asia's leading technical services companies
- ✔ Broadband access line growth of 39 percent for 2002
- ✔ Established as a leader in Asia Pacific IP-VPN services by launching regional offerings in 2002
- ✔ Creation of more than 200 wi-fi (wireless LAN) hotspots
- ✔ Award-winning contact-center business maintains quality service with lower cost base
- ✔ PCCW's venture with Sinopec, PCITC, achieved revenue of Rmb166 million



shaping the line

PCCW has one of the world's highest home penetration rates in terms of numbers of households able to enjoy broadband services on their ordinary copper phonelines

Ken Ho General Manager, CPE, Commercial Group

PCCW's TSS is the market leader of fixed-line telecommunications services in Hong Kong.

Utilizing fiber-optic, TSS has invested heavily to build a fully-digital network.

Some US$5 billion has been invested in infrastructure over the past 10 years.

The aim is to deliver value-added voice and data services to businesses and households throughout Hong Kong.

Our high-speed broadband capability is able to serve all major business areas and more than 95 percent of Hong Kong homes.

In fact, the PCCW Group has one of the world's highest home-penetration rates, in terms of numbers of households able to enjoy broadband services on their ordinary copper phonelines.

TSS provides a full range of local and international premium products and services, backed by world-class service-level guarantees and award-winning customer support.

In mainland China, PCCW holds 45 percent of PCITC, an IT venture with Sinopec.

Based in Beijing, PCITC's role is to support and facilitate the daily IT operations of Sinopec, as well as to seek other opportunities across mainland China's petrochemical industry.

PCITC strengthens PCCW's presence in the mainland China market, while helping Sinopec to boost its own competitiveness through better use of IT. PCITC achieved revenue of RMB166 million in 2002 and was instrumental in the implementation of Enterprise Resource Planning (ERP) systems for Sinopec.

Local Telephony

- **Maintained world-class customer service**
- **Retained 82 percent market share in a fiercely-competitive arena**
- **Improved customer win-back effectiveness.**

PCCW's fully-digital, 580,000-kilometre fiber-optic fixed network is seen as one of the most sophisticated and competitive networks in the world, and is an asset to Hong Kong.

The total number of PCCW direct exchange lines decreased by 10 percent year-on-year from approximately 3,489,000 to approximately 3,138,000, representing a total, residential-plus-business market share of approximately 82 percent.

With 120 years of telephone network-operating expertise behind it, PCCW intends to expand its telecommunications capability into Greater China and beyond.

International Telecoms Services

- **Retail IDD minutes dropped by 4 percent compared to 2001 but the PCCW Group maintained its IDD leadership position in market share with profit at healthy margins**
- **Achieved non-dominant status from local regulator, enabling greater flexibility in the packaging and pricing of products and services**
- **Launched new International Call Forwarding value-added service to expand to mobile phones.**

The international calls market continued to be fiercely competitive in 2002, but PCCW maintained its lead in terms of volume and revenue.

The market responded well to the promotions we launched to retain, and win customers back.

The Company generated customer trust when it refused to push up prices immediately after China's IDD rates soared in November 2002. PCCW's calm approach to the issue paid off when those IDD rate increases were eventually lowered.

The Group also provides international connectivity services through wholly-owned subsidiaries Corporate Access and Beyond the Network. Details can be found on page 29.

Local and International Data

Within Hong Kong, PCCW serves as a backbone for corporate data networks, providing broadband-based IP-VPN, frame relay and ATM (Asynchronous Transfer Mode) solutions.

Demand for wholesale and retail broadband Internet access continued to be strong in 2002, with the total number of broadband lines increasing 39 percent year-on-year, from approximately 402,000 to more than 559,000.

PCCW is the market leader in wholesale broadband, with more than 95 percent of Internet service providers using our services to connect their customers.

Bandwidth volume used by customers rose 23 percent over the previous year.

Outside Hong Kong, the Group provides International Managed Bandwidth Services and International Private Leased Circuits to more than 150 destinations. In 2002, it extended its 100 percent service guarantees to all these locations.

In April, the Group worked with Beijing Communications Corporation (BCC) to provide a 100 percent, door-to-door, service-level commitment for international leased lines, as well as ATM and frame relay services between Hong Kong and Beijing. This marked the very first alliance for BCC with a company outside mainland China to provide such a commitment to customers.

IP-VPN

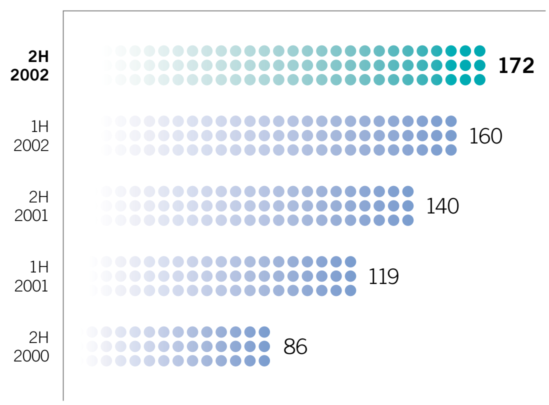
In March, PCCW launched its IP-VPN service in mainland China and throughout Asia Pacific.

Supporting multiple services with speeds of 64Kbps to 1Gbps, this provides customer organizations with a high-value, private IP network.

PCCW's IP-VPN and secure Managed Firewall offerings utilize PCCW's high-capacity and resilient global IP backbone, mostly supplied by REACH (see page 28).

PCCW's IP-VPN enables quick and efficient use of a wide range of applications including mission-critical Enterprise Resource Planning (ERP) and Customer Relationship Management (CRM), high-quality video-conferencing, voice over IP, email, intranet and web-based applications.

Data services: a PCCW growth engine
Local data Gbps (gigabits per second)



Internet Access Services

Hong Kong leads the world in high-speed Internet connections, and PCCW is one of Asia's top broadband providers. Hong Kong had an estimated 989,115 registered broadband Internet access customers from households and offices at year-end 2002, based on statistics from Hong Kong's Office of the Telecommunications Authority (OFTA). Of that total, more than 559,000 were PCCW's retail and wholesale customers.

NETVIGATOR

- **NETVIGATOR consolidated its position as Hong Kong's No.1 Internet service provider**
- **New value-added services in demand, including Parental Control, NETSee, Mailguard and NetAlbum**
- **NETVIGATOR wins the *Best ISP Award* from *Next Magazine*, plus the prestigious *Top Service Gold Award*, as well as being honoured by *Computerworld* magazine in its *Readers' Choice Award* in the ISP category.**

The Group's Internet access services in Hong Kong are offered primarily through high-speed broadband, plus more than 200 wi-fi hotspots. All these are provided under the award-winning NETVIGATOR Internet service provider brand.

NETVIGATOR broadband consumer customers increased from approximately 311,000 to approximately 424,000, up 36 percent from the previous year. NETVIGATOR introduced value-added services such as: Parental Control, which filters undesirable Internet materials; NETSee, enabling video Internet communications; Mailguard, to block unwanted emails; and NetAlbum, which stores digital images.

NETVIGATOR's value-added services registered more than 250,000 subscriptions as of December 31, 2002.

now.com.hk

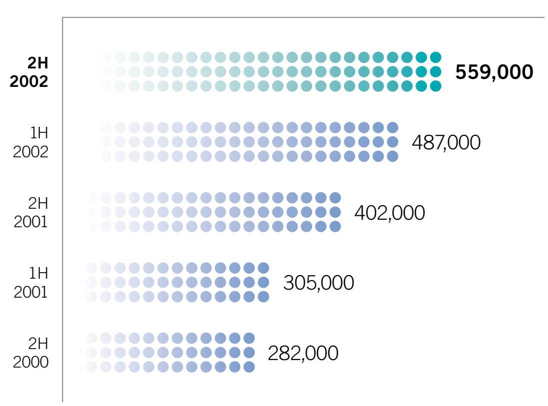
- **Customer numbers growth of 79 percent against 2001**
- **Content addition includes exclusive, local-based drama series and entertainment features, generating large viewership**
- **Added *pda.now.com.hk* to provide streaming content for PDA users in PCCW's wi-fi hotspots.**

The Group's *now.com.hk* has emerged as Hong Kong's premier broadband entertainment portal, offering steady speeds of up to 800Kbps.

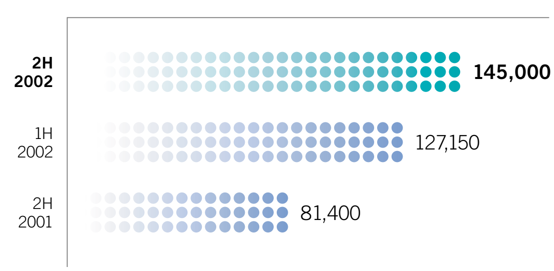
now.com.hk provides a wide variety of interactive local and international entertainment and information, on demand and round-the-clock.

Designed for NETVIGATOR users of all ages, this portal offers more than 2,000 programs to customers, displayed in a full-screen, high-quality format.

Service in growing demand
PCCW total broadband subscribers



Internet at the speed of life
now.com.hk subscriber growth



Since its launch in the second half of 2001, *now.com.hk* has grown its customer base from approximately 81,400 to approximately 145,000 as of year end 2002.

Hong Kong-sourced materials include local news, entertainment features, movies, drama, videos and games, as well as popular Asian music.

In 2002, *now.com.hk* broadened its appeal with a number of English-language channels featuring top international fashion, sports, variety shows, animation and 24-hour news and financial information. In February 2003, the service was made available to viewers using handheld devices, such as PDAs (personal digital assistants).

Creation of Cascade

Unlocking value within its Network and Services Business division (NSB), PCCW announced the formation of one of Asia's leading technical services companies, in terms of scale and experience.

Launched January 1, 2003, Cascade provides PCCW's telecommunications network operations with support and maintenance services, ensuring its world-class network availability of 99.999 percent.

Other Cascade services include network infrastructure design, build-out and maintenance, consulting solutions, customer installation and maintenance services, project management, operating systems development and maintenance and technical support.

Employing more than 3,000 highly-trained technical staff, Cascade serves a variety of clients, including Hong Kong Exchanges and Clearing Limited, LG.Philips Displays International Limited, the Airport Authority of Hong Kong and MTR Corporation Limited.

In addition, Cascade is pursuing new business opportunities throughout Asia Pacific.

PCCW believes this initiative places the Company in a very strong position to address the network support services sector – the fastest-growing part of our industry.

Before its transformation into Cascade, NSB achieved a number of significant achievements in 2002. For example:

- **NSB became the first technical services provider in Asia to hold TL9000 certification for excellence in technical support and network maintenance**
- **Achieved upgraded ISO 9001 certification**
- **NSB's field engineering service received the Silver Award in the *2002 Customer Service Excellence Awards* staged by the Hong Kong Association of Customer Service Excellence**
- **In early 2002 it became the first provider of IP services in Hong Kong.**

Cascade people from left:
Chan Kwong Keung, Chan Pui-Sze,
Wong Kai Yin Edwin and Mak Wai Ting

Contact Centers

- **Named one of the world's top call-centers by US magazine *CallCenter***
- **Received the *2002 Market Engineering Award for Greater China*, as recognised by Frost & Sullivan consultants**
- **Won eight call-center awards from the Hong Kong Call Center Association**
- **Opened a call-center in Guangzhou and another in Kuala Lumpur**
- **Signed several service contracts with leading companies and banks in the region.**

This unit serves PCCW's own customers, and provides outsourcing offerings to serve its customers' customers.

Expertise contained by this unit equips it to design, build and maintain call-centers for other companies. The net result is one of Asia's leading providers of customer-contact management and relationship-management solutions. In fact, PCCW operates one of Asia's largest round-the-clock call centers, with more than 3,000 agent positions providing customer management services and solutions in 15 languages through service hubs in Guangzhou, Taipei, Kuala Lumpur and Hong Kong. Our agents handle approximately 10 million calls a month.

By bringing together customer-contact channels through our service hubs, we not only enable companies to expand their presence in the region swiftly, we also help them to take advantage of skills and cost benefits offered by each location.

Our professionals use the world's latest technologies, and best practices, which help ensure excellent customer-contact management. The bottom-line benefits here for the companies we serve include generating satisfaction among their own customer-bases and capturing additional business opportunities during the course of everyday customer contact.

Regulatory Developments

The Group's results are influenced by structural changes resulting from the liberalization of Hong Kong's telecoms market, the 1998 Framework

A PCCW Contact Center in action.

Agreement between the Group and the Hong Kong Government, plus other regulatory developments.

Wholesale services

PCCW continued to provide interconnection capacity to other telecoms providers in 2002. Per-minute interconnection rates were lowered to take into account increased traffic flows, particularly for Internet, data and wireless voice services.

PCCW has been providing competitors with access to phonelines into homes and businesses – known as 'local-loop unbundling' – since 1996.

Interconnection and unbundled local-loop services are provided to competitors on a non-discriminatory basis. The Group offers wholesale broadband unbundled local-loop service by way of a tariff. Determination proceedings, relating to broadband unbundled local-loop with other fixed-network operators are pending. PCCW will work with the Hong Kong Government on its broadband unbundled local-loop policy review in 2003.

2003 Fixed telecommunications network services market liberalization

Full market liberalization was implemented by Hong Kong's OFTA on January 1, 2003 in the local and the external (cross-border) fixed-telecoms network service markets. In the local market, there is now no pre-set limit on the number of licenses to be issued and no time limit for license applications. OFTA will not consider fixed-carrier licenses for applicants who intend to rely on interconnection and wholesale services using infrastructure owned by other operators. In the external (cross-border) market, new licensees now have the option of being facilities-based or service-based.

Licensing regime

In-building telecommunications systems are now authorized under a class license regime, as of 2002. Under this regime, a building's owner is automatically licensed to establish, maintain and operate an in-building telecommunications system within the common parts of a building, and to provide telecommunications services within the building. No public telecommunications service can be provided. HKTC, as a fixed telecommunications operator, continues to enjoy the right to building access and to interconnect with in-building systems on a non-discriminatory basis.

The Wireless Local Area Network (wi-fi) class license was implemented in 2003, allowing operators meeting the license criteria to automatically provide wi-fi services that do not cross any public street.

Merger and Acquisition Bill

The Telecommunications (Amendment) Bill 2002 was tabled in May 2002 to deal specifically with merger-and-acquisition activities in Hong Kong's telecommunications sector. The Bill proposes to give the Telecommunications Authority the power to review mergers and acquisitions concerning carrier licensees, and to take appropriate actions when it is of the opinion that the transaction would substantially lessen market competition.

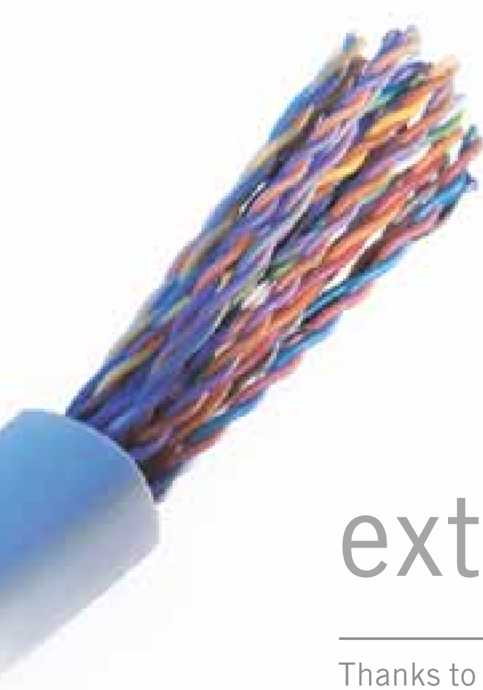
Retail pricing flexibility

PCCW has been granted non-dominant status over all IDD routes and in the external bandwidth services market.

A large number of new tariffs and tariff changes were made during the year. Rates were revised to meet competition, to enhance operations and to support further network investment. These tariffs also included a variety of promotions and loyalty programs. PCCW continues to seek greater pricing flexibility for service offerings currently classified as dominant, as well as a streamlined tariff review process.

Business eSolutions

- ✔ Spearheads PCCW's IT business, with an emphasis on opportunities in Greater China
- ✔ Plays pivotal role in creating major IT&T alliances in mainland China
- ✔ Obtained agreements with Chongqing and Tianjin Manufacturing Information Productivity Council, and Hua Xia Bank, to promote and finance launch of ConXerto, a collaborative commerce application platform



extending the line

Thanks to a strong team of IT professionals, the overall Business eSolutions 'offer' spans the design, build and operation of tailored systems and applications

Joe Tam Chief Consultant, eProduct Development & Services

Business eSolutions

- **Business broadband numbers represented an approximate 70 percent market share, plus 41 percent year-on-year growth in revenue – to approximately HK$531 million – and subscriptions of just under 52,000 at the end of 2002**
- **In early 2002, Business eSolutions helped a PCCW-led consortium win a major contract from the Hong Kong Government to provide hardware, software and services for the city's new computer-chip ID card**
- **China Mobile appointed Business eSolutions to build a nationwide enterprise resources planning information system to provide improved resource sharing, monitoring and control**
- **Business eSolutions was instrumental in PCCW being named one of *Asia's top-10 Most Admired Knowledge Enterprises* by independent knowledge-management company Teleos, and the KNOW Network of knowledge-based organisations. PCCW was the only telecommunications company in Asia to win this accolade**
- **In August 2002, Application Management Services of Business eSolutions qualified at Level-4 of the Carnegie Mellon Software Engineering Institute's Capability Maturity Model® for Software (SW-CMM®), a key benchmark for software engineering excellence.**

Business eSolutions offers integrated solutions and services, ranging from IT strategic planning and implementation to maintenance.

This approach provides premium benefits to enterprise customers, backed up by PCCW's unequalled connectivity.

Thanks to a strong team of IT professionals, the overall Business eSolutions 'offer' spans the design and build of tailored systems and applications.

Business eSolutions can also facilitate the outsourcing of a company's IT management and business processes, as well as to provide technical and engineering support services to government departments, public utilities, aviation and broadcast engineering operations.

In addition, the unit's brokerage solution links investors, securities brokers and banks with the AMS/3 trading system at Hong Kong Exchanges and Clearing Limited.

Data Center Operator Lam Woon-Kee works to support customers at the *Power*b@se Center in Hong Kong.

Business eSolutions has established relationships with some large corporations within mainland China, including China Telecom and the Chongqing and Tianjin Manufacturing Information Productivity Council. In 2002, the Group expanded its customer base, with significant project wins against international competition.

Internet Data Centers

■ **Premium service provider *Power*b@se won service contracts to design and build Internet data centers for a major telecoms provider (March 2002) and a major mobile provider in China (December 2002)**

■ **In November 2002, *Power*b@se built a new Internet data center at Hong Kong's Cyberport, positioning itself to serve tenants at one of Asia's premier IT developments.**

Internet Data Centers (IDC) is part of Business eSolutions and serves customers in Hong Kong and Greater China. These include major corporations and public sector institutions. PCCW also has interests in data centers in Beijing and Shanghai.

In Hong Kong, IDC is centered on its premium service brand *Power***b@se**, which operates one of the city's largest data-center facilities. *Power***b@se** is a high-performance provider offering full resilience for critical business applications. It offers reliable Internet-exchange connectivity for local, regional and international customers.

*Power***b@se** has Sun Microsystems' SunTone℠ Certification for service quality, and in 2002 added a British Standards Institution certificate on Information Security Management System (BS7799). As of year-end 2002, this unit served about 1,000 customers.

Telecoms Directories

■ **In April 2002, PCCW Directories Limited (PCCW Directories) joined with Unicom Yellow Pages Information Co., Ltd. (Unicom Yellow Pages) to launch three new trade and professional directories distributed mainly in mainland China**

■ **The Telecom and IT Directory was launched in December 2002 to be distributed to FTNS/Mobile/IVANs operators, ISPs, government bodies and large corporations in Hong Kong and mainland China.**

PCCW Directories, formerly known as Telecom Directories Limited, is a wholly-owned subsidiary of PCCW, and is one of Asia's directory market leaders.

It is the official publisher of the Hong Kong Yellow Pages, White Pages, Fax Directory and Hong Kong Business Web Directory.

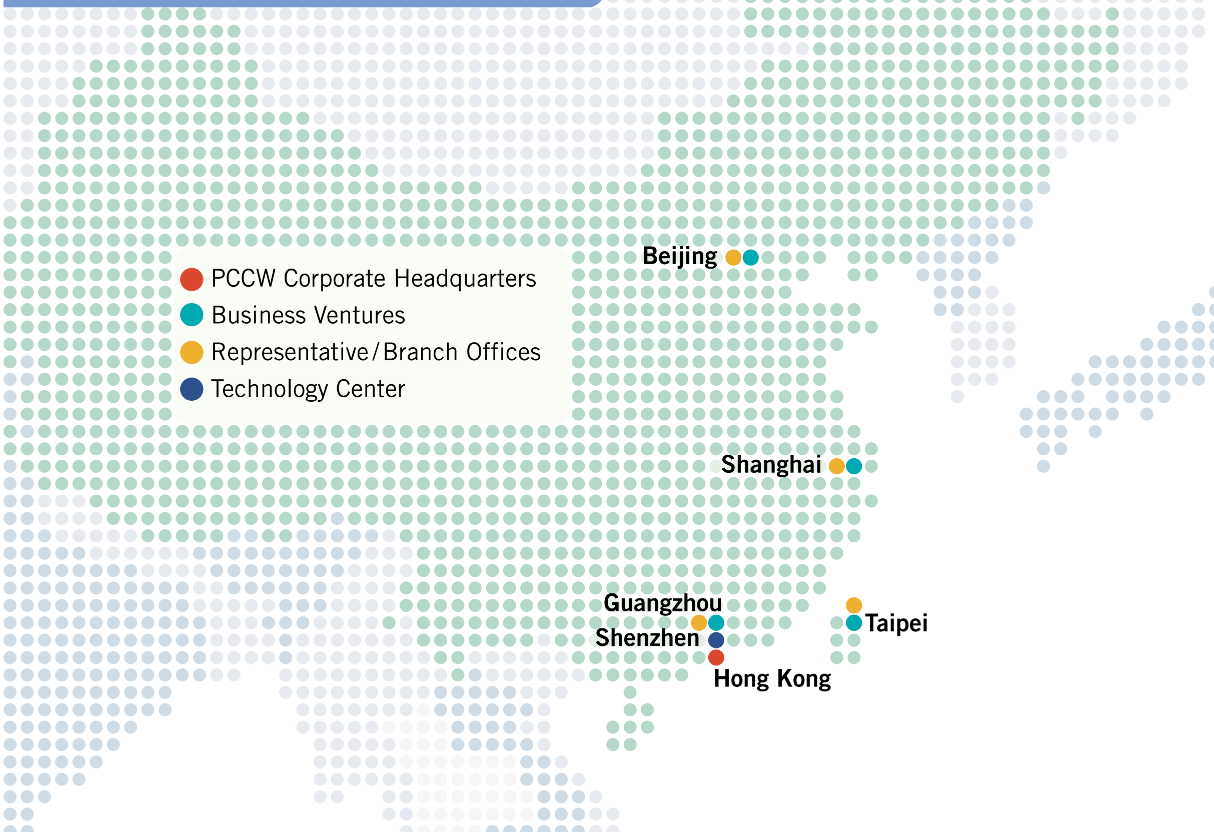
It also offers a host of online services, including those operated at *yp.com.hk*

In 2002, monthly page views were maintained at approximately 13 million, while the number of individual monthly visitors for 2002 increased by 21 percent to approximately 172,410.

Advertiser numbers in the print advertising business dropped by 9.6 percent to approximately 9,980 in 2002 due to the economic climate, while circulation of all print advertising publications rose 20 percent, to more than 1,562,000 copies.

In mainland China, PCCW indirectly owns 30.12 percent of Unicom Yellow Pages, one of the country's largest directory businesses. Since November 2000, Unicom Yellow Pages has expanded PCCW's online and paper directory business into mainland China.

Building on our Greater China presence



Greater China

Led by Business eSolutions, PCCW has a number of alliances and relationships with large corporations within mainland China, as well as a growing customer base seeking to enter Greater China from all over the world.

PCCW's Telecommunications Services unit is also exploring opportunities in mainland China, with the 2002 opening of another call-center in Guangzhou and the launch of IP-VPN services.

In addition, PCCW Infrastructure operates Pacific Century Place Beijing, a two-million-square-feet office, retail and residential complex in China's capital.

The following is an overview of PCCW's Greater China operations (outside Hong Kong):

Mainland China

PCCW intends to create a venture with China Telecom to provide IT business solutions in mainland China's finance sector, including banks, insurance companies and securities firms. In September 2002, IT intelligence company IDC estimated mainland China's banking, insurance and financial markets to collectively offer an IT market valued at approximately US$2,281 million by 2006, from a 2002 total of US$564 million.

In addition, Business eSolutions established a software development center in the Shenzhen Special Economic Zone to provide enterprise solutions for customers across Greater China. Employing a team of experienced, local software developers, the center developed ConXerto, an innovative collaborative-commerce solution.

In 2002, PCCW entered into an agreement with the Chongqing and Tianjin Manufacturing Information Productivity Council to promote ConXerto, while Hua Xia Bank has developed a finance plan to assist manufacturing companies in mainland China to adopt the ConXerto system.

PCCW provides IT services for several mainland customers, including China Mobile and Huawei Technologies Co Ltd. Other contracts in mainland China include IT service agreements with Xiamen Airport, the Minsheng Bank Call Center and China Mobile's nationwide management information system.

PCCW representative offices in Beijing, Shanghai and Guangzhou serve to expand the Company's delivery of telecommunications solutions to other high-value customers in mainland China.

Taiwan

- **In January 2002, Taiwan Telecommunication Network Services Co., Ltd. (TTN) launched a cross-straits VSAT (very small aperture terminals) satellite service, providing video-conferencing solutions**
- **In September 2002, TTN launched the NetGAZE service, a network monitoring and management service providing best-in-class network assurance to customers.**

PCCW owns a 56.56 percent stake in data network service provider TTN.

TTN's major products include high-speed packet data, utilizing ATM (asynchronous transfer mode), and information networks, as well as Internet access served by an extensive fiber-optic network.

TTN is well positioned to provide mission-critical services to customers across financial, manufacturing and service industries. Among TTN's major customers are key financial institutions and large-scale enterprises, including the Over-the-Counter Securities Exchange Center in Taiwan, the Taishin Bank and the Formosa Group.

Infrastructure

- ✔ Cyberport's first phase completed on schedule, and is largely occupied
- ✔ Residential sales off to an encouraging start
- ✔ High occupancy maintained in investment assets
- ✔ Significant occupancy cost savings achieved

strengthening the line

The Cyberport project consists of commercial, retail, hotel, entertainment and residential facilities. It comprises a total of 5.7 million square feet and is designed to attract and nurture IT and multimedia related activities in Hong Kong

Kimmy Chan Contract Manager, Cyber-Port Management Limited

Residence Bel-Air
貝沙灣
CITY LIVING
IN
ISLAND SOUTH

Early sales of the Residence Bel-Air luxury units (see picture, right) are very encouraging in Hong Kong's competitive residential market.

PCCW Infrastructure undertakes all property development, investment and facilities-management functions for the Group.

This has the effect of providing a physical environment for the IT and telecoms industry.

In Hong Kong, PCCW Infrastructure conceived the technology-themed Cyberport, now under development with the Hong Kong Government.

This campus-style, low-density project consists of commercial, retail, hotel, entertainment and residential facilities. It comprises a total of 5.7 million square feet and is designed to attract and nurture IT and multimedia-related activities in Hong Kong.

The first phase of Cyberport, consisting of office space, was completed on schedule in 2002. Response from the IT industry was encouraging, at a time of subdued market conditions, with the first block becoming largely occupied during the year.

The balance of the Cyberport campus, comprising office and retail space, and le Meridien Cyberport Hotel, will be substantially completed during 2003, with the final phase due to follow in mid-2004.

Construction work on the residential portion commenced in 2002. This will consist of approximately 2,800 units, which will be completed in phases between 2004 and 2007. The initial phase was launched in early 2003, with early sales of the luxury units exceeding expectation in Hong Kong's competitive residential market. Proceeds from the sales of residential units are expected to fund future construction at Cyberport.

Pacific Century Place in Beijing.

PCCW Infrastructure owns a portfolio of premium-grade investment properties, providing a stable revenue base. These include the two-million-square-feet office, retail and residential city-center complex, Pacific Century Place, in Beijing, and the PCCW Tower office complex in Hong Kong.

The office and retail premises in Beijing offer an attractive central location for multinational corporations and were almost fully let during 2002, while leasing of residential units continued steadily.

PCCW Infrastructure's facilities-management service provides essential support to the Group's IT and communications network, as well as to the investment property portfolio and other premises occupied by the Group.

During the year, PCCW Infrastructure achieved significant occupancy cost savings, realized through renegotiation of rental terms and by reorganization of the overall facilities-management operation in Hong Kong and mainland China.

Asia and beyond

REACH

■ **Under difficult market conditions, REACH generated total revenue of HK$9,854 million**

■ **The venture remains a strategic asset for PCCW.**

In 2001, PCCW formed an Asia Pacific strategic alliance with Australia's Telstra to benefit from advantages of scale.

The alliance created REACH, a 50:50 venture, and an international network backbone and data/IP services company.

Headquartered in Hong Kong, with a significant business presence in Australia and offices across North America, Europe and Asia, REACH is Asia's largest international carrier of combined voice, private line and IP data services.

In late 2001, REACH acquired the Asian assets of US-based broadband infrastructure company Level 3 Communications, Inc to accelerate its entry to new markets including Taiwan and Korea.

REACH's extensive portfolio of products and services also includes satellite connectivity, and the company has interests in more than 50 submarine cable and satellite systems, including the largest satellite earth station in Asia. It has operating licenses, and backhaul and landing rights in most major markets including Japan, Korea, Taiwan, Hong Kong, Singapore, Australia, North America and Europe.

The company operates the most diversely-routed Internet backbone network in Asia Pacific and has direct commercial relationships with more than 300 carriers worldwide.

REACH is currently operating under extremely difficult market conditions, largely brought about by slower-than-expected growth in the demand for cross-border connectivity services, competitors undercutting rates as a result of United States' bankruptcy protection advantages, and a glut in

The REACH earth station at Stanley in Hong Kong is the largest of its kind in Asia.

capacity. In February 2003, PCCW announced that it had written down the value of its investment in REACH by HK$8,263 million, which is reflected in the Group's financial statements for the year ended December 31, 2002.

For further information, please visit www.reach.com

Ventures

■ **Ventures continued to dispose of non-performing investments in 2002**

■ **Ventures was self-funding throughout 2002 by utilizing proceeds from the disposal of investments.**

Ventures was established in June 1999 to take strategic positions in, and manage, investments in a portfolio of technology companies that have synergies with PCCW's core businesses.

Beyond the Network (BtN)

■ **Beyond the Network completed an MPLS (multi protocol label switching) upgrade and expansion of its global IP network, providing broader network access, enhanced backbone engineering capabilities, greater flexibility and new service plans for customers throughout the world.**

BtN is a global provider offering end-to-end IP-based solutions to wholesale and enterprise customers over its MPLS-enabled network.

Along with its many network access points and offices, BtN's network extends to 35 points of presence (PoPs) in the US, Europe and Asia as a result of BtN's network infrastructure acquisition of certain assets of Ardent Communications Inc.

BtN utilizes a unique multi-service IP port, which, unlike the 'one port, one product' rule of traditional networks, allows for greater customer flexibility.

The BtN multi-service IP port provides carriers, ISPs, ICPs and enterprise customers with the ability to access multiple products – such as Internet access, Voice-over IP (VoIP), IP-VPN and Virtual Private Line – through a single port.

Corporate Access

■ **Introduced fiber, as well as satellite-based solutions, and delivered voice products and Internet services to its corporate customer base**

■ **Reinforced its enterprise customer base in 2002 by extending fiber-based solutions in Guangdong, Hong Kong, Taipei and Tokyo**

■ **Corporate Access expanded into the broadcasting market, with successful transmission of the 2002 Asian Games in Seoul.**

Acquired by PCCW in March 2001, Telecommunications Technology Investments Limited (Corporate Access) is one of Asia's leading satellite-based network-solutions providers. It provides VSAT (very small aperture terminal) satellite links, allowing companies to set up and install their own communications systems.

In Asia, Corporate Access commands about 70 percent of the market for international VSAT links, serving more than 200 multinational corporations in more than 50 countries. Corporate Access uses 15 different satellites and employs 70 staff.

Data Access

■ **Obtained a new carrier license in India in April 2002 for international voice and data services**

■ **Commenced international long-distance service on July 23, 2002 and is making rapid progress in capturing market share**

■ **Data Access attained 25 percent share of India's international long-distance market by the end of 2002.**

Data Access (India) Limited (Data Access) was incorporated in 1997 and is headquartered in New Delhi. PCCW holds an equity interest in Data Access, which also has equity participation from SPA Enterprises Limited. Data Access operates the *now-india.com* portal, which has retail customers in Delhi, Mumbai, Chennai and Bangalore.

PCCW Japan

■ **Produced 25 games for various platforms such as PlayStation 2, XBox, GBA, and personal computers**

■ **Built up its game publishing business, marketing and distributing games for developers and publishers in Japan, America and Europe by hiring key executives from the games industry.**

Pacific Century CyberWorks Japan Co., Ltd. (PCCW Japan) (JASDAQ: 7954) is in the business of developing and delivering computer interactive entertainment.

From studios in Asia and the US, PCCW Japan develops a variety of games played on game consoles, personal computers, and handheld devices including mobile phones.

People Development

People-development goals in 2002 were based on PCCW's transformation into a leading IT&T company.

Training schemes have focused on talent management, e-learning, IT&T capability, leadership and management, customer management and service, sales and performance management.

PCCW training often results in accreditation from world-class organizations.

Technology (IT&T) Training

In 2002, PCCW provided more than 14,000 days of technology training in fields such as Internet operations, IP networking and server operations and Web content and application development. A particular emphasis has been brought to bear on the type of training that has resulted in more than 400 employees attaining accreditation awarded by world-class vendors such as Microsoft, Cisco and Sun Microsystems.

Business and Management Training

More than 6,000 days of business and management training were offered to staff in 2002 for development of sales and service skills plus management practice. Programs – including sales methodology and process, and people and business management – were attended by 180 managers and team leaders from the Consumer Group. Another 86 sales and marketing professionals took part in a one-year program, leading to the Executive Diploma in Marketing Management and Strategic Marketing, jointly organized by the Chinese University of Hong Kong and PCCW.

New Talent

The Group continued to drive the intake and development of fresh talent through trainee initiatives for graduates. Major programs included the Business Associates Scheme, the China Management Trainee Scheme, the Trainee Engineer Scheme and Graduate Trainee Schemes for areas such as IT and sales. A total of about 50 graduates from Hong Kong, Beijing, Shanghai and Guangzhou were selected to benefit from the schemes.

Leadership and Career Development

Forty-eight high-performing middle managers were selected to join the in-house *Challenge21* leadership program in 2002. Twelve managers participated in the *INSEAD Asian International Executive Program* and three in the *Tsinghua/Harvard Competing in the Age of Globalization Program* aimed at orientating mainland China's managers to the contemporary business world. In addition, five young managers completed *Richard Ivey's Accelerated Management Talent Program*.

eLearning Development

More than 4,600 staff took part in online training programs from PCCW's in-house Aladdin Learning portal in 2002. Several initiatives have been implemented in the field of just-in-time knowledge, and skills, for our staff.

These included the launch of a China orientation Web-site, which attracted 4,000 'hits' from about 1,800 staff members, plus the development of video-based training programs ranging from telecoms technologies to enterprise applications.

Community and Environment

PCCW values its responsibility as a good corporate citizen, and offers support to the local community and protective measures for the environment. In fact, the Company will be included in the *FTSE4Good Global Index* because it has been classed as an investment that meets globally-accepted standards of corporate responsibility.

Community support initiatives range from PCCW's proactive role in creating the technology-themed Cyberport project, to 'grassroots' initiatives, such as providing sponsorships and offering volunteer services to the needy.

Education

Ramping up IT education in Hong Kong is one of PCCW's ambitions.

Building on success in 2001, the *IT Summer Camp* scheme broadened its scope in 2002 to include primary school students and their parents, as well as secondary school students.

The project also included an *IT Ambassador Exchange Camp*, which accommodated participants from mainland China, Macau and Hong Kong.

The outcome has advanced IT learning for 180 secondary and primary school pupils and their parents. This five-day IT Summer Camp was well received by schools and participants.

In addition, the PCCW Foundation has provided sponsorship for local data network service for the *Internet2* project initiated by the Joint Universities Computer Center (JUCC). The project enables staff and students at local universities to connect and exchange with *Internet2* universities all over the world in researching the next generation of networking technologies.

The foundation also supports the Workplace English Campaign and other education-related initiatives, such as the PCCW Athletes' Enhancement Program, and annual scholarships for top students nominated by local universities.

Community

PCCW provides communications services for a variety of social service schemes.

This includes support for students, single parents, the unemployed, distressed people and the elderly who benefit from counselling hotlines, info-line services for Medilink and networks to help find employment.

The Company also runs several elderly care schemes, which feature free telephone lines and companionship programs for single elderly people.

The Care for the Elderly Line has provided free installation and service for approximately 6,800 needy senior citizens since 1992.

PCCW's *Volunteer Program* is another feature of the Company's investment in the community.

More than 700 staff volunteers, and their family members, have been engaged in 10 long-term service groups. These provide IT training for people lacking computer skills, 'play' therapy for children, a book and magazine lending service to benefit cancer patients, 'talking books' for the visually impaired, a befriending scheme for single elderly people and an environmental protection service for the community.

The Company's efforts have been acknowledged by the Hong Kong Council of Social Services, which has highlighted PCCW's *Caring Company Scheme*.

PCCW has also been credited by Hong Kong's Social Welfare Department as having donated one of the highest number of 'volunteer hours' from a private-sector organization.

Environment

PCCW is committed to best environmental practices in all of its commercial activities.

To promote the saving of energy and reduction of waste in the business sector, PCCW is leading the promotion of 'paperless' e-commerce in the Hong Kong Business Environment Council.

PCCW also participates in the Hong Kong General Chamber of Commerce's Environment Committee.

The Company continues to support recycling in place of landfill waste disposal. In 2002 it recycled 1,131kgs of paper and 2,350 toner cartridges.

PCCW has also offered free service, funding or volunteer support to environmental-protection schemes. Twenty-six of our environmental protection volunteers offered their services in March to support the *Green Power Hike*, a fund-raising hike from the Peak to Tai Tam. The event was arranged by Green Power, a non-governmental organization providing environmental educational programs and research for the community.

In supporting the *Clean Up the World in Hong Kong 2002* event, organized by the Environmental Protection Department of the Hong Kong Government, PCCW provided 21 environmental protection volunteers who helped clean up the beach at Deep Water Bay after it drew crowds on the Mid-Autumn Festival public holiday.

Management's Discussion and Analysis

Overview

- **EBITDA[1] increased 10 percent to HK$8,120 million (approximately US$1,041 million)**
- **EBITDA margin increased from 34 percent to 40 percent**
- **Operating profit before net gains on investments, provision for impairment losses and restructuring costs increased 9 percent to HK$5,212 million (approximately US$668 million)**
- **Operating cash flow after interest, taxes and capital expenditure (but before investment in Cyberport) increased 54 percent to HK$3,351 million (approximately US$430 million)**
- **Net Debt[2] decreased 16 percent to HK$32,919 million (approximately US$4,220 million)**
- **Difficult but prudent decisions taken on a HK$8,263 million (approximately US$1,059 million) impairment loss for investment in Reach Ltd. (REACH)**
- **Management's Discussion and Analysis compiled as of March 20, 2003.**

The consolidated revenue of the Group was HK$20,112 million (approximately US$2,578 million) and EBITDA was HK$8,120 million (approximately US$1,041 million) for the year ended December 31, 2002, compared to revenue of HK$21,959 million (approximately US$2,815 million) and EBITDA of HK$7,396 million (approximately US$948 million), respectively, for the year ended December 31, 2001. Operating profit before net gains on investments, provision for impairment losses and restructuring costs increased 9 percent to HK$5,212 million (approximately US$668 million). Loss attributable to shareholders for the year was HK$7,762 million (approximately US$995 million), compared to a restated net profit of HK$1,343 million (approximately US$172 million) the previous year.

The largest part of the decrease in consolidated revenue is attributable to the significant reduction in one-off revenue from Cyberport entrustment fees and from property sales of HK$83 million (approximately US$11 million) in 2002 compared to HK$922 million (approximately US$118 million) in 2001. The remaining recurring revenue of HK$20,029 million (approximately US$2,568 million) in 2002 decreased by 5 percent from HK$21,037 million (approximately US$2,697 million) in 2001 primarily due to the significant downward pricing pressure in international telecommunications markets; reduction in the overall number of direct exchange lines in service; and the Company's conscious decision to reduce its low-margin computer and customer premises equipment ("CPE") sales business. However, continuing strong growth in broadband and Business eSolutions revenue has partially offset these revenue declines.

Against the backdrop of a softening economy and a challenging operating environment, demand for broadband Internet products and services continued to be strong during the year. The number of total broadband access lines provided by PCCW increased significantly by 39 percent to approximately 559,000. Business eSolutions revenue increased by 15 percent year-on-year to HK$2,234 million (approximately US$286 million) and contributed a significant 11 percent to Group revenue, compared to 9 percent a year ago.

Group EBITDA for the year ended December 31, 2002 was HK$8,120 million (approximately US$1,041 million), an increase of approximately 10 percent year-on-year. Group EBITDA margin expanded to approximately 40 percent for the year of 2002, compared to 34 percent in 2001. The substantial improvement in EBITDA margin was primarily driven by cost savings from the restructuring of the Group's Internet Services business, reduction in wholesale international traffic disbursements, overall productivity improvements in operating costs and more cautious control on corporate overheads; and the significant reduction in one-off, low-margin Cyberport entrustment fees and property sales in the current year.

Operating profit before net gains on investments, provision for impairment losses and restructuring costs also increased in line with Group EBITDA, or 9 percent to HK$5,212 million (approximately US$668 million) for the year ended December 31, 2002 from HK$4,774 million (approximately US$612 million) for the year ended December 31, 2001.

Net profit for the year ended December 31, 2002 before non-recurring items comprising impairment loss for goodwill attributable to the Group's interest in REACH; accounting loss on the disposal of the Group's 40 percent interest in Joint Venture (Bermuda) No. 2 Limited ("RWC"); profit on disposal of the Group's partial interest in MobileOne Ltd. ("MobileOne"); and restructuring costs was HK$2,245 million (approximately US$288 million), an increase of 67 percent compared to the restated net profit of HK$1,343 million (approximately US$172 million) in 2001. Profit attributable to shareholders for the year ended December 31, 2001 was restated as a result of the retrospective restatement of the prior year's taxation balance to take into account a change in the accounting standard on income taxes, as a result of the adoption of Statement of Standard Accounting Practice ("SSAP") No. 12, issued by the Hong Kong Society of Accountants with effect from January 1, 2002.

The shift to a substantial loss attributable to shareholders of HK$7,762 million (approximately US$995 million) for the year ended December 31, 2002 from the restated net profit of HK$1,343 million (approximately US$172 million) for the year ended December 31, 2001 is largely a result of an impairment loss recognized for the goodwill in relation to the Group's investment in REACH, amounting to approximately HK$8,263 million (approximately US$1,059 million). In addition, an accounting loss of approximately HK$1,771 million (approximately US$227 million) was also created following the disposal of the Group's 40 percent interest in RWC. These accounting losses are mainly a result of the inclusion of goodwill previously eliminated against reserves in the current year's impairment provision and in the cost of disposal. The accounting treatment has no impact on the Group's operations, cash flows, revenue, profit from operations or EBITDA.

The Group's businesses generated strong cash flow. Operating cash flow after interest, taxes and capital expenditure, but before investment in the Cyberport development, increased by 54 percent to HK$3,351 million (approximately US$430 million) for the year ended December 31, 2002. This was the result of a robust cash flow generated by the core telecommunications business, lower net interest payments and a reduction in capital expenditure during the year.

PCCW continued its refinancing strategies and further de-leveraged during the year, reducing Net Debt by approximately 16 percent from HK$39,305 million (approximately US$5,039 million) in 2001 to HK$32,919 million (approximately US$4,220 million) by the end of 2002. The Group has also taken measures to reduce the interest costs on its borrowing, despite a significant program of lengthening maturities. Average cost of debt declined from 6.6 percent to 5.0 percent year-on-year.

During the year, PCCW took significant steps in its strategic realignment plans. Those steps included: (i) establishing a subcontracting program, under which approximately 1,600 employees in network maintenance and installation divisions were offered the opportunity to form their own independent companies which then signed agreements with PCCW to provide services to PCCW; and (ii) forming a new wholly-owned subsidiary, Cascade Limited ("Cascade"), one of Hong Kong's largest technical services companies which will also continue to provide PCCW's telecommunications network operations, support and maintenance services. As part of the formation of Cascade, approximately 3,000 employees accepted new service contracts that generally reduced salaries slightly, as well as to realign benefit packages. Subject to contractual agreements with PCCW, the subcontracting companies and Cascade are free to pursue new business opportunities in Hong Kong and throughout Asia Pacific. During the year, the Group also reset staff levels for maximum efficiency and further streamlined operations.

1 EBITDA represents earnings before interest, taxation, depreciation, amortization, loss on disposal of fixed assets, net gains on investments, provision for impairment losses, restructuring costs, impairment loss for goodwill attributable to the interest in REACH, net losses on disposal of interests in RWC and MobileOne, other income and the Group's share of results of associates, jointly controlled companies and unconsolidated subsidiaries. While EBITDA is commonly used in the telecommunications industry worldwide as an indicator of operating performance, leverage and liquidity, it is not presented as a measure of operating performance in accordance with generally accepted accounting principles in Hong Kong and should not be considered as representing net cash flows from operating activities. The computation of the Group's EBITDA may not be comparable to similarly titled measures of other companies.

2 Net Debt refers to long-term liabilities plus short-term borrowings, minus cash and cash equivalents, and fixed deposits placed for banking facilities for the Cyberport project.

Audited Consolidated Results

For the year ended December 31, 2002

(Amounts expressed in millions of Hong Kong dollars except for (loss)/earnings per share)	**2002**	2001 (Restated)
Turnover	**20,112**	21,959
Operating profit before net gains on investments, provision for impairment losses and restructuring costs	**5,212**	4,774
Gains on investments, net	**13**	767
Provision for impairment losses	**(534)**	(91)
Restructuring costs	**(311)**	–
Profit from operations	**4,380**	5,450
Finance costs, net	**(1,997)**	(3,056)
Share of results of jointly controlled companies	**550**	523
Share of results of associates	**281**	158
Share of results of unconsolidated subsidiaries	–	152
Impairment loss for goodwill attributable to the interest in REACH	**(8,263)**	–
Losses on disposal of interests in RWC and MobileOne, net	**(1,433)**	–
(Loss)/Profit before taxation	**(6,482)**	3,227
Taxation, as previously stated	**(1,406)**	(1,433)
Prior period adjustment arising from adoption of new accounting standard for deferred taxation	–	(549)
Taxation, as restated	**(1,406)**	(1,982)
(Loss)/Profit after taxation	**(7,888)**	1,245
Minority interests	**126**	98
(Loss)/Profit for the year attributable to shareholders	**(7,762)**	1,343
Basic (loss)/earnings per share	**(168.53 cents)**	30.01 cents
Diluted earnings per share	**N/A**	29.11 cents

Condensed Consolidated Balance Sheet

At December 31

HK$ million	**2002**	2001 (Restated)
Total assets	**49,763**	51,841
Total liabilities	**(55,271)**	(62,338)
Net Liabilities	**(5,508)**	(10,497)
Represented by:		
Share capital	**1,164**	1,135
Deficit	**(7,080)**	(12,176)
Minority interests	**408**	544
Net Liabilities	**(5,508)**	(10,497)

Financial Information and Operating Performance of Business Unit

Group Structure

The Group's business comprises the following main areas:

■ Telecommunications Services ("TSS") is the leading provider of telecommunications services, Internet access and multimedia services and equipment businesses in Hong Kong;

■ Business eSolutions offers IT solutions, business broadband Internet access, hosting and facilities management services and yellow pages businesses within Hong Kong and Greater China;

■ Infrastructure covers the Group's property portfolio in Hong Kong and Greater China including the Cyberport development in Hong Kong; and

■ Others. Through a strategic alliance with Telstra Corporation Limited ("Telstra"), the Company owns 50 percent of REACH, which offers international connectivity services primarily within the Asia region. Also included in the Group's other businesses are its Greater China businesses, Pacific Century CyberWorks Japan Co., Ltd. ("PCCW Japan"), Internet Services and CyberWorks Ventures.

Financial Review of Business Units

(Excluding REACH)

Year ended December 31

	2002				2001[1]				y-o-y
	H1 HK$ million	H2 HK$ million	Full Year HK$ million	Full Year US$ million	H1 HK$ million	H2 HK$ million	Full Year HK$ million	Full Year US$ Million	Increase/ (Decrease)
Revenue									
TSS*	**9,105**	**8,902**	**18,007**	**2,309**	9,983	9,844	19,827	2,542	(9)%
Business eSolutions‡	**1,142**	**1,092**	**2,234**	**286**	986	950	1,936	248	15%
Infrastructure	**311**	**374**	**685**	**88**	721	647	1,368	175	(50)%
Others†	**362**	**431**	**793**	**102**	263	205	468	60	70%
Eliminations	**(717)**	**(890)**	**(1,607)**	**(207)**	(641)	(999)	(1,640)	(210)	2%
Total Revenue	**10,203**	**9,909**	**20,112**	**2,578**	11,312	10,647	21,959	2,815	(8)%
EBITDA									
TSS*	**4,487**	**4,416**	**8,903**	**1,142**	4,737	4,514	9,251	1,186	(4)%
Business eSolutions‡	**125**	**26**	**151**	**19**	69	(6)	63	8	140%
Infrastructure	**279**	**197**	**476**	**61**	310	256	566	73	(16)%
Others†	**(760)**	**(650)**	**(1,410)**	**(181)**	(1,205)	(1,279)	(2,484)	(319)	43%
Total EBITDA	**4,131**	**3,989**	**8,120**	**1,041**	3,911	3,485	7,396	948	10%
EBITDA Margin	**40%**	**40%**	**40%**	**40%**	35%	33%	34%	34%	
Depreciation and amortization	**(1,403)**	**(1,429)**	**(2,832)**	**(363)**	(1,312)	(1,251)	(2,563)	(329)	10%
Loss on disposal of fixed assets	**(4)**	**(72)**	**(76)**	**(10)**	(7)	(56)	(63)	(8)	21%
Others	–	–	–	–	31	(27)	4	1	(100)%
Operating Profit[2]	**2,724**	**2,488**	**5,212**	**668**	2,623	2,151	4,774	612	9%

Notes:

1 Comparative figures were restated to conform with current year's classification as follows:

* Retail consumer broadband and narrowband Internet access services and related multimedia services were transferred to TSS from Internet Services in 2002.

† The remainder of Internet Services, which primarily comprises costs associated with the production of English and Chinese Internet and broadband content, is included under Others in 2002.

‡ The operations of Internet Data Centers were merged into and are reported under Business eSolutions in 2002.

2 Operating profit before net gains on investments, provision for impairment losses and restructuring costs.

Revenue by Business Units

Telecommunications Services ("TSS")

During 2002, TSS continued to actively manage its business and operations in response to the specific economic realities faced by its global and Hong Kong customers, as well as the challenging operating, competitive and regulatory environment in Hong Kong's telecommunications market. The unit has implemented efficiency improvements to reduce costs and has improved marketing efforts to enhance customer service. It has grown as a result of investments in value-added services, data transmission services and broadband access-line services, which are seen as key differentiators against competitors. During the year, retail consumer Internet access and multimedia services were transferred from Internet Services into TSS for better alignment of the operating structure. Management believes the restructured TSS offers synergies and greater efficiency, which contributed to an improved operating margin.

The table below sets out the unaudited financial performance of TSS for the years ended December 31, 2001 and 2002:

Year ended December 31

	2002				2001				y-o-y
	H1 HK$ million	H2 HK$ million	Full Year HK$ million	Full Year US$ million	H1 HK$ million	H2 HK$ million	Full Year HK$ Million	Full Year US$ million	Increase/ (Decrease)
Local Telephony Services	**3,503**	**3,346**	**6,849**	**879**	3,877	3,647	7,524	965	(9)%
Local Data Services	**2,242**	**2,215**	**4,457**	**571**	2,084	2,184	4,268	547	4%
International Telecommunications Services	**1,893**	**1,664**	**3,557**	**456**	2,271	2,196	4,467	573	(20)%
Other Services	**1,467**	**1,677**	**3,144**	**403**	1,751	1,817	3,568	457	(12)%
Total Revenue	**9,105**	**8,902**	**18,007**	**2,309**	9,983	9,844	19,827	2,542	(9)%
EBITDA	**4,487**	**4,416**	**8,903**	**1,142**	4,737	4,514	9,251	1,186	(4)%
EBITDA Margin	**49%**	**50%**	**49%**	**49%**	47%	46%	47%	47%	

TSS revenue for the year ended December 31, 2002 was HK$18,007 million (2001: HK$19,827 million), 9 percent lower than a year ago. The decrease was mainly due to the significant downward pricing pressure in the international data and IDD markets; reduction in the overall number of direct exchange lines in service in Hong Kong as a result of the continuing softening of the economy, as well as a reduction in market share by PCCW resulting from continuing market competition; and the Company's conscious decision to reduce its low-margin CPE sales business. However, strong revenue growth from broadband Internet access services and an increase in revenue from wholesaling local access lines partially offset revenue declines in other areas of TSS.

Local Telephony Services Revenue from local telephony services consists of revenue from local exchange-line services, value-added services and interconnection and network access services for traffic carried for other local operators and service providers. Interconnection fees include fees for the delivery of traffic and fees for the physical interconnection of facilities, as determined by Hong Kong's Office of the Telecommunications Authority ("OFTA"), or by commercial agreements between the Company and other local carriers.

Revenue from local telephony services decreased by 9 percent year-on-year from HK$7,524 million to HK$6,849 million. This primarily reflected a decline in the number of direct exchange lines in service in Hong Kong; a lower interconnection fee revenue due to a rate reduction as determined by OFTA in October 2002, and was partially offset by an increase in revenue from wholesaling local access lines to other fixed-line operators.

The Company has maintained a leading share in Hong Kong's fixed-line telecommunications market, notwithstanding increasing liberalization since 1995, and further full liberalization since the beginning of 2003; competition from other fixed-line operators; substitution by broadband access lines and wireless telecommunications services; as well as continuing softening in the Hong Kong economy and the property market. The Company continues to launch innovative products and value-added services to help retain and win back customers and maintains the premium pricing and leading market share.

According to industry statistics provided by OFTA, the overall fixed-line telecommunications market continued to contract by approximately 2 percent in 2002. Based on the Company's estimates and OFTA's statistics, PCCW had 82 percent total market share at the end of December 2002; 84 percent in the residential sector and 79 percent in the business sector. The total number of the Company's direct exchange lines decreased by 10 percent year-on-year from approximately 3,489,000 to approximately 3,138,000; the number of business exchange lines in service decreased from approximately 1,470,000 to approximately 1,336,000 and the number of residential exchange lines decreased from approximately 2,019,000 to approximately 1,802,000.

Local Data Services Revenue from local data services consists of revenue from the provision of data and network services; wholesale broadband access lines and retail consumer Internet access services utilizing the Company's fiber-optic network and the digital subscriber line technology behind our broadband offerings.

Local data services revenue increased by approximately 4 percent year-on-year from HK$4,268 million to HK$4,457 million. This was mainly the result of a significant increase in revenue from broadband Internet access services, partially offset by a decline in revenue from the provision of local area and wide area (LAN and WAN) corporate networks, high-speed, high-volume data transmissions from mobile telephone operators and Internet service providers; and iTV, the interactive television operation terminated in the last quarter of 2002.

Demand for broadband Internet access services continued to be strong during the year. The total number of broadband access lines increased 39 percent year-on-year from approximately 402,000 to approximately 559,000. Consumer broadband numbers for NETVIGATOR, the market-leading Internet access brand, increased from approximately 311,000 to approximately 424,000.

The Group's successful marketing effort continued to focus on delivering products and services tailored to customer needs. Wireless broadband, and certain NETVIGATOR value-added services, were launched during the year to expand the customer base and maintain the brand's premium pricing and market position. Subscribers to *now.com.hk*, the broadband content service exclusive to NETVIGATOR customers, launched in September 2001, showed a remarkable year-on-year increase of 79 percent to approximately 145,000 by the end of 2002.

While other local data and network services (such as LAN and WAN corporate networks; high-speed, high-volume data transmissions from mobile telephone operators and Internet service providers) continued to face intense pricing pressure, local data bandwidth sold increased by 23 percent year-on-year to 172 Gigabits per second ("Gbps") due to an increase in demand for higher bandwidth data products such as IP-VPN.

International Telecommunications Services Revenue from international telecommunications services consists of revenue from retail outgoing IDD, retail international data services and delivery fees for the origination and termination of international calls on the Company's network.

Given retail IDD minutes dropped by 4 percent year-on-year and IPLC bandwidth also dropped significantly year-on-year, international telecommunications services revenue decreased by approximately 20 percent to HK$3,557 million for the year ended December 31, 2002 from HK$4,467 million a year ago. This is mainly a result of significant price competition in the retail IDD market, particularly on the China routes, and downward pricing pressure on international data products. Through customer-retention and win-back programs, the Company has been able to sustain its market share in the competitive IDD market in 2002. Delivery fees applicable to certain types of international traffic were lower during the year due to a rates revision determined by OFTA in July 2001.

In connection with the formation of REACH in February 2001, the venture assumed responsibility for certain wholesale international telecommunications services and the associated revenue.

Other Services Revenue from other services consists primarily of revenue from the sale of network equipment, CPE and connectivity products, fees for technical and maintenance subcontracting services, and income from Contact Centers which design, build and maintain call centers and related outsourcing services.

Revenue from other services decreased by 12 percent to HK$3,144 million for the year ended December 31, 2002 from HK$3,568 million a year ago. This was mainly due to the Company's conscious decision to reduce its low-margin computer and CPE sales business. Other factors included a weaker economy and delayed investment decisions by corporate customers. The increasing popularity of the do-it-yourself retail broadband access packages also led to a reduction in broadband installation revenue. The reduction in Other Services revenue was partially offset by revenue from Telecommunications Technology Investments Limited, the new satellite-based network communications business acquired in March 2001, and the new service hubs launched in the Greater China area.

Business eSolutions

Business eSolutions primarily includes provision of IT projects (including Internet Data Centers), retail business broadband Internet access-services and the Group's yellow pages business, PCCW Directories Limited. During the year, Internet Data Center operations were integrated into Business eSolutions. This restructuring enabled the division to offer seamless IT, hosting, facilities management and connectivity services and greatly enhanced the Group's competitive edge in this sector.

Business eSolutions revenue for the year ended December 31, 2002 was HK$2,234 million, representing a 15 percent increase from HK$1,936 million in 2001.

Revenue from IT projects (including Internet Data Centers) grew 10 percent year-on-year, from HK$1,266 million in 2001 to HK$1,397 million in 2002. Key contract work delivered during the year included provision of hardware, software and services for Hong Kong's new computer-chip ID card; and design and development of the Library Authentication System for the Leisure and Cultural Services Department. In addition, contract work included provision of a nationwide enterprise resources planning information system for a major PRC telecoms operator; and provision of IT services including facilities, operations, platform and security management. Another secured contract involved load testing, hardware and software maintenance and enhancement services for a major European bank.

Revenue from business broadband Internet access services increased 41 percent year-on-year from HK$376 million in 2001 to HK$531 million in 2002. The number of customers for the Company's high-speed business broadband and leased-line access services expanded from approximately 36,400 as at December 31, 2001 to approximately 51,800 as at December 31, 2002.

Revenue from the Group's yellow pages business remained steady at HK$306 million for the year ended December 31, 2002 compared to HK$294 million in 2001. PCCW Directories Limited remains one of Asia's market leaders in directory publications. During the year, various trades, commerce and professional directories were launched.

Infrastructure

Total revenue from Infrastructure was HK$685 million for the year ended December 31, 2002, a decrease of 50 percent from HK$1,368 million in 2001.

One-off revenue of HK$83 million for the year ended December 31, 2002, versus HK$922 million for the year ended December 31, 2001, included infrastructure works completed for the Cyberport development and revenue from the sale of certain properties in mainland China.

Despite the continued slowdown in the Hong Kong real estate market, rental revenue from investment properties leased to third parties increased during the year, principally due to higher residential occupancy in Pacific Century Place in Beijing. Overall occupancy of the portfolio improved to 90 percent at the end of 2002 from 86 percent a year earlier.

The first phase of the Cyberport development was completed on schedule, and marketing and sales for the residential portion, Residence Bel-Air, commenced in early 2003. Response has been encouraging, despite difficult market conditions.

Others and Eliminations

Other revenue primarily includes revenue from the Group's Greater China businesses, PCCW Japan, Internet Services, and CyberWorks Ventures. Other revenue increased by 70 percent to HK$793 million for the year ended December 31, 2002, from HK$468 million in 2001.

The Group continued to provide data network and mission-critical services in Taiwan through its subsidiary, Taiwan Telecommunication Network Services Co., Ltd. (TTNS), including high-speed packet data, utilizing asynchronous transfer mode (ATM), and information networks and Internet access supported by an extensive fiber-optic network.

PCCW Japan continued to focus on development and publishing of console and PC game software and targeted content across multiple distribution platforms. During 2002, 23 game titles were launched including the PCCW Japan brand title.

The Company continued to manage its ventures investment portfolio prudently during the year. The unit is self-funded, using realized gains from existing investments. Certain non-core or non-performing businesses were closed or divested during the year. Total carrying value of the Group's investment portfolio was HK$1,302 million as of December 31, 2002 against HK$2,322 million the previous year.

Eliminations of HK$1,607 million, compared to HK$1,640 million in 2001, predominantly related to internal charges for wholesale communications services consumed, computer system network charges, consumer support services and office rental charges between the Group's business units.

Costs of Sales and Services

Total costs of sales and services for the year ended December 31, 2002 were HK$5,295 million, compared to HK$6,855 million in 2001, of which approximately HK$3,993 million, against HK$4,799 million the previous year, related to TSS. The Group's overall gross margin improved from 69 percent to 74 percent, primarily driven by cost savings from restructuring the Group's Internet Services business and the significant reduction in one-off low-margin revenue from Cyberport entrustment fees and from property sales in the current year. TSS gross margin also improved from 76 percent to 78 percent, year-on-year, primarily due to a decline in wholesale international voice and data disbursements.

Operating Costs

Year ended December 31

	2002 HK$ million (Unaudited)	**2002** US$ million (Unaudited)	2001 HK$ million (Unaudited)	2001 US$ million (Unaudited)	Increase/ (Decrease)
Staff costs[1]	**3,822**	**490**	**4,522**	580	(15)%
Repair and maintenance	**443**	**57**	**503**	64	(12)%
Other operating costs	**2,432**	**312**	**2,683**	344	(9)%
Total Operating Costs before depreciation and amortization	**6,697**	**859**	**7,708**	988	(13)%

1 Staff costs include costs paid to subcontracting companies formed as part of the subcontracting program as described below.

Operating costs before depreciation and amortization decreased by 13 percent to HK$6,697 million for the year ended December 31, 2002. Operating costs for TSS also decreased by 12 percent to HK$5,111 million year-on-year. The Company continued its drive for enhanced organizational effectiveness, and implemented a number of cost-efficiency measures during the year. This resulted in substantial savings in most categories of operating expenditure.

Staff costs decreased substantially by approximately 15 percent year-on-year to HK$3,822 million. During the year, the Group reset staff levels for maximum efficiency from approximately 14,600 in 2001 to approximately 11,600 in 2002.

As part of the Company's strategic realignment plans, PCCW: (i) announced a subcontracting program in September 2002, under which about 1,600 employees in network maintenance and installation divisions took the opportunity to form 17 independent companies which then signed agreements to provide services to PCCW; and (ii) formed a new wholly-owned subsidiary, Cascade, one of Asia Pacific's leading technical services companies which will also continue to provide PCCW's telecommunications network operations, support and maintenance services. As part of the formation of Cascade, approximately 3,000 employees accepted new service contracts that generally reduced salaries slightly, as well as to realign benefit packages. Subject to contractual agreements with PCCW, the subcontracting companies and Cascade are free to pursue new business opportunities in Hong Kong and throughout Asia Pacific. Net restructuring costs of these realignments, charged to the consolidated income statement amounted to approximately HK$311 million.

Numbers of Employees

Year ended December 31

	2002	2001
TSS	**8,445**	11,296
Business eSolutions[1]	**1,280**	1,392
Infrastructure	**361**	307
Others[2]	**1,474**	1,588
Total	**11,560**	14,583
Total (excluding part-time/temps)	**10,978**	14,080

1 Business eSolutions includes Internet Data Centers.

2 Others primarily includes Corporate Functions, Greater China businesses, PCCW Japan, Internet Services and CyberWorks Ventures.

Other operating costs primarily included rent, rates and utilities, publicity and promotion and professional and consultancy fees. Publicity and promotion expenses decreased during the year after the Group's rebranding exercises were completed at the beginning of 2002. Professional and consultancy expenses also decreased in 2002.

EBITDA

Total EBITDA for the Group was HK$8,120 million for the year ended December 31, 2002, an increase of approximately 10 percent from 2001. Group EBITDA margin expanded to approximately 40 percent for the year of 2002, compared to 34 percent in 2001. The substantial improvement in EBITDA margin was primarily driven by cost savings from restructuring of the Group's Internet Services business; reduction in wholesale international traffic disbursements; overall productivity improvements in operating costs; more cautious control on corporate overheads; and the significant reduction in one-off, low-margin Cyberport entrustment fees and property sales in the current year.

TSS EBITDA for the year ended December 31, 2002 was HK$8,903 million (2001: HK$9,251 million), a 4 percent decrease against 2001. TSS EBITDA margin rose to 49 percent in 2002 from 47 percent a year ago. This is mainly attributable to a reduction in wholesale international voice and data disbursements, and productivity improvement in operating costs and reduction in sales of low-margin computer and CPE business.

Business eSolutions EBITDA increased substantially by 140 percent from HK$63 million in 2001 to HK$151 million in 2002. Business eSolutions operations continued to gain in scale during the year and EBITDA margin of the division increased from 3 percent to 7 percent, year-on-year.

Despite the significant decrease in Infrastructure revenue from HK$1,368 million to HK$685 million, year-on-year, Infrastructure EBITDA decreased only from HK$566 million in 2001 to HK$476 million in 2002 primarily due to the significant reduction in one-off, low-margin Cyberport entrustment fees and property sales in the current year.

EBITDA loss from Others, net of costs associated with corporate functions, has been further contained by 43 percent to HK$1,410 million for the year ended December 31, 2002 from HK$2,484 million a year ago. This was primarily driven by cost savings from restructuring the Group's Internet Services business; overall productivity improvements in operating costs; more cautious control on corporate overheads and the Group's other businesses, including CyberWorks Ventures and PCCW Japan.

Subsequent to the restructuring of the Group's Internet Services business at the beginning of the year, the remainder of the Internet Services division is primarily related to the production of English and Chinese Internet and broadband content. Internet Services EBITDA loss for the year ended December 31, 2002 reduced substantially to HK$78 million from HK$850 million a year ago, primarily as a result of a new business arrangement with an overseas content partner, effective from the beginning of 2002.

Highlights of Telstra Alliance

REACH

	Year ended December 31, 2002			Eleven months from Feb 1 to Dec 31, 2001		
	HK$ million[1] (HK GAAP) (Unaudited)	**US$ million[1] (HK GAAP) (Unaudited)**	**US$ million[2] (US GAAP) (unaudited)**	HK$ million[1] (HK GAAP) (Unaudited)	US$ million[1] (HK GAAP) (Unaudited)	US$ million[2] (US GAAP) (unaudited)
Revenue	**9,854**	**1,263**	**1,263**	9,978	1,279	1,279
EBITDA	**3,304**	**423**	**423**	3,104	398	398
PCCW's 50 percent share of profit before tax	**738**	**95**	**NA**	706	91	NA

1 Amounts prepared in accordance with HK GAAP.

2 Amounts prepared in accordance with US GAAP.

In February 2001, PCCW formed REACH, a 50:50 venture with Telstra, which merged the respective international infrastructure assets of both shareholders. REACH is Asia's largest international carrier of combined voice, private line and IP data services. PCCW contributed its international wholesale business to REACH at cost.

For the year ended December 31, 2002, in difficult market conditions, REACH generated total revenue of HK$9,854 million compared to HK$9,978 million for the 11 months from February 1, 2001 to December 31, 2001. PCCW's 50 percent share of profit before tax for the year ended December 31, 2002 was HK$738 million compared to HK$706 million for the 11-month period ended December 31, 2001.

A wholly-owned subsidiary of the Company and REACH have entered into a Hong Kong Domestic Connectivity Agreement, and an International Services Agreement, for the provision of domestic and international connectivity services in Hong Kong and between Hong Kong and other countries. Pursuant to the International Services Agreement, for the first five years of operations subsequent to the formation of REACH in February 2001, the Group is required to acquire 90 percent, 90 percent, 80 percent, 70 percent and 60 percent per annum, respectively, of its total annual purchases of "Committed Services" (being international public switched telephone network terminating access, international transmission capacity and Internet gateway access services) from REACH. The Hong Kong Domestic Connectivity Agreement contemplates a reciprocal arrangement, whereby the Group will provide local connectivity services to REACH under similar terms and conditions. Both agreements are subject to renegotiation when the agreements expire in 2006.

In addition, the Group entered into one year fixed price bulk purchase arrangements for international connectivity services from January 1, 2002, which committed the Group to aggregate purchase levels in 2002. The Group's commitments under these arrangements had regard to its future capacity needs and opportunities for growth as well as REACH's minimum earnings requirements under its financing arrangements. Regulated services in Hong Kong were acquired in accordance with tariffs approved by the relevant regulatory authority and unregulated services were acquired in accordance with market prices. Purchases made by the Group for the year ended December 31, 2002 were approximately HK$1,443 million, compared to approximately HK$1,700 million the previous year.

PCCW has, historically, been a substantial acquirer of cross-border connectivity services supplied by REACH, and expects to continue to require these services to support the Group's domestic business.

In view of the continuing difficult and volatile trading conditions in which REACH operates, the directors announced on February 20, 2003 that the Company has performed a preliminary review of REACH in accordance with the requirements of SSAP 31 – "Impairment of assets", to ascertain whether there has been an impairment in the total investment cost in REACH.

An analysis of the Company's total investment cost in REACH as at December 31, 2002 is as follows:

HK$ million	Book carrying value	Goodwill (Note)	Total investment cost
Balances as at December 31, 2002, as previously announced on February 20, 2003	3,964	8,263	12,227
Adjustment to goodwill arising from adoption of new accounting standard for deferred taxation	(349)	315	(34)
Balances, as restated	3,615	8,578	12,193
Impairment loss for the goodwill attributable to the interest in REACH	–	(8,263)	(8,263)
Balances as at December 31, 2002	3,615	315	3,930

Note:
Interpretation 13 issued by the Hong Kong Society of Accountants in 2001 requires that the balance of goodwill previously charged against the reserve account of the balance sheet of the Company as a result of the Company's acquisition of PCCW-HKT Limited ("HKT") and its subsidiaries, and not previously realized or charged to the income statement through provision for impairment, be subject to impairment review.

Based on the results of this review, the Directors believe that an impairment loss of HK$8,263 million should be recognized for the goodwill attributable to the Company's investment in REACH and such amount is included in the consolidated loss attributable to shareholders of the Company for the year ended December 31, 2002.

The impairment loss on the Company's investment in REACH has no impact on revenue, profit from operations, EBITDA or cash flow of the Group and will not result in any non-compliance with respect to the Group's debt covenants. In addition, the recognition of an impairment loss on goodwill does not result in an increase in the shareholders' deficit of the Group as at December 31, 2002.

The Directors' decision, in relation to the provision, was made after consideration of the difficult and volatile trading conditions in the undersea and long-haul telecommunications sectors. The Directors will continue to review both REACH's business development and financial performance.

REACH is currently in negotiations with its bankers to restructure the terms of a syndicated bank loan of US$1,500 million. REACH continues to operate in difficult and volatile conditions and its ability to continue as a going concern is dependent on successful renegotiation of its existing bank loan, or other forms of funding being made available. Discussions with the banks continue to be constructive.

RWC

RWC, previously 40 percent owned by the Group, generated revenue of HK$2,120 million and EBITDA of HK$698 million for the six months ended June 30, 2002. On June 28, 2002, the Group sold its 40 percent interest in RWC to Telstra for a total net consideration of HK$4,792 million.

On June 28, 2002, PCCW and Telstra entered into, and completed, an agreement relating to the following:

- The sale by the Company of its entire 40 percent equity interest in RWC to Telstra for a consideration of approximately US$614 million (approximately HK$4,792 million);

- The redemption by the Company of the outstanding principal amount of the US$750 million (approximately HK$5,850 million) variable coupon subordinated convertible bond due 2007 ("2007 Bond") together with accrued interest of approximately US$54.38 million (approximately HK$424 million); and

- The issue by the Company of a US$190 million (approximately HK$1,482 million) 5 percent mandatory convertible note due 2005 ("2005 Note") to Telstra.

The proceeds from the sale of the interest in RWC and the issue of the 2005 Note were offset in full against the amount due to Telstra by PCCW for the redemption of the 2007 Bond with interest accrued thereon. Accordingly, no net proceeds arose from the sale of the interest in RWC.

The effect of the above transactions is to reduce the Group's debt position. The sale of the interest in RWC also aligns with the Group's intention of focusing on core fixed-line, data and Internet protocol businesses as well as systems integration.

The realization of the Group's investment in RWC significantly reduced the shareholders' deficit position but gave rise to a HK$1,771 million disposal loss, adjusted by deferred tax, in the year. The disposal loss had no impact on cash flows and was due to the inclusion of goodwill previously eliminated against reserves as cost of disposal in the current year's audited consolidated income statement.

Financial Highlights of Audited Consolidated Results

Depreciation and amortization

Depreciation and amortization for the year ended December 31, 2002 was HK$2,832 million compared to HK$2,563 million for the year ended December 31, 2001.

Operating Profit before Net Gains on Investments, Provision for Impairment Losses and Restructuring Costs

Operating profit before net gains on investments, provision for impairment losses and restructuring costs increased by approximately 9 percent to HK$5,212 million for the year ended December 31, 2002 from HK$4,774 million for the year ended December 31, 2001 primarily due to the aforementioned reasons for the increase in EBITDA.

Net Gains on Investments

HK$ million	**2002**	2001
Net unrealized losses on investments	**(142)**	(194)
Net realized (losses)/gains from disposal of investments in subsidiaries, investment securities and other investments	**(92)**	261
Provision for impairment of investments	**(581)**	(263)
Amortization of premium received from equity options	**32**	361
Release of provision for an onerous contract	**464**	477
Gain on termination of interest rate swap contracts	**332**	–
Dividend income[1]	–	125
	13	767

1 Balance represents 60 percent of profit of the Group's wireless communications business before February 2001 when the venture with Telstra was formed.

Provision for Impairment Losses

Provision for impairment losses of HK$534 million for the year ended December 31, 2002, against HK$91 million the previous year, increased mainly due to the higher provision made for certain fixed assets, intangible assets and associates, including the provisions for the remaining portion of the goodwill relating to the Internet Services business and for *Power***b@se**, the Group's Internet Data Centers infrastructure in Hong Kong.

Restructuring Costs

During the current year, the Group subcontracted a significant portion of its network maintenance function to 17 newly-established companies owned by staff previously employed by the Group. Approximately 1,600 former employees joined these subcontracting companies in November 2002, and approximately 3,000 of the Group's employees joined a new wholly-owned subsidiary, Cascade, on January 1, 2003. In addition, the Group reset staff levels for maximum efficiency from 14,583 in 2001 to 11,560 in 2002. Restructuring costs mainly represent the ex-gratia payments, curtailment loss on retirement scheme, Cascade incentive bonus and payment in lieu of notice for the above exercises.

Net Finance Costs

Net finance costs decreased by approximately 35 percent to HK$1,997 million for the year ended December 31, 2002 from HK$3,056 million for the year ended December 31, 2001, primarily due to the 16 percent decrease in Net Debt, substantial decline in interest rates, and decrease in amortization of arrangement fees. Average cost of debt, calculated as total interest, including finance fees, over average debt outstanding, decreased from 6.6 percent to 5 percent year-on-year. The general interest rate reduction also led to a decrease in interest income on bank deposits.

Share of Results of Jointly Controlled Companies

Share of results of jointly controlled companies for the year of HK$550 million compared to HK$523 million in 2001, comprise the Group's 50 percent share of profit from REACH, the 50:50 venture with Telstra, of HK$738 million (HK$706 million for the 11-month period from February 1, 2001 to December 31, 2001), net of the Group's share of losses of other jointly controlled companies for the year.

Share of Results of Associates

Share of results of associates for the year of HK$281 million, compared to HK$158 million in 2001, comprised the Group's 40 percent share of profit from RWC of HK$137 million from January 1, 2002 to the date of disposal of June 28, 2002 (HK$289 million for the 11-month period from February 1, 2001 to December 31, 2001) and the Group's share of profit of HK$301 million, against HK$62 million in 2001, from Great Eastern Telecommunications Limited, the company jointly owned by PCCW and Cable and Wireless plc, which holds shares in MobileOne; net of the Group's share of losses of other associates for the year.

Share of Results of Unconsolidated Subsidiaries

The Group has no unconsolidated subsidiaries for the current year. Share of results of unconsolidated subsidiaries for the year ended December 31, 2001 of HK$152 million included the Group's 40 percent share of profit from RWC's wireless communications business of HK$24 million and the Group's 100 percent share of profit from the Group's Internet Protocol Backbone business for the month of January 2001 of HK$128 million, prior to the formation of the ventures with Telstra.

Taxation

Taxation for the year ended December 31, 2002 was HK$1,406 million compared to HK$1,982 million in 2001. The 29 percent decrease was primarily due to a retrospective restatement of the prior year's taxation balance to take into account the change in the accounting standard on income taxes as a result of the adoption of SSAP 12, "Income Taxes", issued by the Hong Kong Society of Accountants with effect from January 1, 2002.

The Group's effective tax rate was 44 percent for the year ended December 31, 2002, excluding the impairment loss for goodwill attributable to the interest in REACH and net losses on disposal of the interests in RWC and MobileOne. Under the current tax system in Hong Kong, the Group does not enjoy any group relief on losses. Furthermore, the Group's financing costs, to the extent that they are attributable to the acquisition of HKT and other companies, are not tax deductible. Excluding these factors, the profitable companies in the Group have an effective tax rate which is approximately the statutory tax rate of 16 percent. Management does not believe there is tax inefficiency in those companies but will continue to review and minimize the Group's tax costs, subject to the constraints of existing Hong Kong tax rules.

Loss for the Year Attributable to Shareholders

The shift to a substantial loss attributable to shareholders of HK$7,762 million for the year ended December 31, 2002 from the restated net profit of HK$1,343 million for the year ended December 31, 2001 is largely attributable to an impairment loss recognized for the goodwill in relation to the Group's investment in REACH, amounting to approximately HK$8,263 million. In addition, upon disposal of the Group's 40 percent interest in RWC, an accounting loss of approximately HK$1,771 million was also created. These accounting losses are mainly a result of the inclusion of goodwill previously eliminated against reserves in the current year's impairment provision and in the cost of disposal. The accounting treatment has no impact on the Group's operations, cash flows, revenue, profit from operations or EBITDA.

Net profit for the year ended December 31, 2002, before non-recurring items, comprising impairment loss for goodwill attributable to the Group's interest in REACH; accounting loss on disposal of the Group's 40 percent interest in RWC; profit on disposal of partial interest in MobileOne; and restructuring costs; was HK$2,245 million, an increase of 67 percent compared to the restated net profit of HK$1,343 million in 2001. Profit attributable to shareholders for the year ended December 31, 2001 was restated as a result of the retrospective restatement of the prior year's taxation balance on adoption of SSAP 12, issued by the Hong Kong Society of Accountants with effect from January 1, 2002.

Liquidity and Capital Resources

The Group continued to maintain a solid financial position to underpin its operations. As at December 31, 2002, the Group had Net Cash (cash and cash equivalents plus fixed deposits for banking facilities for the Cyberport project minus short-term borrowings) of HK$8,447 million, compared to HK$8,570 million in 2001, gross long-term debt of HK$41,366 million, against HK$47,875 million the previous year, and Net Debt of HK$32,919 million, compared to HK$39,305 million in 2001.

Cash Flow

The Group generated strong operating cash flows for the year ended December 31, 2002:

Year ended December 31

	2002 HK$ million	**2002** US$ million	2001 HK$ million	2001 US$ million
Operating cash flow after interest and taxes[1]	**4,962**	**637**	4,593	589
Less: Capital expenditure	**(1,611)**	**(207)**	(2,415)	(310)
Operating cash flow after interest, taxes and capital expenditure	**3,351**	**430**	2,178	279
Less: Investment in Cyberport	**(2,204)**	**(283)**	(1,260)	(162)
Operating cash flow after interest, taxes, capital expenditure and investment in Cyberport	**1,147**	**147**	918	117

1 Operating cash flow after interest and taxes is net cash inflow from operating activities before investment in Cyberport and changes in fixed deposits.

Operating cash flow, after interest, taxes and capital expenditure (but before investment in Cyberport development), increased significantly by 54 percent to HK$3,351 million from HK$2,178 million, year-on-year, as a result of the robust recurring cash flow generated by the core telecommunications business, lower net interest payments and cautious control over capital expenditure. Operating cash flow after interest, taxes, capital expenditure and investment in Cyberport development for the year ended December 31, 2002, was HK$1,147 million, a 25 percent increase on the previous year.

Debt Refinancing

Management has continued to de-leverage the Group by reducing gross long-term debt by approximately 14 percent from HK$47,875 million as at December 31, 2001 to HK$41,366 million as at December 31, 2002. Net Debt decreased by 16 percent from HK$39,305 million to HK$32,919 million, year-on year.

In January 2002, the Group issued US$450 million 1 percent convertible bonds due 2007, which are unconditionally and irrevocably guaranteed on a joint and several basis by the Company and PCCW-HKT Telephone Limited ("HKTC"), an indirect wholly-owned subsidiary of the Company. The net proceeds were used to prepay a portion of the US$4,700 million term loan facility of HKTC established in February 2001 ("Term Loan Facility") and for working capital purposes.

Subsequently in March and April 2002, HKTC raised two term loan facilities of HK$5,000 million each, due for repayment in 2008 and 2009, respectively. The proceeds of these two loans were used to further prepay a portion of the outstanding Term Loan Facility.

In addition to the refinancing as described above, HKTC prepaid a total of approximately HK$2,943 million (approximately US$377 million) of the outstanding portion of the Term Loan Facility during the year using internal cash resources. At the end of 2002, the outstanding balance of the Term Loan Facility was approximately HK$6,094 million (approximately US$781 million) due in February 2008.

As part of the Group's sale of its entire 40 percent equity interest in RWC to Telstra in June 2002, the proceeds from the disposal and the issue of a US$190 million 2005 Note to Telstra were offset in full against the amount due by the Company to Telstra for the redemption of the 2007 Bond plus interest accrued thereon. The net effect on total debt was a reduction of US$614 million.

The Directors consider that it is not meaningful to publish a gearing ratio for the Group until such time as the Group is in a positive shareholders' equity position.

New Financings in 2003

In January 2003, a member of the Group privately placed US$456 million Guaranteed Notes due 2013 to raise funds for general corporate purposes. The notes are unconditionally and irrevocably guaranteed by the Company.

On March 14, 2003, PCCW completed a 5-year term loan facility for HK$3,003 million (approximately US$385 million) on an unsecured basis. The loan is repayable in 2008. The proceeds will be used for general corporate purposes.

Based on the Group's working capital projection, which has taken into account the available banking and other borrowing facilities of the Group, for the year ended December 31, 2002, the Company is of the opinion that the Group has adequate working capital to meet its current requirements.

Credit Ratings of HKTC

On September 5, 2002, Standard & Poor's Ratings Services ("S&P") affirmed its BBB corporate credit rating on HKTC and revised upward its outlook on HKTC to positive from stable. HKTC maintained an investment-grade credit rating from Moody's Investors Service ("Moody's") of Baa1 (stable outlook).

On February 7, 2003, Moody's stated that it would review the Group's strategy as well as the underlying performance of its core business and placed HKTC's ratings on review for possible downgrade. On February 21, 2003, S&P expressed an intention to review the outlook on the rating of HKTC. Management of the Group looks forward to the opportunity of reaffirming with the rating agencies the improving credit fundamentals at HKTC.

Capital Expenditure

Capital expenditure for the year ended December 31, 2002 amounted to HK$1,611 million (approximately US$207 million), compared to HK$2,415 million (approximately US$310 million) in 2001 which consisted, principally, of investments in the local network to meet increased broadband demand, expansion of the core broadband network, IP-VPN technology, and technology for the delivery of new Internet Services to businesses and consumers.

PCCW has made significant investment in its communications network in previous years. This has included upgrade and expansion of network coverage, and building a platform for broadband and IP initiatives. Besides on-going core network expansion, the bulk of 2003 capital expenditure will be on meeting demand for new broadband access lines, value-added services, and on continuously investing in other new services and initiatives. PCCW will continue to invest prudently, using strict criteria, including internal rate of return, net present value and payback period, depending on the type of business.

Investment in Cyberport Development

The Group invested approximately HK$2,204 million, compared to HK$1,260 million in 2001, in the Cyberport project for the year ended December 31, 2002, bringing the cumulative total investment in the project to approximately HK$3,890 million by the end of 2002. The Group will continue to contribute equity into the Cyberport development in the near term before the project becomes self-funding. The sales of Residence Bel-Air, the residential portion of the Cyberport development, started in February 2003.

Dividend

The Directors do not recommend the payment of a final dividend for the year ended December 31, 2002 (2001: Nil).

Charge on Assets

As at December 31, 2002, certain assets of the Group with an aggregate value of HK$4,357 million, against HK$2,776 million the previous year, were pledged to secure loan facilities utilized by the Group.

Certain other investments, with an aggregate value of HK$237 million, were placed as collateral in relation to certain equity-linked transactions executed during the year.

In addition, the Group was granted a standby letter of credit facility that was secured by a charge over bank deposits of approximately HK$720 million, compared to HK$1,405 million in 2001.

The Group's interest in REACH was also used to secure the 2005 Note.

Contingent Liabilities

HK$ million	2002	2001
Performance guarantee	**74**	48
Others	**60**	111
	134	159

On April 23, 2002, a writ of summons was issued against HKT, a wholly-owned subsidiary of the Company, by New Century Infocomm Tech Co., Ltd. for its failure to purchase 6,522,000 shares of TTNS, a subsidiary of the Company, pursuant to an option agreement entered into on July 24, 2000. The total claim against HKT amounted to approximately HK$90 million (NT$418 million), being the purchase price of shares in TTNS, contractual interest for the period January 1, 2001 to January 2, 2002 at 6.725% per annum, and interest on the due amount pursuant to Sections 48 and 49 of the High Court Ordinance, Cap 4. However, this figure should be reduced by the current market value of shares in TTNS, which would be transferred to HKT in the event that the claimants were successful. A defence was filed by HKT on May 29, 2002. Based on legal advice received, the Directors consider that HKT has valid defences, therefore no provision has been made.

Employees

As of December 31, 2002, the Group had approximately 11,600 employees compared to 14,600 in 2001. The majority of these employees work in Hong Kong. The Company has established incentive bonus schemes designed to motivate and reward employees at all levels to achieve the Company's business performance targets. Payment of bonuses is based on achievement of revenue and EBITDA targets for the Company's individual businesses and the Group as a whole. The Company also operates a discretionary employee share option scheme to motivate employee performance in enhancing shareholder value. In 2002, the Company also established two share award schemes under which awards of the Company's shares are made to recognize contributions of certain of the Group's employees in order to retain them for the continued operation and development of the Group, and to attract suitable personnel for the further development of the Group.

Hedging

Market risk arises from foreign currency exposure and interest rate exposure related to cash investments and borrowings. As a matter of policy, the Group continues to manage market risk directly relating to its operations and financing, and does not undertake any speculative derivative trading activities. The Finance Committee, a subcommittee of the Executive Committee of the board of directors, determines appropriate hedging activities undertaken with the aim of managing, prudently, market risk associated with transactions undertaken in the normal course of the Group's business. All treasury risk management activities are carried out in accordance with policies and guidelines approved by the Finance Committee and the Executive Committee, which are reviewed on a regular basis.

In the normal course of business, the Group enters into forward contracts and other derivative contracts in order to limit its exposure to adverse fluctuations in foreign currency exchange rates and interest rates. These instruments are executed with creditworthy financial institutions, and all contracts are denominated in currencies of major industrial countries. Gains and losses on these contracts serve as hedges in that they offset fluctuations that would otherwise impact the Group's financial results. Costs associated with entering into such contracts are not material to the Group's financial results.

Outlook

As the results for the past year demonstrate, the Group has been able to deliver strong operating results from its core businesses through difficult market conditions. However, the businesses are not immune to the realities of the global slowdown, or significant competition. The Group's 2002 results also show that management has taken difficult decisions to continue to adjust to these new realities, particularly given the substantial realignment undertaken at TSS and the substantial goodwill impairment recognized in relation to REACH.

Looking ahead to the rest of 2003, the Group continues to face many of the same challenges. In light of geopolitical and economic uncertainties, the Company's Hong Kong and international customers continue to be cautious and cost conscious. Competition continues to be relatively strong in core markets, which puts pressure on both market share and pricing.

Nonetheless, the Group believes that many of the innovative and aggressive actions it continues to pursue will position it well to deliver sound operating results over the medium-term. Despite difficult market conditions, the Group expects that its business and revenue mix will continue to change over time as the eSolutions and value-added services businesses continue to grow. The Company is launching innovative products and services, and pricing packages, to help retain and win back customers, and to attempt to maintain stable revenues despite continuing downward pressure on pricing. The realignment and cost-adjustment measures undertaken in 2002 should further reduce costs in 2003, although the Group's costs could also be negatively impacted by the Group's changing business mix.

The Group's free cash flow generation should continue to improve. This is particularly true as the net cash investment to the Cyberport development should decline significantly in 2003, relative to 2002, as the proceeds of residential sales at Residence Bel-Air begin to cover some of the ongoing construction costs.

The Group expects to use a substantial portion of this cash flow to continue to reduce its outstanding debt. Last year, the Group stated its intention to pay down a further US$1 billion in the years 2002 through to 2005, and has already paid US$377 million of that target. This, and other operating and strategic initiatives, should continue to move the Group towards its stated target of achieving single "A" ratings at HKTC from both S&P and Moody's.

While the debt reduction targets and ratings goals remain the Group's priorities, the Group's management team remains focused on forming strategies to deliver sustained value and growth to shareholders over the coming years. However, in light of global political and economic uncertainties, the Group has adjusted its focus to further strengthen its balance sheet in the interests of all investors. Therefore, the Company has decided it will not pay a dividend in 2004.

The Company's target is to pay a dividend in the medium-term. However, the Group first wants to make significant progress towards its previously announced goals of: 1) continuing to reduce debt by US$1 billion from 2002 to the end of 2005 (of which US$377 million has already been paid), and 2) achieving the desired "A" ratings.

Furthermore, the Company will continue to look for ways to improve revenue by considering new investments that are consistent with financial priorities and that meet the Group's strict investment criteria.

Board of Directors

Executive Directors

LI Tzar Kai, Richard
Chairman and Chief Executive

YUEN Tin Fan, Francis
Deputy Chairman

Michael John BUTCHER
Executive Director and
Chief Operating Officer

CHEUNG Wing Lam, Linus
Deputy Chairman

Alexander Anthony ARENA
Executive Director and Group Chief
Financial Officer

LEE Chi Hong, Robert
Executive Director

CHUNG Cho Yee, Mico
Executive Director

John Todd BONNER
Executive Director

Peter Anthony ALLEN
Executive Director

LI Tzar Kai, Richard, aged 36, is chairman and chief executive of PCCW. He is also chairman and chief executive of the Pacific Century Group and chairman of Singapore-based Pacific Century Regional Developments Limited.

Mr Li was born in Hong Kong in 1966. He is a governor of the World Economic Forum for Information Technologies and Telecommunications, a member of the Center for Strategic and International Studies' International Councillors' Group in Washington DC, and a member of the International Advisory Board of the Center for International Development at Harvard University.

Mr Li is also a member of the Global Information Infrastructure Commission and the United Nations Information and Communication Technology Advisory Group.

YUEN Tin Fan, Francis, aged 50, joined the Pacific Century Group in 1996 as deputy chairman and is currently a deputy chairman of PCCW. He is also a member of PCCW's Executive Committee and chairman of Pacific Century Insurance Holdings Limited.

From 1988 to 1991, he was chief executive of The Stock Exchange of Hong Kong Limited. Mr Yuen was also a founding director of Hong Kong Securities Clearing Company Limited. He served from 1992 to 1994 as a member of the International Markets Advisory Board of NASDAQ in the United States.

He served as managing director of Citicorp Scrimgeour Vickers Hong Kong Limited in October 1986, and was appointed to the firm's main board in London in 1987. Mr Yuen worked for Wardley, a merchant bank, from 1977 to 1985.

Mr Yuen is chairman of the Board of Trustees of the Hong Kong Center for Economic Research, a member of the Shanghai People's Political Consultative Committee and a member of the Board of Trustees of Shanghai's Fudan University.

He received a Bachelor of Arts degree in economics from the University of Chicago and is currently a member of the Board of Trustees of the university.

CHEUNG Wing Lam, Linus, aged 54, is a deputy chairman of PCCW and a member of PCCW's Executive Committee.

Prior to the merger of PCCW and Cable & Wireless HKT Limited (HKT), Mr Cheung was the chief executive of HKT and an executive director of Cable and Wireless plc.

Before joining HKT in 1994, Mr Cheung served 23 years with Cathay Pacific Airways. At the time of leaving Cathay Pacific Airways, he was deputy managing director.

Between 1989 and 1990, Mr Cheung was seconded full time to serve in the Hong Kong Government's Central Policy Unit under Governor David Wilson's administration. He was appointed an Official Justice of the Peace in 1990, and served one year as such. He was appointed a non-official Justice of the Peace in 1992.

Mr Cheung received a BSocSc degree with Honours, and a Diploma in Management Studies from the University of Hong Kong. He is currently Council Member of the University of Hong Kong and an Adjunct Professor at the Chinese University of Hong Kong.

Peter Anthony ALLEN, aged 47, is an executive director of PCCW and chief financial officer of the Pacific Century Group. He is also executive director and chief financial officer of Pacific Century Regional Developments Limited, and an executive director of Pacific Century Insurance Holdings Limited.

He was educated in England and has a degree in Economics from Sussex University, England. He is a Fellow of the Institute of Chartered Accountants in England and Wales and a member of the Institute of Certified Public Accountants of Singapore.

Mr Allen joined KPMG Peat Marwick in 1976 and in 1980 joined Occidental Petroleum Corporation. In 1983, Mr Allen joined Schlumberger Limited and worked in various countries holding key finance positions. In 1989, Mr Allen moved to Singapore as regional financial director of the Vestey Group.

He later joined Bousteadco Singapore Limited as group operations controller in 1992, and Morgan Grenfell Investment Management (Asia) Limited as director and chief operating officer in 1995. He joined the Pacific Century Group in 1997.

Alexander Anthony ARENA, aged 51, is an executive director of PCCW, deputy chairman of PCCW's Executive Committee, group chief financial officer of PCCW, a director of Pacific Century Regional Developments Limited and a director of Pacific Century Insurance Holdings Limited. He joined the Pacific Century Group in 1998.

Prior to joining the Pacific Century Group, Mr Arena was a Special Policy Adviser to the Hong Kong Government from 1997 to 1998. From 1993 to 1997, he was director-general of telecommunications in the Office of the Telecommunications Authority of Hong Kong, as well as a member of the Broadcasting Authority.

Before his appointment as director-general, Mr Arena was recruited to plan a reform program for the liberalization of Hong Kong's telecommunications sector. Prior to his appointment to the Hong Kong Government, he was an inaugural member of the Australian Telecommunications Authority, on which he served for four years.

Mr Arena has had an extensive career in public administration, specializing in high technology and infrastructure industries. From a practising radio/communications engineer to a public policy maker, his experience spans such diverse areas as the commercialization of government-owned business enterprises, and deregulation in the aviation, transport, telecommunications and postal industries.

Mr Arena graduated from the University of New South Wales, Australia, with a bachelor's degree in electrical engineering. He completed a MBA at Melbourne University, Australia, and is a Fellow of the Hong Kong Institution of Engineers.

John Todd BONNER, aged 36, currently stationed in Japan as chief executive officer of Pacific Century CyberWorks Japan Co., Ltd. (PCCW Japan), is an executive director of PCCW and PCCW Japan.

Mr Bonner joined the Pacific Century Group in Hong Kong in 1994 and was promoted to Head of Business Development in 1996.

He worked in the investment banking division of Alex Brown & Sons between 1991 and 1994.

Michael John BUTCHER, aged 53, was appointed chief operating officer of PCCW on April 8, 2002. He is an executive director and a member of PCCW's Executive Committee.

Mr Butcher has 30 years' experience in the information-technology industry, including experience in the telecommunications, computer and services sectors.

Most recently, Mr Butcher was president of International Operations for Lucent Technologies, and before that was president of Lucent's Asia-Pacific operations based in Hong Kong. He joined Lucent Asia-Pacific in 1997 with a focus on expanding the company's presence in the region. He also led Lucent's entry into Australia.

Before joining Lucent Technologies, Mr Butcher had gained extensive experience in software, and systems-integration, technology and business. He was president, Electronic Data Systems (EDS) Australia and New Zealand, and a member of the company's Asia Pacific executive committee.

Prior to joining EDS in 1993, Mr Butcher played roles in sales, sales management, and marketing with Datapoint Corporation, Alcatel, Wang Australia and Olivetti.

Mr Butcher began his career in the UK in 1969 as a systems engineer. He received his Bachelor of Science in Mechanical Engineering in the UK and has attended various management courses including INSEAD in Paris and the Fuqua School of Business, Duke University, in North Carolina.

CHUNG Cho Yee, Mico, aged 42, joined the Pacific Century Group in March 1999 and is an executive director, responsible for the Pacific Century Group's merger and acquisition activities, and is a member of the Executive Committee. He is a qualified solicitor by profession.

Mr Chung graduated from the University College, University of London, England, with a law degree in 1983. He qualified as a solicitor in Hong Kong in 1986, after which he worked in the commercial department of a law firm in Hong Kong for two years. He joined the corporate finance department of Standard Chartered Asia Limited, the investment banking arm of Standard Chartered Bank, in 1988.

He became a director and the general manager of Bond Corporation International Ltd in 1990, leaving to join China Strategic Holdings Ltd in January 1992.

LEE Chi Hong, Robert, aged 51, joined PCCW on August 19, 2002, and is the Chairman of PCCW Infrastructure. He is also an executive director of PCCW and is on the Executive Committee.

Mr Lee was previously an executive director of Sino Land Company Limited, where his responsibilities included sales, finance, acquisitions, investor relations, marketing and property management.

Prior to Sino Land, Mr Lee was a senior partner at Deacons in Hong Kong, where he specialized in banking, property development, corporate finance and dispute resolution in Hong Kong and mainland China. Prior to Deacons, Mr Lee was a solicitor with the London firm of Pritchard Englefield & Tobin. He was enrolled as a solicitor in the UK in 1979 and admitted as a solicitor in Hong Kong in 1980. Mr Lee became a Notary Public in Hong Kong in 1991.

He is also a member of the panel of arbitrators of the China International Economic and Trade Arbitration Commission of the China Council for the Promotion of International Trade in Beijing, PRC.

Mr Lee graduated in 1975 with a bachelor's degree in Political Science from Cornell University.

Non-Executive Directors

Professor CHANG Hsin-kang, aged 62, is an independent non-executive director of PCCW.

He is currently the President and University Professor of City University of Hong Kong. He has taught at several major universities in North America and served in a number of educational, science and technology organizations, and public advisory bodies in both the US and Hong Kong.

He is a member of the Council of Advisors on Innovation and Technology and chairman of the Culture and Heritage Commission and member of the Judicial Officers Recommendation Commission. Professor Chang is a foreign member of the Royal Academy of Engineering of UK and Chevalier dans l'Ordre National de la Légion d'Honneur of France. He was also awarded the Gold Bauhinia Star by the Government of the Hong Kong Special Administrative Region.

Professor Chang also serves as an independent non-executive director of Pacific Century Insurance Holdings Limited, a subsidiary of Pacific Century Regional Developments Limited, the parent company of PCCW.

Sir David FORD, **KBE, LVO,** aged 68, is a non-executive director of PCCW. He started his working life as a Regular Army officer in the Royal Artillery. He served in 17 different countries, and during his last five years with the army served with the Commando Brigade, seeing active service in Aden and Borneo.

Sir David left the army in 1972, and subsequently spent more than 20 years in Hong Kong, holding a number of appointments as a senior civil servant in the Hong Kong Government, and one in the Northern Ireland Office. He attended the Royal College of Defence Studies in 1982. Most recently he was Chief Secretary from 1986-1993, and then Hong Kong Commissioner in London until the change of sovereignty in June 1997.

Dr FUNG Kwok King, Victor, aged 57, is an independent non-executive director of PCCW. Dr Fung served as a non-executive director of HKT from 5 November 1992 until 17 August 2000.

He is currently chairman of the Li & Fung Group, the Hong Kong Airport Authority and the Hong Kong University Council.

From 1991 to 2000, Dr Fung was chairman of the Hong Kong Trade Development Council. In 1996, Dr Fung was appointed Hong Kong Representative on the APEC Business Advisory Council.

Dr The Hon LI Kwok Po, David, GBS, JP, aged 64, is an independent non-executive director of PCCW. He was previously a non-executive deputy chairman of HKT and served as a director of that company from 30 November 1987 until 17 August 2000.

He is chairman and chief executive of the Bank of East Asia and represents the Finance Constituency in the Legislative Council of Hong Kong. Dr Li is a member of the Exchange Fund Advisory Committee, Banking Advisory Committee, Hong Kong Association of Banks, Mandatory Provident Fund Schemes Authority and The Hong Kong Mortgage Corporation Limited.

Sir Roger LOBO, CBE, JP, aged 79, is an independent non-executive director of PCCW and chairman of the Audit Committee and the Regulatory Compliance Committee of the Board.

He is also a director of several organizations including Shun Tak Holdings Limited, Johnson & Johnson (HK) Ltd., Kjeldsen & Co. (HK) Ltd., P. J. Lobo & Co. Ltd., Pictet (Asia) Ltd. and Melco International Development Ltd.

His extensive record of public service includes serving on the Hong Kong Housing Authority, Urban Council, as a member of the Executive Council, senior member of the Legislative Council, Commissioner of Civil Aid Services, chairman of the Hong Kong Broadcasting Authority and chairman of the Advisory Committee on Post-retirement Employment.

He currently serves as chairman (Board of Trustees) of Vision 2047 Foundation, vice-patron of the Community Chest of Hong Kong and the Society for the Rehabilitation of Offenders, and Advisory Board member of the Hong Kong Aids Foundation.

Sir Roger has been the recipient of several awards and honors from the British Crown and the Vatican.

The Hon Raymond George Hardenbergh SEITZ, aged 62, is a non-executive director of PCCW and was a non-executive director of HKT from 15 October 1997 until 17 August 2000.

He is currently vice-chairman of Lehman Brothers International and was US Ambassador to Great Britain from 1991 to 1994. Prior to that, he was US Assistant Secretary of State for Europe from 1989 to 1991 and Minister at the US Embassy in London from 1984 to 1989.

Senior Advisor to the Board of Directors

Robert Charles NICHOLSON, aged 47, was appointed as a senior advisor to the Board of Directors of PCCW in August 2001. Mr Nicholson advises the Board in relation to strategic and operational matters and has overall responsibility for legal and regulatory affairs. He is also an executive director of Pacific Century Regional Developments Limited.

Mr Nicholson qualified as a solicitor in England and Wales in 1980 and in Hong Kong in 1982. He was a senior partner of Richards Butler from 1985 to 2001 where he established the corporate and commercial department. He has had wide experience in corporate finance and cross-border transactions, including mergers and acquisitions, regional telecommunications, debt and equity capital markets, corporate reorganizations and the privatization of state-owned enterprises in the PRC.

Corporate Governance

The Group is committed to high standards of ethics and integrity in all aspects of its business and to ensuring its affairs are conducted in accordance with applicable laws and regulations. We believe that we have incorporated the key elements of sound corporate governance in our management structures and internal control procedures, as described in this report.

Board of Directors

The objectives of the management structures within the Group, headed by the board of directors of PCCW (Board) and led by the Chairman and Chief Executive, are focused on enhancing shareholders' value and ensuring the sustainable long-term development of the Group. The Board is responsible for the management of the Group and its key responsibilities include the formulation of the Group's overall strategies and the supervision of management performance. All directors may take independent professional advice in furtherance of their duties if necessary. The Board reserves itself to making broad policy decisions, delegating responsibility for the more detailed considerations to the Executive Committee under the leadership of the Chairman and Chief Executive.

In January 2003 shareholders approved amendments to the Company's Articles of Association such that at each annual general meeting of the Company, one-third of the directors shall retire and be eligible for re-election.

Audit Committee

The Audit Committee of the Board oversees the financial reporting process and the adequacy and effectiveness of the Company's systems of internal control. Its authority and duties are set out in written terms of reference that are consistent with those recommended by the Hong Kong Society of Accountants.

The Audit Committee's responsibilities include the appointment, compensation and supervision of the external auditors. To ensure auditor independence, procedures have been adopted by the Audit Committee for the pre-approval of all auditing and any permitted non-audit services proposed to be undertaken by the external auditors.

Each member of the Audit Committee is an independent non-executive director. The Audit Committee meets at least three times a year to review, among other things, PCCW's financial statements, the internal financial reporting and compliance processes and internal controls, and the work program and activities of the Group Internal Audit unit. The Audit Committee meets regularly with, and reviews and receives reports from, our management and external auditors.

Regulatory Compliance Committee

A Regulatory Compliance Committee comprising executive and non-executive directors, but excluding the Chairman and Chief Executive, has been in existence since the second half of 2000. The committee was established in consultation with the Telecommunications Authority and the Broadcasting Authority. It reviews and monitors, among other things, dealings with the Hutchison Whampoa Group and Cheung Kong Holdings Group to ensure that all dealings between the Group and the Hutchison Whampoa Group and Cheung Kong Holdings Group are on arm's-length terms.

Executive Committee and subcommittees

The Executive Committee of the Board meets regularly and operates as a general management committee with overall delegated authority from the Board. The Executive Committee reports through the Chairman and Chief Executive to the Board.

The members of the Executive Committee are Li Tzar Kai, Richard (Chairman); Alexander Anthony Arena (Deputy Chairman); Yuen Tin Fan, Francis; Cheung Wing Lam, Linus; Michael John Butcher; Chung Cho Yee, Mico and Lee Chi Hong, Robert.

In January 2002, the Executive Committee established a new subcommittee structure to strengthen decision-making and supervision of all key operating and functional areas within the Company. A Finance Committee, Operational Committee and Infrastructure Committee have been established, comprising executive directors and members of senior management. Each subcommittee has defined terms of reference covering its authority and duties and is chaired by an executive director. The subcommittees meet regularly and report to the Executive Committee on a regular basis.

Internal Control

The directors are responsible for internal controls within the Company and for reviewing their effectiveness. Procedures have been designed for safeguarding assets against unauthorized use or disposition; for maintaining proper accounting records; and for the reliability of financial information used within the business or for publication. Such procedures are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, and not absolute, assurance against material errors, losses or fraud.

The key internal control procedures established within the Group include the following:

■ Expenditure Authorization and Control. Authority to operate the various business units and subsidiaries within the Group is delegated to their respective business unit heads/managing directors within limits set by the Board, or by the Executive Committee of the Board, under powers delegated by the Board. Authorities are delegated downwards within the Group to the point where decisions can be taken most efficiently, with the aim of balancing effective supervision with operational flexibility.

■ Business Planning and Performance Monitoring. The Group Finance department has established comprehensive management control systems incorporating planning, budgeting and monitoring arrangements for each business unit or subsidiary. The Group Finance department tracks key performance indicators on a monthly basis and regular reviews and assessments of progress against agreed targets are carried out by the Operational Committee in conjunction with operational management.

■ Integrity of Records and Accounting Procedures. Detailed operational, financial and management reporting procedures and guidelines are established by the Group Finance department for application across the Group. These are designed to ensure that proper controls are in place for the recording of complete, accurate and timely accounting and management information. Regular reviews and audits are carried out to ensure that the financial statements are prepared in accordance with generally accepted accounting principles, the Group's accounting policies and the laws and regulations applicable in each country of operations.

■ Corporate Responsibility Policy. This policy comprises a set of rules adopted by the Executive Committee and applies to all employees, including directors and officers, throughout the Group. This policy is intended to be a clear and simple guide to the standards of the way PCCW goes about its business and to the corporate responsibilities of employees of PCCW. This includes guidance on obligations towards the Company; civic responsibilities; equal opportunities; safeguarding communications, company information and property; privacy of personal data; prevention of bribery and conflicts of interest; competition; and health and safety at work and the environment. This policy also describes procedures to enable employees to raise concerns with management and directors on a confidential basis.

■ Corporate Functions. Centralized corporate functions have been given responsibility to set policies, procedures and standards in the areas of finance, treasury and debt execution, taxation, legal and regulatory affairs, company secretarial, risk management and compliance, human resources, mergers and acquisitions, corporate communications, purchasing and supply, property management and environmental protection. The Finance Committee has appointed a Compliance Co-ordinator to ensure proper co-ordination among these functional units and to promote management awareness of, and conformity, with all the Group's governance policies and compliance obligations.

Group Internal Audit

Group Internal Audit was established to provide independent assurance to the Board and executive management on the adequacy and effectiveness of the internal controls for the Group. The internal audit function is now an independent unit that was separated from PCCW's Risk Management and Compliance unit in 2002. The director of Group Internal Audit has reporting lines to the Audit Committee, the Chairman and Chief Executive and the Group Chief Financial Officer.

Group Internal Audit adopts a risk and control-based audit approach. The annual work plan of Group Internal Audit covers major activities and processes of the Group's business and service units. All audit reports are communicated to the Audit Committee and key members of executive and senior management. Audit issues are tracked and followed up for proper implementation, and progress is reported to the Audit Committee on a quarterly basis.

Investor Relations

The Company encourages two-way communication with both its institutional and private investors. Extensive information about the Company's activities is provided in the Annual Reports and Interim Reports which are sent to shareholders. There is regular dialogue with institutional investors. Enquiries from individuals on matters relating to their shareholdings and the business of the Company are welcomed and are dealt with in an informative and timely manner. Relevant contact information is provided on page 140 of this report.

In order to promote effective communication, the Company maintains its Internet website (http://www.pccw.com) on which financial and other information relating to the Group, and its business, are provided.

Financial Information

62 Report of the Directors
80 Auditors' Report
81 Consolidated Income Statement
82 Consolidated Statement of Changes in Equity
83 Consolidated Balance Sheet
85 Balance Sheet
86 Consolidated Cash Flow Statement
88 Notes to the Financial Statements
138 Five Year Financial Summary
139 Schedule of Principal Properties
140 Investor Relations

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

	Number of ordinary shares			
Name of director/chief executive	Personal interests	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	Number of ordinary shares Personal interests	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	Number of ordinary shares Personal interests	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:

1. (a) Li Tzar Kai, Richard holds the entire issued share capital of Pacific Century Group Holdings Limited ("PCG"). PCG holds the entire issued share capital of Pacific Century International Limited ("PCIL") 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 depositary 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.

2. 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.

3. 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.

4. 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
Directors						
Yuen Tin Fan, Francis	08.28.1999	08.17.2000 to 08.17.2004	08.17.2003 to 08.17.2009	2.356	10,670,000	10,670,000
	08.26.2000	08.26.2001 to 08.26.2005	08.26.2001 to 08.26.2010	12.024	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	Number of options: Outstanding at 12.31.2002
Employees						
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
Others	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$
Director						
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
Employees						
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
Others	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.

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
Directors			
Cheung Kam Hung, William *(Note 9)*	3.368	–	4,800,000
Ma Si Hang, Frederick *(Note 10)*	2.232	–	12,000,000
David Norman Prince *(Note 11)*	3.368	–	8,000,000
Jeffrey Amsden Bowden *(Note 13)*	3.368	–	9,600,000
Employees			
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:

1. All dates are shown month/day/year.
2. 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.
3. 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.
4. 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.
5. 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.
6. 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.
7. 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.
8. 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.
9. 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.
10. 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.
11. 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.
12. 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.
13. 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:

1. 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:

   (a) 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.

   (b) 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.

   (c) 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.

   (d) 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.

2. 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.

3. 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 *(Note 1)*	HWL and its subsidiaries ("Hutchison Group")	Property business and satellite transmission in Asia	Certain personal and deemed interests in HWL
Chung Cho Yee, Mico	iLink *(Note 2)*	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:

1. 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.
2. 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.

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

Auditors' Report

TO THE SHAREHOLDERS OF PCCW LIMITED

(Formerly Pacific Century CyberWorks Limited)

(Incorporated in Hong Kong with limited liability)

We have audited the accompanying financial statements of PCCW Limited (the "Company") and its subsidiaries (the "Group") as at December 31, 2002 on pages 81 to 137 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Hong Kong Companies Ordinance requires the directors to prepare financial statements, which give a true and fair view. In preparing financial statements, which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at December 31, 2002 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, March 20, 2003

Consolidated Income Statement

For the year ended December 31, 2002

In HK$ million (except for (loss)/earnings per share)	Note	2002	2001 (Restated) (Note 38)
Turnover	4	**20,112**	21,959
Operating profit before net gains on investments, provision for impairment losses and restructuring costs	5	**5,212**	4,774
Gains on investments, net	6	**13**	767
Provision for impairment losses		**(534)**	(91)
Restructuring costs	7	**(311)**	–
Profit from operations	4	**4,380**	5,450
Finance costs, net	9	**(1,997)**	(3,056)
Share of results of jointly controlled companies		**550**	523
Share of results of associates		**281**	158
Share of results of unconsolidated subsidiaries		**–**	152
Impairment loss for goodwill attributable to the interest in Reach Ltd. ("REACH")	10	**(8,263)**	–
Losses on disposal of interests in Joint Venture (Bermuda) No. 2 Limited ("RWC") and MobileOne Ltd. ("MobileOne"), net	11	**(1,433)**	–
(Loss)/Profit before taxation	8	**(6,482)**	3,227
Taxation, as previously stated		**(1,406)**	(1,433)
Prior period adjustment arising from adoption of new accounting standard for deferred taxation	38(b)	**–**	(549)
Taxation, as restated	13	**(1,406)**	(1,982)
(Loss)/Profit after taxation		**(7,888)**	1,245
Minority interests		**126**	98
(Loss)/Profit for the year attributable to shareholders	4	**(7,762)**	1,343
Basic (loss)/earnings per share	15	**(168.53 cents)**	30.01 cents
Diluted earnings per share	15	**N/A**	29.11 cents

Consolidated Statement of Changes in Equity

For the year ended December 31, 2002

In HK$ million	Note(s)	2002	2001 (Restated) (Note 38)
Total shareholders' deficit at January 1, as previously stated		**(7,641)**	(18,090)
Prior period adjustment arising from adoption of new accounting standard for deferred taxation	29 & 38(b)	**(3,400)**	(3,216)
Total shareholders' deficit at January 1, as restated		**(11,041)**	(21,306)
Adjustment in relation to the recognition of transitional liability of defined benefit retirement schemes arising from adoption of new accounting standard for employee benefits at January 1, 2002	29 & 38(a)	**(723)**	–
		(11,764)	(21,306)
Deficit on revaluation of properties, as previously stated	29	**–**	(301)
Prior period adjustment arising from adoption of new accounting standard for deferred taxation	29	–	96
Deficit on revaluation of properties, as restated	29	–	(205)
Translation exchange differences	29	**107**	(159)
Net gains/(losses) not recognized in the consolidated income statement		**107**	(364)
Net (loss)/profit for the year, as previously stated	29	**(7,762)**	1,892
Prior period adjustment arising from adoption of new accounting standard for deferred taxation	29 & 38(b)	**–**	(549)
Net (loss)/profit for the year, as restated	29	**(7,762)**	1,343
Issue of ordinary shares and exercise of options, net of issuing expenses		**965**	2,641
Realization of goodwill on disposal of RWC	29	**4,081**	–
Impairment provision of goodwill attributable to REACH	29	**8,263**	–
Impairment provision of goodwill attributable to a subsidiary	29	**194**	–
Realization of goodwill on disposal of subsidiaries	29	**–**	33
Realization of goodwill on contribution of assets to a jointly controlled company, as previously stated	29	**–**	6,382
Prior period adjustment arising from adoption of new accounting standard for deferred taxation	29	**–**	269
Realization of goodwill on contribution of assets to a jointly controlled company, as restated	29	**–**	6,651
Adjustment to goodwill arising from acquisition of an associate	29	**–**	(39)
Realization of/adjustment to goodwill previously eliminated against reserves		**12,538**	6,645
Total shareholders' deficit at December 31		**(5,916)**	(11,041)

Consolidated Balance Sheet

As at December 31, 2002

In HK$ million	Note	2002	2001 (Restated) (Note 38)
ASSETS AND LIABILITIES			
Non-current assets			
Fixed assets	16	**23,280**	24,599
Properties held for/under development	17	**4,357**	2,047
Goodwill	18	**1,304**	1,318
Intangible assets	19	**1,738**	1,427
Investment in jointly controlled companies	21	**3,505**	2,910
Investment in associates	22	**1,127**	3,326
Investments	23	**908**	1,692
Net lease payments receivable	32	**475**	475
Other non-current assets		**467**	336
		37,161	38,130
Current assets			
Properties held for sale	24(a)	**2**	–
Prepayments, deposits and other current assets	36	**2,075**	3,055
Inventories	24(b)	**481**	372
Amounts due from related companies	3(d)	**45**	268
Other investments	23(b)	**394**	630
Accounts receivable	24(c)	**1,724**	1,943
Cash and cash equivalents	31(c)	**7,881**	7,443
		12,602	13,711
Current liabilities			
Short-term borrowings	24(e)	**(154)**	(278)
Accounts payable	24(f)	**(1,160)**	(691)
Accruals, other payables and deferred income	33(a)	**(4,829)**	(5,548)
Provisions	24(g)	**(70)**	(1,374)
Amounts due to related companies	3(d)	**(373)**	(499)
Gross amounts due to customers for contract work	24(d)	**(10)**	(48)
Advances from customers	3(b)	**(1,221)**	(1,487)
Taxation		**(1,187)**	(1,041)
		(9,004)	(10,966)
Net current assets		**3,598**	2,745
Total assets less current liabilities		**40,759**	40,875

In HK$ million	Note	2002	2001 (Restated) (Note 38)
Non-current liabilities			
Long-term liabilities	25	**(41,366)**	(47,875)
Amounts due to minority shareholders of subsidiaries		**(11)**	(6)
Deferred taxation	30	**(3,165)**	(3,416)
Deferred income	33(a)	**(19)**	(7)
Defined benefit liability	27(a)	**(586)**	–
Other long-term liabilities		**(1,120)**	(68)
		(46,267)	(51,372)
Net liabilities		**(5,508)**	(10,497)
REPRESENTING:			
Share capital	26	**1,164**	1,135
Deficit	29	**(7,080)**	(12,176)
Shareholders' deficit		**(5,916)**	(11,041)
Minority interests		**408**	544
		(5,508)	(10,497)

Approved by the Board of Directors on March 20, 2003 and signed on behalf of the Board by

Alexander Anthony Arena
Director

Yuen Tin Fan, Francis
Director

Balance Sheet

As at December 31, 2002

In HK$ million	Note	2002	2001
ASSETS AND LIABILITIES			
Non-current assets			
Investment in subsidiaries	20	**26,317**	45,280
Other non-current assets		**105**	–
		26,422	45,280
Current assets			
Accounts receivable, prepayments, deposits and other current assets		**52**	37
Amounts due from intermediate holding company		**22**	266
Cash and cash equivalents		**3,499**	3,134
		3,573	3,437
Current liabilities			
Short-term borrowings	24(e)	**–**	(10)
Accruals, other payables and deferred income	33(a)	**(47)**	(108)
Provision	24(g)	**–**	(1,004)
		(47)	(1,122)
Net current assets		**3,526**	2,315
Total assets less current liabilities		**29,948**	47,595
Non-current liabilities			
Convertible bonds	25(b)	**(1,519)**	(6,073)
Deferred income	33(a)	**–**	(9)
		(1,519)	(6,082)
Net assets		**28,429**	41,513
REPRESENTING:			
Share capital	26	**1,164**	1,135
Reserves	29	**27,265**	40,378
Shareholders' funds		**28,429**	41,513

Approved by the Board of Directors on March 20, 2003 and signed on behalf of the Board by

Alexander Anthony Arena
Director

Yuen Tin Fan, Francis
Director

Consolidated Cash Flow Statement

For the year ended December 31, 2002

In HK$ million	Note	2002	2001 (Restated) *(Note 39)*
NET CASH INFLOW FROM OPERATING ACTIVITIES	31(a)	**3,917**	5,716
INVESTING ACTIVITIES			
Proceeds from disposals of fixed assets and other investments		**20**	203
Proceeds from the formation of REACH and the disposal of RWC		**–**	21,696
Purchases of fixed assets		**(1,611)**	(2,415)
Purchases of intangible assets		**(114)**	–
(Increase)/Decrease in other non-current assets		**(13)**	15
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	31(b)	**–**	(66)
Decrease in short-term bank deposits (non-cash equivalents portion)		**–**	1
Increase in properties held for sale		**(2)**	–
Purchases of investments, investments in jointly controlled companies and associates		**(144)**	(365)
Proceeds from disposals of investments, investments in jointly controlled companies and associates		**474**	377
Proceeds from termination of cross currency swap contracts		**332**	–
Amounts received from jointly controlled companies and associates, net		**283**	–
Acquisition of additional interests in subsidiaries		**–**	(398)
Purchases of other investments		**(37)**	(29)
NET CASH (OUTFLOW)/INFLOW FROM INVESTING ACTIVITIES		**(812)**	19,019

In HK$ million	Note	2002	2001 (Restated) *(Note 39)*
FINANCING ACTIVITIES			
Proceeds from issuance of shares and exercise of options, net of issuing expenses		**–**	8
Proceeds from issuance of convertible bonds		**3,510**	5,850
Expenses on issuance of convertible bonds		**(173)**	–
New loans raised		**12,052**	45,877
Interest paid		**(1,159)**	(2,383)
Decrease in long-term liabilities		**–**	(47)
Repayment of loans		**(17,632)**	(78,832)
(Decrease)/Increase in contributions from minority shareholders of subsidiaries		**(2)**	50
Decrease/(Increase) in restricted cash	36	**685**	(1,405)
NET CASH OUTFLOW FROM FINANCING ACTIVITIES		**(2,719)**	(30,882)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**386**	(6,147)
Exchange realignment		**52**	(115)
CASH AND CASH EQUIVALENTS			
Beginning of year		**7,443**	13,705
End of year	31(c)	**7,881**	7,443

Notes to the Financial Statements

December 31, 2002

(Amount expressed in Hong Kong dollars unless otherwise stated)

1 GROUP ORGANIZATION

PCCW Limited (formerly Pacific Century CyberWorks Limited) (the "Company") was incorporated in Hong Kong and its securities have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since October 18, 1994. The principal activities of the Company and its subsidiaries (the "Group") are the provision of local and international telecommunications services, Internet and interactive multimedia services, the sale and rental of telecommunications equipment, and the provision of computer, engineering and other technical services, mainly in 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.

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

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

a. Statement of compliance

The financial statements have been prepared in accordance with applicable Statements of Standard Accounting Practice ("SSAP") issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong ("HK GAAP") and the disclosure requirements of the Hong Kong Companies Ordinance. In particular, these financial statements reflect the adoption of the first time of SSAP 1 (revised) "Presentation of financial statements", SSAP 11 (revised) "Foreign currency translation", SSAP 15 (revised) "Cash flow statements", SSAP 33 "Discontinuing operations" and SSAP 34 "Employee benefits" which became effective January 1, 2002, and have opted for adoption of SSAP 12 "Income taxes" which is effective for accounting periods commencing on or after January 1, 2003. The Group has followed the transitional arrangements and where appropriate has retrospectively adjusted its financial results for the year ended December 31, 2001, as required under SSAP 2 "Net profit or loss for the period, fundamental errors and changes in accounting polices". Details of these adjustments are disclosed in note 38. These financial statements also comply with the disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange. Apart from the new SSAP 34 and the revised SSAP 12, the adoption of these new and revised SSAPs has not had a material financial impact on the preparation of these financial statements, although some comparative disclosures have been amended or extended.

b. Basis of preparation of the financial statements

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

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)

c. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. All significant intra-group transactions and balances are eliminated on consolidation.

Unless otherwise indicated, the results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from or up to their effective dates of acquisition or disposal, as appropriate.

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

For subsidiaries having accounting year ends different from the Group, the subsidiaries prepare, for the purpose of consolidation, financial statements as at the same date as the Group.

d. Turnover

Turnover represents (i) telecommunications and other service revenues, (ii) the amounts received and receivable in respect of goods sold, or sales of properties, (iii) amounts received and receivable from the rental of investment properties, and (iv) revenues from construction contracts.

e. Revenue recognition

Provided it is probable that the economic benefits associated with a transaction will flow to the Group and the revenue and costs, if applicable, can be measured reliably, turnover and other revenue are recognized in the income statement on the following bases:

i. **Telecommunications and other services**

Telecommunications services comprise the fixed line telecommunications network services and equipment businesses in Hong Kong.

Telecommunications service revenue based on usage of the Group's network and facilities is recognized when the services are rendered. Telecommunications revenue for services provided for fixed periods is recognized on a straight-line basis over the respective periods.

Other service income is recognized when services are rendered to customers.

ii. **Sales of goods**

Sales of goods are recognized when the significant risks and rewards of ownership of the goods have been transferred to customers.

iii. **Sales of properties**

Income arising from sales of completed properties is recognized upon completion of the sale when title passes to the purchaser.

Income arising from the pre-sale of properties under development is recognized when legally binding unconditional sales contracts are signed and exchanged, provided that the construction work has progressed to a stage where the ultimate realization of profit can be reasonably determined and on the basis that the total estimated profit is apportioned over the entire period of construction to reflect the progress of the development.

iv. **Rental income**

Rental income from investment properties is recognized on a straight-line basis over the respective terms of the leases.

v. **Contract revenue**

Revenue from a fixed price contract is recognized using the percentage of completion method, measured by reference to the percentage of estimated value of work done to date to total contract revenue.

vi. **Interest income**

Interest income from bank deposits and interest bearing notes is recognized on a time apportioned basis on the principal outstanding and at the rate applicable. Any discount or premium from the interest bearing notes is amortized over the life of the notes.

vii. **Commission income**

Commission income is recognized when entitlement to the income is ascertained.

viii. **Dividend income**

Dividend income is recognized when the right to receive payment is established.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)

f. Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rental income and expenses under operating leases are accounted for in the income statement on a straight-line basis over the period of the relevant leases.

g. Fixed assets and depreciation

Fixed assets, excluding investment properties, are stated in the balance sheet at cost less accumulated depreciation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after a fixed asset has been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the subsequent expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset beyond its originally assessed standard of performance, the expenditure is capitalized as an additional cost of the fixed asset and is depreciated over the original remaining useful life of the asset.

Depreciation is calculated on the straight-line basis at annual rates estimated to write off the cost of fixed assets over their expected useful lives. The annual rates are as follows:

Land and buildings	Over the shorter of the lease term and the expected useful lives
Exchange equipment	5 to 15 years
Transmission plant	5 to 25 years
Other plant and equipment	Over the shorter of 2 to 16 years and term of lease

A write-down is made if the recoverable amount of a fixed asset is below its carrying amount. The write-down is charged to the income statement as an expense unless it reverses a previous revaluation increase, in which case it is charged directly against any related revaluation reserve to the extent that the reduction does not exceed the amount held in the revaluation reserve in respect of the same item.

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

h. Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential and for the long term.

Investment properties are included in the balance sheet at their open market value, on the basis of an annual valuation by professionally qualified executives of the Group and by independent valuers at intervals of not more than three years. Changes in the value of investment properties are dealt with as movements in the property revaluation reserve. If the total of this reserve is insufficient to cover a reduction in the open market value on a portfolio basis, the excess is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realized in respect of previous valuations is released from the property revaluation reserve to the income statement as part of the gain or loss on disposal of the investment property.

No depreciation is provided on investment properties unless the unexpired lease term is 20 years or less, in which case depreciation is provided on their carrying value over the unexpired leases term.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)

i. Impairment of assets

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

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

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

i. Calculation of recoverable amount

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

ii. Reversals of impairment losses

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

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

j. Properties held for development

Properties held for development represent interests in land where construction has not yet commenced. Properties held for development are stated at cost less any provision for impairment in value. Costs include original land acquisition costs, costs of land use rights, and any direct development costs incurred attributable to such properties.

k. Properties under development

Properties under development represent interests in land and buildings under construction. Properties under development for long-term purposes are stated at cost less any provision for impairment in value. Properties under development for sale, pre-sales of which have not yet commenced are carried at the lower of cost and net realizable value. Properties under development for sale for which pre-sales have commenced are stated at cost plus attributable profits less sale deposits, instalments received and receivable and any foreseeable losses.

Cost includes original land acquisition costs, costs of land use rights, construction expenditure incurred and other direct development costs attributable to such properties, including interest prior to the completion of construction.

Properties under development for long-term retention, on completion, are transferred to fixed assets or investment properties.

Properties under development for sale with occupancy permits expected to be granted within one year from the balance sheet date, which have either been pre-sold or are intended for sale, are classified under current assets.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)

l. Trademarks

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

m. Goodwill

Goodwill arising on the acquisition of a subsidiary, jointly controlled company or associate represents the excess of the purchase consideration over the Group's share of the estimated fair value ascribed to the separable assets and liabilities of the subsidiary, jointly controlled company or associate at the date of acquisition.

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

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

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

n. Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors. A subsidiary is considered to be controlled if the Company has the power, directly or indirectly, to govern its financial and operating policies. Investments in subsidiaries are carried at cost in the Company's balance sheet less provision for impairment in value, on an individual entity basis. The results of subsidiaries are included in the income statement of the Company only to the extent of dividends declared.

o. Associates

An associate is a company over which the Group has significant influence, but not control or joint control, and thereby has the ability to participate in its financial and operating policy decisions.

In the consolidated financial statements, investments in associates are accounted for using the equity method of accounting, whereby investments are initially recorded at cost and the carrying amounts are adjusted to recognize the Group's share of post-acquisition profits or losses of the associates, distributions received from associates and other necessary alterations in the Group's proportionate interests in the net assets of the associates arising from changes in the equity of associates that have not been included in the consolidated income statement.

In the Company's balance sheet, investment in associates is carried at cost less provision for impairment in value, on an individual entity basis. The results of associates are included in the income statement of the Company only to the extent of dividends declared.

p. Joint ventures and jointly controlled companies

A jointly controlled company or a joint venture is a contractual arrangement whereby the Company and other parties undertake an economic activity that is subject to joint control and over which none of the participating parties has unilateral control. The Group has made investments in joint ventures in the People's Republic of China (the "PRC") in respect of which the partners' profit-sharing ratios during the joint venture period and share of net assets upon the expiration of the joint venture period may not be in proportion to their equity ratios, but are as defined in the respective joint venture contracts.

Investments in jointly controlled companies or joint ventures are accounted for using the equity method of accounting, as described in note 2(o) above, in the Group's consolidated financial statements.

p. Joint ventures and jointly controlled companies (continued)

Investments made by means of joint venture structures where the Group controls the board of directors or equivalent governing body and/or is in a position to exercise control over the financial and operating policies of the joint ventures are accounted for as subsidiaries.

The Company's interests in joint ventures and jointly controlled companies are carried at cost in the Company's balance sheet less provisions for impairment in value, on an individual entity basis. The results of joint ventures and jointly controlled companies are included in the income statement of the Company only to the extent of dividends declared.

q. Unconsolidated subsidiaries

An unconsolidated subsidiary is a subsidiary that is excluded from consolidation. This arises when control is intended to be temporary because the subsidiary is acquired and held exclusively with a view to its subsequent disposal in the near future. To the extent the investments in unconsolidated subsidiaries are intended to be temporary, they are accounted for using the cost method of accounting and are recorded as current assets on the consolidated balance sheet. In respect of investments in unconsolidated subsidiaries intended to be held for the long term, they are accounted for using the equity method of accounting.

r. Investments

Held-to-maturity securities

Held-to-maturity securities are investments which the Group has the expressed intention and ability to hold to maturity. They are carried at amortized cost less any provision for impairment in value. Any discount or premium is amortized over the period to maturity and is included in the income statement.

The carrying amounts of held-to-maturity securities are reviewed at each balance sheet date to assess the credit risk and whether the carrying amounts are expected to be recovered. Provisions are made when the carrying amounts are not expected to be recovered and are recognized as an expense in the income statement.

Investment securities

Investments, which include both debt and equity securities, intended to be held on a continuing basis, are classified as investment securities and are included in the balance sheet at cost less any provision for impairment in value.

The carrying amounts of investment securities are reviewed at each balance sheet date to assess whether fair values have declined below the carrying amounts. When such a decline has occurred, the carrying amount is reduced and the reduction is recognized as an expense in the income statement unless there is evidence that the decline is temporary.

Provisions against the carrying values of held-to-maturity securities and investment securities are reversed to the income statement when the circumstances and events that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

Upon disposal of held-to-maturity securities and investment securities, any profit or loss thereon is accounted for in the income statement.

Other investments

Investments other than held-to-maturity securities and investment securities are classified as other investments and are carried at fair value in the balance sheet. Any unrealized holding gain or loss on other investments is recognized in the income statement in the period when it arises. Upon disposal of other investments, any profit or loss representing the difference between the carrying value of the investment and net sales proceeds is accounted for in the income statement.

The transfer of investments between categories is accounted for at fair value. For an investment transferred into the other investment category, the unrealized holding gain or loss at the date of transfer is recognized in the income statement immediately. Previously recognized unrealized holding gains or losses on investments transferred from other investment category are not reversed.

s. Properties held for sale

Properties held for sale are stated at the lower of cost and net realizable value. Cost includes development and construction expenditure incurred, interest incurred during the construction period and other direct costs attributable to such properties. Net realizable value is estimated by the directors based on prevailing market prices, on an individual property basis, less any further costs expected to be incurred on disposal.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)

t. Inventories

Inventories consist of trading inventories, work in progress and consumable inventories.

Trading inventories are carried at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Work-in-progress is stated at cost, which comprises labor, materials and overheads where appropriate.

Consumable inventories, held for use in the maintenance and expansion of the Group's telecommunications systems, are stated at cost less provision for deterioration and obsolescence.

Cost is derived on the weighted average cost basis and comprises all costs of purchase, costs of conversion and other costs incurred in bringing inventories to their present location and condition.

u. Construction contracts

The accounting policy for contract revenues is set out in note 2(e)(v) above. When the outcome of a construction contract can be estimated reliably, contract costs are recognized as expenses by reference to the stage of completion of the contract activity at the balance sheet date. When it is probable that total contract costs will exceed total contract revenue, the full expected loss is recognized as an expense immediately. When the outcome of a construction contract cannot be estimated reliably, contract costs are recognized as an expense in the period in which they are incurred.

Construction contracts in progress at the balance sheet date are recorded at the net amount of costs incurred plus recognized profits less recognized losses and estimated value of work performed, and are presented in the balance sheet as "Gross amounts due from customers for contract work" (an asset) or "Gross amounts due to customers for contract work" (a liability), as applicable. Amounts billed, but not yet paid by customers, for work performed on a contract are included in the balance sheet under "Accounts receivable".

v. Cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity when acquired, less bank overdrafts that are repayable on demand and form an integral part of the Group's cash management, and also advances from banks repayable within three months from the dates of advances.

w. Provisions and contingent liabilities

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

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

x. Borrowing costs

Borrowing costs are expensed in the income statement in the period in which they are incurred, except to the extent that they are attributable to the acquisition, construction or production of an asset that necessarily involves a substantial period of time before the asset is ready for its intended use or sale, in which case the borrowing costs are capitalized as part of the cost of the asset.

Discounts or premiums relating to borrowings, ancillary costs incurred in connection with arranging borrowings and exchange differences arising from foreign currency borrowings to the extent that they are regarded as adjustments to interest costs, are recognized as expenses over the period of the borrowing.

y. Deferred taxation

Deferred taxation is provided using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The principal temporary differences arise from depreciation on fixed assets, revaluations of certain non-current assets, provisions for pensions, tax losses carried forward; and, in relation to acquisitions, on the difference between the fair values of the net assets acquired and their tax base. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax liabilities are provided in full on all taxable temporary differences while deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Before the adoption of SSAP 12, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the financial statements to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of SSAP 12 "Income taxes" represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy (see note 38(b)).

z. Employee benefits

i. Salaries, annual bonuses, annual leave entitlements, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, provisions are made for the estimated liability as a result of services rendered by employees up to the balance sheet date.

ii. The Group operates both defined benefit and defined contribution retirement schemes (including the Mandatory Provident Fund) for its employees, the assets of which are generally held in separate trustee – administered funds. The schemes are generally funded by payments from the relevant Group companies and, in some cases, employees themselves, taking account of the recommendations of independent qualified actuaries.

   The Group's contributions to the defined contribution schemes are charged to the income statement in the period to which the contributions relate.

   For defined benefit retirement schemes, retirement costs are assessed using the projected unit credit method. Under this method, the cost of providing retirement benefits is charged to the income statement so as to spread the regular cost over the service lives of employees in accordance with the advice of the actuaries who carry out a full valuation of the schemes on an annual basis. The retirement benefit obligation is measured as the present value of the estimated future cash outflows using market yields on Exchange Fund Notes which have terms to maturity approximating the terms of the related liability. Scheme assets are measured at fair value. Actuarial gains and losses, to the extent that the amount is in excess of 10 percent of the greater of the present value of the defined benefit obligations and the fair value of the scheme assets, are recognised over the expected average remaining service lives of the employees. Past service costs are recognised as an expense on a straight-line basis over the average period until the benefits become vested.

   In previous years, retirement costs in respect of the defined benefit retirement schemes were charged to the income statement based on actuarial determinations of contributions payable in that year, using the attained age method. The adoption of the SSAP 34 "Employee benefits" in 2002 represents a change in accounting policy. As a result of this change, the opening deficit at January 1, 2002 has been increased by HK$723 million. Comparatives have not been restated (see note 38(a)).

iii. The Group grants employees shares of the Company under its share award schemes at nil consideration. The cost of shares is recognized in the balance sheet as prepaid expenses at the date of grant and amortized over the respective vesting period and recognized in the income statement as staff costs.

   The Group also operates share option schemes where directors or employees are granted with options to acquire shares of the Company at specified exercise price. No compensation costs are recognized in the income statement.

iv. Termination benefits are recognized when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)

aa. Foreign currencies

Companies comprising the Group maintain their books and records in the primary currencies of their operations (the "respective functional currencies").

In the financial statements of individual companies, transactions in other currencies during the year are translated into the respective functional currencies at the applicable rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in other currencies are translated into the respective functional currencies at the applicable rates of exchange in effect at the balance sheet date. All exchange differences are dealt with in the income statement.

For the purpose of preparing consolidated financial statements, the financial statements of the individual companies with functional currencies other than Hong Kong dollars are translated into Hong Kong dollars using the net investment method. Under this method, assets and liabilities of these individual companies are translated into Hong Kong dollars at the applicable rates of exchange in effect at the balance sheet date. Income and expenses are translated at the average exchange rates for the year. Share capital and other reserves are translated into Hong Kong dollars at historical rates. Exchange differences arising on translation are dealt with as movements in reserves.

bb. Off balance sheet financial instruments and derivatives

Gains and losses on the revaluation and maturity of spot and forward foreign exchange contracts used for hedging purposes are recorded in the income statement and are offset against gains and losses arising from the foreign exchange transactions and revaluation of foreign currency denominated assets and liabilities which these contracts are hedging. Forward contracts undertaken for trading purposes are marked to market and the gain or loss arising is recognized in the income statement.

Interest rate swaps, forward interest rate agreements and interest rate options are used to manage exposure to interest rate fluctuations. The notional amounts are recorded off balance sheet. Interest flows are accounted for on an accrual basis. Interest income or expense arising from the interest rate swap contracts are netted off against the related interest income or expense applicable to the on-balance sheet items, which these financial instruments are hedging.

The notional amounts of equity and currency options are not reflected in the balance sheet.

Premiums received or paid on the respective written or purchased equity and currency options are amortized over the terms of these options (see note 33). Premium received or paid or unamortized balance of premium received or paid resulting from early termination of the financial instruments and derivatives are recognized in the income statement in the year of termination.

cc. Management estimates

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

dd. Segment reporting

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

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

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

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)

dd. Segment reporting (continued)

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

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

3 RELATED PARTY TRANSACTIONS

Companies are considered to be related if one company has the ability, directly or indirectly, to control the other company or exercise significant influence over the other company in making financial and operating decisions. Companies are also considered to be related if they are subject to common control or common significant influence.

a. During the year, the Group had the following significant transactions with related companies:

In HK$ million	The Group	
	2002	2001
Convertible bond interest payable to the ultimate holding company	**293**	293
Telecommunication service fees, rental charges and subcontracting charges from an associate and a jointly controlled company	**848**	1,150
Purchase of telecommunications services from an associate and a jointly controlled company	**1,636**	1,826

The above transactions were carried out after negotiations between the Group and the related parties in the ordinary course of business and on the basis of estimated market value as determined by the directors. In respect of transactions for which the price or volume has not yet been agreed with the relevant related parties, the directors have determined the relevant amounts based on their best estimation.

b. Advances from customers include an amount of HK$107 million (2001: HK$150 million) which represents prepaid advertising fees received and receivable from investee companies for advertising space on the broadband Internet and television network operated by the Group.

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

In addition, the Group entered into one year fixed price bulk purchase arrangements for international connectivity services from January 1, 2002 which committed the Group to aggregate purchase levels. The Group's commitments under these arrangements had regard to its future capacity needs and opportunities for growth as well as the JV's minimum earnings requirements under its financing arrangements. Regulated services in Hong Kong were acquired in accordance with tariffs approved by the relevant regulatory authority and unregulated services were acquired in accordance with market prices. Purchases made by the Group for the year ended December 31, 2002 were HK$1,443 million (2001: HK$1,700 million).

d. Balances with related parties other than as specified in this note are unsecured, non-interest bearing and have no fixed repayment terms.

4 SEGMENT INFORMATION

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

a. Business segments

During the year, the Group transferred certain operations among business segments as a result of its operational re-organization. The Group comprises the following main business segments:

Telecommunications Services ("TSS") is the leading provider of telecommunications services, Internet access and multimedia services and related equipment in Hong Kong.

Business eSolutions offers IT solutions, business broadband Internet access, hosting and facilities management services and directories businesses within Hong Kong, Taiwan and mainland China.

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

Others include the Group's other businesses in mainland China, Pacific Century CyberWorks Japan Co., Ltd. ("PCCW Japan"), Internet Services and CyberWorks Ventures.

4 SEGMENT INFORMATION (continued)

a. Business segments (continued)

In HK$ million	TSS[1]		Business eSolutions[3]		Infrastructure		Others[2]		Eliminations		Consolidated	
	2002	2001*	**2002**	2001*	**2002**	2001	**2002**	2001*	**2002**	2001*	**2002**	2001 (Restated) (Note 38)
REVENUE												
External revenue	**17,248**	18,874	**1,661**	1,457	**503**	1,238	**700**	390	**–**	–	**20,112**	21,959
Inter-segment revenue	**759**	953	**573**	479	**182**	130	**93**	78	**(1,607)**	(1,640)	**–**	–
Total revenue	**18,007**	19,827	**2,234**	1,936	**685**	1,368	**793**	468	**(1,607)**	(1,640)	**20,112**	21,959
RESULT												
Segment result	**6,348**	7,243	**(102)**	(31)	**267**	309	**(1,930)**	(1,622)	**–**	–	**4,583**	5,899
Unallocated corporate expenses											**(203)**	(449)
Profit from operations											**4,380**	5,450
Finance costs, net											**(1,997)**	(3,056)
Share of results of associates, jointly controlled companies and unconsolidated subsidiaries	**1,060**	1,092	**(34)**	(72)	**1**	–	**(196)**	(187)	**–**	–	**831**	833
Impairment loss for goodwill attributable to the interest in REACH	**(8,263)**	–	**–**	–	**–**	–	**–**	–	**–**	–	**(8,263)**	–
Losses on disposal of interests in RWC and MobileOne, net	**(1,433)**	–	**–**	–	**–**	–	**–**	–	**–**	–	**(1,433)**	–
(Loss)/Profit before taxation											**(6,482)**	3,227
Taxation											**(1,406)**	(1,982)
(Loss)/Profit after taxation											**(7,888)**	1,245
Minority interests											**126**	98
(Loss)/Profit for the year attributable to shareholders											**(7,762)**	1,343

4 SEGMENT INFORMATION (continued)

a. Business segments (continued)

In HK$ million	TSS[1] 2002	TSS[1] 2001*	Business eSolutions[3] 2002	Business eSolutions[3] 2001*	Infrastructure 2002	Infrastructure 2001	Others[2] 2002	Others[2] 2001*	Eliminations 2002	Eliminations 2001*	Consolidated 2002	Consolidated 2001 (Restated) (Note 38)
OTHER INFORMATION												
Capital expenditure (including fixed assets, intangible assets and goodwill) incurred during the year	**1,353**	2,777	**117**	425	**19**	16	**718**	689				
Depreciation and amortization	**2,183**	2,002	**95**	77	**206**	201	**255**	270				
Impairment loss recognized in income statement	**8,263**	–	**147**	–	**–**	63	**387**	28				
Significant non-cash expenses (excluding depreciation, amortization and impairment loss)	**108**	126	**16**	–	**10**	–	**742**	457				
ASSETS												
Segment assets	**20,122**	17,542	**1,474**	1,334	**10,662**	11,451	**3,082**	3,513	**–**	–	**35,340**	33,840
Investment in associates and jointly controlled companies	**4,443**	5,870	**110**	202	**1**	4	**78**	160	**–**	–	**4,632**	6,236
Unallocated corporate assets											**9,791**	11,765
Consolidated total assets											**49,763**	51,841
LIABILITIES												
Segment liabilities	**5,593**	4,989	**734**	198	**977**	952	**736**	1,258	**–**	–	**8,040**	7,397
Unallocated corporate liabilities											**47,231**	54,941
Consolidated total liabilities											**55,271**	62,338

* Comparative figures have been restated to conform with current year's classification as follows:

1. Retail consumer broadband and narrowband Internet access services and related multimedia services were transferred to TSS from Internet Services in 2002.
2. The remainder of Internet Services, which primarily comprises costs associated with the production of English and Chinese Internet and broadband content, is included under Others in 2002.
3. The operations of Internet Data Centers were merged into and are reported under Business eSolutions in 2002.

4 SEGMENT INFORMATION (continued)

b. Geographical segments

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

In HK$ million	Revenue from external customers		Segment assets		Capital expenditure incurred during the year	
	2002	2001	**2002**	2001	**2002**	2001
Hong Kong	**19,063**	21,010	**29,000**	27,027	**1,550**	3,429
Mainland China and Taiwan	**701**	853	**4,708**	4,501	**62**	92
Others	**348**	96	**1,632**	2,312	**616**	400
	20,112	21,959	**35,340**	33,840	**2,228**	3,921

5 OPERATING PROFIT BEFORE NET GAINS ON INVESTMENTS, PROVISION FOR IMPAIRMENT LOSSES AND RESTRUCTURING COSTS

In HK$ million	The Group	
	2002	2001
Turnover	**20,112**	21,959
Cost of sales	**(5,295)**	(6,855)
General and administrative expenses	**(9,605)**	(10,369)
Other income	**–**	39
Operating profit before net gains on investments, provision for impairment losses and restructuring costs	**5,212**	4,774

6 GAINS ON INVESTMENTS, NET

In HK$ million	The Group	
	2002	2001
Net unrealized holding losses on other investments	**(142)**	(194)
Net realized (losses)/gains from disposals of investments in subsidiaries, investment securities and other investments	**(92)**	261
Provision for impairment of investments	**(581)**	(263)
Amortisation of premium received from equity options	**32**	361
Release of provision for an onerous contract	**464**	477
Gain on termination of cross currency swap contracts (note 33(c))	**332**	–
Dividend income *	**–**	125
	13	767

* Dividends received in respect of 60 percent of the Group's investment in the wireless communications business before February 2001 when the venture with Telstra Corporation Limited ("Telstra") was formed.

7 RESTRUCTURING COSTS

During the current year, the Group subcontracted a significant portion of its network maintenance function to 17 newly-established subcontracting companies owned by individuals previously employed by the Group. Approximately 1,600 former employees joined these subcontracting companies in November 2002 and approximately 3,000 of the Group's employees joined a new wholly-owned subsidiary, Cascade Limited ("Cascade"), on January 1, 2003. In addition, the Group reset staff levels for maximum efficiency during the year involving approximately 1,400 employees. Restructuring costs mainly represent the ex-gratia payments, curtailment losses on the related defined benefit retirement schemes, Cascade incentive bonuses on employment transfers and payments in lieu of notice for the above exercises.

8 (LOSS)/PROFIT BEFORE TAXATION

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

In HK$ million	The Group 2002	2001
Crediting:		
Dividend income from an unconsolidated subsidiary	**–**	125
Contract revenue	**63**	495
Realized gain on disposal of investment in subsidiaries, a jointly controlled company and associates included in gains on investments, net	**34**	264
Realized gain on disposal of investment securities included in gains on investments, net	**56**	14
Release of provision for an onerous contract	**464**	477
Exchange gains/(losses), net	**9**	(22)
Gross rental income	**332**	251
Less: outgoings	**(11)**	(9)
Charging:		
Unrealized holding losses on other investments included in gains on investments, net	**142**	194
Realized losses on disposal of other investments included in gains on investments, net	**182**	2
Provision for impairment of investments	**581**	263
Impairment provision of goodwill attributable to REACH	**8,263**	–
Impairment provision of goodwill attributable to a subsidiary	**309**	–
Provision for impairment of fixed assets	**232**	27
Write-off of intangible assets	**8**	4
Provision for property held for development	**–**	60
Depreciation	**2,623**	2,437
Amortization of intangible assets (included in operating expenses)	**112**	76
Amortization of goodwill (included in operating expenses)	**85**	50
Staff costs (excluding directors' emoluments (note 12) and retirement costs for other staff)	**3,395**	4,069
Retirement costs for other staff		
– contributions to defined contribution retirement scheme	**47**	327
– increase in liability for defined benefit retirement schemes (note 27(a) (iii))	**197**	–
– curtailment loss for the defined benefit retirement schemes included in restructuring costs (note 27(a) (iii))	**108**	–
Cost of inventories	**1,431**	1,735
Loss on disposal of fixed assets	**76**	63
Auditors' remuneration		
– current year	**10**	8
– underprovision in previous year	**2**	4
Operating lease rental		
– land and buildings	**261**	310
– equipment	**145**	163
Provision for inventory obsolescence	**26**	38

9 FINANCE COSTS, NET

In HK$ million	The Group 2002	2001
Interest paid/payable for:		
Bank loans and overdrafts wholly repayable within 5 years	**10**	887
Bank loans not wholly repayable within 5 years	**842**	1,853
Other loans wholly repayable within 5 years	**811**	645
Other loans not wholly repayable within 5 years	**531**	359
	2,194	3,744
Interest capitalized in properties under development and fixed assets	**(33)**	(140)
Finance costs	**2,161**	3,604
Interest income on bank deposits	**(164)**	(548)
Finance costs, net	**1,997**	3,056

Finance costs of HK$2,161 million (2001: HK$3,604 million) include amortization of arrangement fees of approximately HK$241 million (2001: HK$517 million) incurred in respect of the bank loans and other long term borrowings of the Group.

During the year, the capitalization rates used to determine the amount of interest eligible for capitalization ranged from 3.0 percent to 3.5 percent (2001: 3.3 percent to 7.1 percent).

10 IMPAIRMENT LOSS FOR GOODWILL ATTRIBUTABLE TO THE INTEREST IN REACH LTD. ("REACH")

REACH is currently in negotiations with its bankers to restructure the terms of a syndicated bank loan of US$1,500 million. As at March 20, 2003, the date these financial statements were approved, it has been granted waivers for certain of its debt covenants until the end of March 2003. REACH continues to operate in difficult and volatile conditions and its ability to continue as a going concern is dependent on successful renegotiation of its existing bank loan or other forms of funding being made available. Discussions with the banks continue to be constructive.

In view of the above developments, the Group has also performed an assessment of the fair value of its interest in REACH, including the related goodwill that had previously been eliminated against reserves, as at December 31, 2002. As a result, based on the estimated value in use of REACH determined using a discount rate of 9 percent (2001: 9 percent), the Group has recognized an impairment loss for goodwill attributable to the interest in REACH of approximately HK$8,263 million in the income statement for the year ended December 31, 2002.

11 LOSSES ON DISPOSAL OF INTERESTS IN JOINT VENTURE (BERMUDA) NO. 2 LIMITED ("RWC") AND MOBILEONE LTD. ("MobileOne"), NET

In HK$ million	The Group 2002	2001
Loss on disposal of interest in RWC (note a)	**(1,771)**	–
Profit on disposal of partial interest in MobileOne (note b)	**338**	–
	(1,433)	–

a. Loss on disposal of interest in RWC

On June 28, 2002, the Company and Telstra entered into, and completed, an agreement relating to the following:

i. the sale by the Company of its entire 40 percent equity interest in RWC to Telstra for a consideration of approximately US$614 million (approximately HK$4,792 million);

ii. the redemption by the Company of the outstanding principal amount of the US$750 million (approximately HK$5,850 million) variable coupon subordinated convertible bond due 2007 ("Telstra Bond due 2007") together with accrued interest of approximately US$54.38 million (approximately HK$424 million); and

11 LOSSES ON DISPOSAL OF INTERESTS IN JOINT VENTURE (BERMUDA) NO. 2 LIMITED ("RWC") AND MOBILEONE LTD. ("MobileOne"), NET (continued)

a. Loss on disposal of interest in RWC (continued)

iii. the issue by the Company of a US$190 million (approximately HK$1,482 million) 5 percent mandatory convertible note due 2005 ("Telstra Note due 2005") to Telstra.

A summary of the loss on disposal of interest in RWC is set out below:

In HK$ million	The Group 2002	2001
Telstra Bond due 2007	5,850	–
Accrued interest on Telstra Bond due 2007	424	–
Less: Fair value of Telstra Note due 2005	(1,482)	–
Proceeds on disposal of interest in RWC	4,792	–
Less: Book carrying value of interest in RWC as at June 28, 2002, as previously stated	(2,770)	–
Surplus of proceeds on disposal of interest in RWC over its book carrying value	2,022	–
Less: Realization of related goodwill previously charged against reserves, as previously stated	(3,831)	–
Loss on disposal of interest in RWC, as previously stated	(1,809)	–
Add: Adjustment to book carrying value of interest in RWC as at June 28, 2002 upon adoption of SSAP 12 "Income taxes"	288	–
Adjustment to realization of related goodwill charged against reserves	(250)	–
Loss on disposal of interest in RWC, as restated	(1,771)	–

b. Profit on disposal of partial interest in MobileOne

Prior to the disposal of its partial interest in MobileOne, the Group owned an effective 14.7 percent interest in MobileOne, an associate of the Group. In December 2002, MobileOne was listed on the Singapore Exchange Securities Trading Limited through the sale of existing shares. This resulted in a disposal of an equivalent of 8.4 percent stake in MobileOne by the Group. The consideration, net of transaction costs, for the disposal was approximately HK$497 million, which generated a profit of approximately HK$338 million. Following completion of the disposal, the Group's effective interest in MobileOne was reduced from 14.7 percent to 6.3 percent as at December 31, 2002.

A summary of the profit on disposal of partial interest in MobileOne is set out below:

In HK$ million	The Group 2002	2001
Proceeds on disposal of partial interest in MobileOne, net of transaction costs	497	–
Less: Share of the book carrying value of partial interest in MobileOne	(159)	–
Profit on disposal of partial interest in MobileOne	338	–

12 DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

Details of directors' emoluments are set out below:

In HK$ million	The Group 2002	2001
Non-executive directors		
Fees	**3**	2
Executive directors		
Fees	**–**	–
Salaries, allowances and other allowances and benefits in kind	**46**	68
Pension scheme contributions	**4**	5
Bonuses paid and payable	**38**	51
Payments as compensation for loss of office	**22**	–
Payment to a director as inducement to join the Company (note a)	**8**	–
	118	124
Total	**121**	126

a. In addition, 4,954,000 shares of the Company (the number of shares does not reflect the share consolidation as described in note 15) were transferred by the Chairman and Chief Executive personally to a director as an inducement to join the Company. No new share was issued by the Company and the Company did not bear any portion of the cost of the shares transferred by the Chairman and Chief Executive.

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

	Number of directors The Group 2002	2001
Up to HK$1,000,000	**7**	10
HK$1,000,001 – HK$1,500,000	**3**	–
HK$2,500,001 – HK$3,000,000	**–**	1
HK$4,000,001 – HK$4,500,000	**1**	1
HK$5,500,001 – HK$6,000,000	**1**	2
HK$6,500,001 – HK$7,000,000	**–**	1
HK$7,000,001 – HK$7,500,000	**–**	1
HK$8,000,001 – HK$8,500,000	**1**	–
HK$9,000,001 – HK$9,500,000	**–**	1
HK$10,000,001 – HK$10,500,000	**1**	1
HK$10,500,001 – HK$11,000,000	**2**	1
HK$11,000,001 – HK$11,500,000	**3**	–
HK$13,000,001 – HK$13,500,000	**–**	1
HK$13,500,001 – HK$14,000,000	**1**	–
HK$16,000,001 – HK$16,500,000	**1**	–
HK$21,000,001 – HK$21,500,000	**–**	1
HK$25,500,001 – HK$26,000,000	**–**	1
	21	22

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

Of the five highest paid individuals in the Group, all (2001: all) are directors of the Company whose emoluments are included above.

13 TAXATION

Hong Kong profits tax has been provided at the rate of 16 percent (2001: 16 percent) on the estimated assessable profits for the year. Overseas taxation has been calculated on the estimated assessable profits for the year at the rates prevailing in the respective jurisdictions.

In HK$ million	The Group 2002	The Group 2001 (Restated) (Note 38)
The Company and subsidiaries:		
Hong Kong profits tax		
– Provision for current year	**1,249**	1,227
– Underprovision in respect of prior years	**3**	–
Overseas tax		
– Provision for current year	**137**	28
(Recovery of)/Provision for deferred taxation (note 30(a))		
– Hong Kong	**(152)**	460
	1,237	1,715
A jointly controlled company:		
Hong Kong profits tax		
– Provision for current year	**175**	160
Overseas tax		
– Provision for current year	**–**	6
Recovery of deferred taxation	**(14)**	(3)
Associates:		
Hong Kong profits tax		
– Provision for current year	**36**	60
Recovery of deferred taxation	**(28)**	(12)
Unconsolidated subsidiaries:		
Hong Kong profits tax		
– Recovery for current year	**–**	(6)
Provision for deferred taxation	**–**	62
Total	**1,406**	1,982

13 TAXATION (continued)

The taxation on the Group's (loss)/profit before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:

In HK$ million	The Group 2002	2001 (Restated) (Note 38)
(Loss)/Profit before taxation	**(6,482)**	3,227
Calculated at a taxation rate of 16 percent (2001: 16 percent)	**(1,037)**	516
Income not subject to taxation	**(193)**	(211)
Expenses not deductible for taxation purposes	**2,100**	730
Tax losses not recognized	**304**	432
Underprovision in prior years	**3**	–
Income not subject to taxation and/or expenses not deductible for taxation purposes for jointly controlled companies, associates and unconsolidated subsidiaries, net	**36**	134
Provision for deferred tax on revaluation surplus of properties	**56**	353
Provision for tax of overseas operations	**137**	28
Taxation charge	**1,406**	1,982

14 (LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Loss of HK$14,049 million (2001: profit of HK$867 million) attributable to shareholders was dealt with in the financial statements of the Company.

15 (LOSS)/EARNINGS PER SHARE

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

	2002	2001 (Restated) (Note 38)
(Loss)/Earnings (in HK$ million)		
(Loss)/Earnings for the purposes of basic and diluted (loss)/earnings per share	**(7,762)**	1,343
Number of shares		
Weighted average number of ordinary shares for the purposes of basic (loss)/earnings per share	**4,605,653,512**	4,474,615,652
Effect of dilutive potential ordinary shares	**N/A**	138,787,281
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**N/A**	4,613,402,933

The diluted loss per share for the year ended December 31, 2002 is the same as the basic loss per share as all potential ordinary shares are anti-dilutive.

Pursuant to an ordinary resolution passed at an extraordinary general meeting of the Company held on January 7, 2003, every five issued and unissued ordinary shares of HK$0.05 each ("Shares") were consolidated into one new ordinary share of HK$0.25 ("New Share") in the capital of the Company with effect from January 8, 2003 (the "Share Consolidation"). Upon the Share Consolidation becoming effective on January 8, 2003, the authorized share capital of the Company became HK$1,600,000,000 divided into 6,400,000,000 New Shares, of which 4,653,754,074 New Shares are in issue and fully paid. The New Shares rank pari passu in all respects with each other. The weighted average number of ordinary shares in 2002 and 2001 for the purposes of calculating the basic and diluted (loss)/earnings per share have been retrospectively adjusted for the five-to-one Share Consolidation which took place in January 2003.

16 FIXED ASSETS

In HK$ million	Investment properties	Land and buildings	Exchange equipment	Transmission plant	Other plant and equipment	Projects under construction	Total
THE GROUP							
Cost or valuation							
Beginning of year	5,525	3,590	5,636	7,260	3,939	1,947	27,897
Additions	–	11	430	88	312	770	1,611
Transfers	124	(121)	818	374	376	(1,571)	–
Elimination of accumulated depreciation on transfer to investment properties	–	(22)	–	–	(9)	–	(31)
Disposals	–	(13)	(1)	–	(89)	–	(103)
Exchange differences	(14)	–	–	–	13	–	(1)
End of year	5,635	3,445	6,883	7,722	4,542	1,146	29,373
Representing:							
At cost	–	3,445	6,883	7,722	4,542	1,146	23,738
At valuation	5,635	–	–	–	–	–	5,635
	5,635	3,445	6,883	7,722	4,542	1,146	29,373
Accumulated depreciation							
Beginning of year	–	107	1,038	723	1,430	–	3,298
Charge for the year	–	93	842	669	1,019	–	2,623
Provision for impairment in value	–	14	–	–	218	–	232
Elimination of accumulated depreciation on transfer to investment properties	–	(22)	–	–	(9)	–	(31)
Disposals	–	–	–	–	(27)	–	(27)
Exchange differences	–	–	–	–	(2)	–	(2)
End of year	–	192	1,880	1,392	2,629	–	6,093
Net book value							
End of year	5,635	3,253	5,003	6,330	1,913	1,146	23,280
Beginning of year	5,525	3,483	4,598	6,537	2,509	1,947	24,599

Land and buildings with an aggregate carrying value of approximately HK$93 million (2001: HK$73 million) were pledged as security for certain bank borrowings of the Group.

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

In HK$ million	Investment properties		Land and buildings	
	2002	2001	**2002**	2001
Held in Hong Kong				
On long lease (over 50 years)	**1,869**	1,542	**1,483**	1,646
On medium-term lease (10–50 years)	**10**	232	**1,563**	1,614
On short lease (less than 10 years)	**5**	–	**–**	4
Held outside Hong Kong				
Freehold	**–**	–	**122**	126
Leasehold				
On long lease (over 50 years)	**–**	–	**46**	58
On medium-term lease (10–50 years)	**3,751**	3,751	**39**	35
	5,635	5,525	**3,253**	3,483

16 FIXED ASSETS (continued)

Investment properties held in and outside Hong Kong were revalued as at December 31, 2002 by a professionally qualified surveyor of the Group who is an associate member of the Hong Kong Institute of Surveyors and by independent valuer, CB Richard Ellis Limited, respectively. The basis of valuation for investment properties was open market value.

Approximately HK$3,830 million (2001: HK$2,703 million) of the investment properties were mortgaged as collateral for banking facilities of the Group.

17 PROPERTIES HELD FOR/UNDER DEVELOPMENT

In HK$ million	The Group 2002	2001
Leasehold land, at cost:		
Located in Hong Kong	**3**	13
Properties held for development	**3**	13
Properties under development	**4,354**	2,034
Total	**4,357**	2,047

No properties held for/under development were pledged as security for banking facilities as at December 31, 2002 (2001: Nil).

18 GOODWILL

In HK$ million	The Group 2002 Goodwill carried on consolidated balance sheet	Goodwill carried in reserves
Cost		
Beginning of year, as previously stated	**1,368**	**47,899**
Effect of adoption of new accounting standard (note 38(b))	**–**	**2,777**
Opening balances, as restated	**1,368**	**50,676**
Addition arising on acquisitions of minority interests of subsidiaries	**186**	**–**
Realization of goodwill on disposal of an associate	**–**	**(4,081)**
Impairment provision of goodwill made during the year	**(125)**	**(8,457)**
End of year	**1,429**	**38,138**
Amortization		
Beginning of year	**50**	**–**
Charge for the year	**85**	**–**
Written back for the year	**(10)**	**–**
End of year	**125**	**–**
Carrying amount		
End of year	**1,304**	**38,138**
Beginning of year (Restated)	**1,318**	**50,676**

19 INTANGIBLE ASSETS

In HK$ million	The Group 2002 Trademarks	Content Licence (note 26(b))	Others	Total
Cost				
Beginning of year	**1,516**	**–**	**15**	**1,531**
Addition	**2**	**375**	**54**	**431**
Write-off	**–**	**–**	**(8)**	**(8)**
End of year	**1,518**	**375**	**61**	**1,954**
Amortization				
Beginning of year	**104**	**–**	**–**	**104**
Charge for the year	**76**	**36**	**–**	**112**
End of year	**180**	**36**	**–**	**216**
Net book value				
End of year	**1,338**	**339**	**61**	**1,738**
Beginning of year	**1,412**	**–**	**15**	**1,427**

20 INVESTMENT IN SUBSIDIARIES

In HK$ million	The Company 2002	2001
Unlisted shares, at cost	**24,599**	24,552
Amounts due from subsidiaries	**198,509**	192,069
	223,108	216,621
Less: Provision for impairment in value	**(141,738)**	(127,584)
	81,370	89,037
Amounts due to subsidiaries	**(55,053)**	(43,757)
	26,317	45,280

The provision for impairment in value of HK$141,738 million (2001: HK$127,584 million) relates to certain subsidiaries of the Company which hold the Group's investments in subsidiaries, associates, jointly controlled companies, investment securities and other investments.

Certain subsidiaries had borrowings at commercial rates throughout the terms of the borrowings to or from the Company. The interest bearing principal receivable from subsidiaries as at December 31, 2002 is HK$5,896 million (2001: HK$3,822 million) and the interest bearing principal payable to subsidiaries as at December 31, 2002 is HK$12,838 million (2001: HK$4,398 million). Other balances with subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment.

Dividends from the PRC joint ventures will be declared based on the profits in the statutory financial statements of these PRC joint ventures. Such profits will be different from the amounts reported under HK GAAP.

As at December 31, 2002, the Group has financed the operations of certain of its PRC joint ventures in the form of shareholders' loans amounting to approximately US$191 million (2001: US$191 million) which have not been registered with the State Administration of Foreign Exchange. As a result, remittances in foreign currency of these amounts outside the PRC may be restricted.

20 INVESTMENT IN SUBSIDIARIES (continued)

As at December 31, 2002, particulars of the principal subsidiaries of the Company are as follows:

Company name	Place of incorporation/ operations	Principal activities	Nominal value of issued capital/ registered capital	Equity interest attributable to the Group Directly	Indirectly
Pacific Century Systems Limited	Hong Kong	Customer premises equipment related business	HK$1,000,000	100%	–
Carlyle International Limited	Hong Kong	Entrustment work	HK$2	–	100%
Corporate Access Limited	Cayman Islands/ Asia Pacific	Transponder leasing	US$10	–	100%
Cyber-Port Limited	Hong Kong	Property development	HK$2	–	100%
Cyber-Port Management Limited	Hong Kong	Management services	HK$2	–	100%
電訊盈科(北京)有限公司	The PRC	System integration, consulting and informatization project	US$6,750,000	–	100%
Beijing Jing Wei House and Land Estate Development Co., Ltd.	The PRC	Property development	US$50,000,000	–	100%
Partner Link Investments Limited	British Virgin Islands/ Hong Kong	Property investment	US$1	–	100%
Pacific Convergence Corporation, Ltd.	Cayman Islands/ Hong Kong	IT Management	US$1,180	–	100%
Pacific Century CyberWorks Japan Co., Ltd.	Japan	Software and game development, Internet content, e-commerce, broadband services and other businesses	Yen19,742,711,522	–	76.13%
PCCW Business eSolutions Limited	Hong Kong	Provision of IP/IT related, value-added services to business customers	HK$2	–	100%
PCCW Business eSolutions (HK) Limited	Hong Kong/ Asia Pacific	Computer services and provision of IP/IT related value-added services to business customers	HK$1,200	–	100%
PCCW-HKT Business Services Limited	Hong Kong	Provision of business customer premises equipment and ancillary business services	HK$2	–	100%
PCCW-HKT Consumer Services Limited	Hong Kong	Provision of consumer premises equipment and ancillary consumer services	HK$2	–	100%
PCCW-HKT Limited	Hong Kong	Investment holding	HK$6,092,100,052	–	100%
PCCW-HKT Network Services Limited	Hong Kong	Provision of retail international data and value-added services, and local value-added telecommunications services	HK$2	–	100%
PCCW-HKT Products & Services Limited*	Hong Kong	Management of a customer loyalty program "Number One partners" for members of the program	HK$8,437,500	–	100%
PCCW-HKT Telephone Limited*	Hong Kong	Telecommunications services	HK$2,163,783,209	–	100%
Power Logistics Limited	Hong Kong	Delivery services	HK$100,000	–	100%
PCCW Directories Limited*	Hong Kong	Sale of advertising in the Business White Pages, Yellow Pages for businesses and Yellow Pages for customers, publication of directories, provision of Internet directory services and sale of on-line advertising	HK$10,000	–	100%
Taiwan Telecommunication Network Services Co., Ltd.	Taiwan	Type II Telecommunications services provider	NT$1,087,000,000	–	56.56%
Integrated E-Commerce Development (Shenzhen) Limited	The PRC	Software and information systems development	HK$7,000,000	–	100%

20 INVESTMENT IN SUBSIDIARIES (continued)

Company name	Place of incorporation/ operations	Principal activities	Nominal value of issued capital/ registered capital	Equity interest attributable to the Group Directly	Indirectly
Netplus Telecommunications Taiwan Ltd.	Taiwan	Telecommunications services/ investment holding	NT$203,614,460	–	100%
PCCW IMS Limited	Hong Kong	Retail broadband and narrowband Internet access services (currently under the "Netvigator" brand)	HK$2	–	100%
PCCW Powerbase Data Center Services (HK) Limited	Hong Kong	Data Center services	HK$2	–	100%
PCCW Teleservices (Hong Kong) Limited	Hong Kong	Provision of customer relationship management and customer contact management solutions and services	HK$2	–	100%
PCCW Teleservices Operations (Hong Kong) Limited	Hong Kong	Provision of customer relationship management and customer contact management solutions and services	HK$2	–	100%
PCCA Pte Ltd	Singapore	Provision of satellite-based and network telecommunication systems and customer support services to the user groups	S$100,000	–	100%
Omnilink Technology Limited	British Virgin Islands	Investment holding	US$14,850	–	76.43%
Cascade Limited	Hong Kong	Group service company	HK$10,000	–	100%

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

* The subsidiary has accounting year end date of March 31. These subsidiaries prepare, for the purpose of consolidation, financial statements as at the same date as the Group.

21 INVESTMENT IN JOINTLY CONTROLLED COMPANIES

In HK$ million	The Group 2002	2001 (Restated) (Note 38)
Share of net assets of jointly controlled companies	**3,806**	3,237
Provision for impairment	**(59)**	(36)
	3,747	3,201
Loans due from a jointly controlled company	**93**	93
Amounts due from jointly controlled companies	**39**	43
Amounts due to jointly controlled companies	**(374)**	(427)
	3,505	2,910
Investments at cost, unlisted shares	**3,581**	3,482

Balances with the jointly controlled companies are unsecured, non-interest bearing and have no fixed terms of repayment except for the loans due from a jointly controlled company, which bear interest at commercial rates, are secured by part of its movable properties and are repayable on demand or have fixed terms of repayment ranging up to three years from the date of drawdown in 2000.

21 INVESTMENT IN JOINTLY CONTROLLED COMPANIES (continued)

As at December 31, 2002, particulars of the principal jointly controlled company of the Group are as follows:

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

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

In HK$ million	2002	2001
Condensed consolidated balance sheet information as at December 31		
Non-current assets	**24,433**	24,316
Current assets	**3,982**	3,588
Total assets	**28,415**	27,904
Non-current liabilities	**(14,293)**	(13,817)
Current liabilities	**(3,854)**	(4,719)
Minority interests	**(159)**	(162)
Net assets	**10,109**	9,206
Condensed consolidated income statement information for the year ended December 31		
Turnover	**9,854**	9,978
Profit after taxation	**1,141**	411

REACH is currently in negotiations with its bankers to restructure the terms of a syndicated bank loan of US$1,500 million. As at March 20, 2003, the date these financial statements were approved, it has been granted waivers for certain of its debt covenants until the end of March 2003. REACH continues to operate in difficult and volatile conditions and its ability to continue as a going concern is dependent on successful renegotiation of its existing bank loan or other forms of funding being made available. Discussions with the banks continue to be constructive.

In view of the above developments, the Group has also performed an assessment of the fair value of its interest in REACH, including the related goodwill that had previously been eliminated against reserves, as at December 31, 2002. As a result, based on the estimated value in use of REACH determined using a discount rate of 9 percent (2001: 9 percent), the Group has recognized an impairment loss for goodwill attributable to the interest in REACH of approximately HK$8,263 million in the income statement for the year ended December 31, 2002.

An analysis of the Group's total investment cost in REACH as at December 31, 2002 is as follows:

In HK$ million	Book carrying value	Goodwill	Total investment cost
Balances as at December 31, 2002, as previously announced on February 20, 2003	**3,964**	**8,263**	**12,227**
Adjustment to goodwill as at January 1, 2002 arising from adoption of new accounting standard for deferred taxation (note 38(b))	**(349)**	**315**	**(34)**
Balances, as restated	**3,615**	**8,578**	**12,193**
Impairment loss for goodwill attributable to the interest in REACH	**–**	**(8,263)**	**(8,263)**
Balances as at December 31, 2002	**3,615**	**315**	**3,930**

22 INVESTMENT IN ASSOCIATES

In HK$ million	The Group 2002	2001 (Restated) (Note 38)
Share of net assets of associates	**1,203**	3,027
Provision for impairment	**(28)**	(5)
	1,175	3,022
Amounts due from associates	**67**	307
Amounts due to associates	**(115)**	(3)
	1,127	3,326
Investment at cost:		
Unlisted shares	**1,086**	3,550
Shares listed in Hong Kong	**72**	72
	1,158	3,622
Market value of listed shares	**68**	227

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

As at December 31, 2002, particulars of the principal associates of the Company are as follows:

Company name	Place of incorporation/ operations	Principal activities	Nominal value of issued capital/ registered capital	Equity interest attributable to the Group Directly	Indirectly
iLink Holdings Limited	Cayman Islands/ Hong Kong and the PRC	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	HK$105,347,492	–	47.90%
ChinaBig.com Limited	Hong Kong	Production and distribution of trade directory	HK$192,308	–	37.65%
Unicom Yellow Pages Information Co., Ltd.	The PRC	Production and distribution of trade directory	US$6,000,000	–	30.12%
Great Eastern Telecommunications Limited*	Cayman Islands	Investment holding	US$43,112,715	–	49%
SecureNet Asia Limited	Hong Kong	Provision of Internet security audit and consultancy services as well as a full range of smart card, security products and solutions for e-Commerce transactions	HK$72,462,299	–	49.99%
Abacus Distribution Systems (Hong Kong) Limited	Hong Kong	Provision of computer reservation systems and travel related services	HK$15,600,000	–	37.04%
Petro-CyberWorks Information Technology Company Limited	The PRC	Design and development of Enterprise Resource Planning systems, and customer relationship management systems	RMB50,000,000	–	45%

* The associate has accounting year end date of March 31. The associate prepares, for the purpose of consolidation, financial statements as at the same date as the Group.

23 INVESTMENTS

Investments are analyzed as follows:

In HK$ million	The Group 2002	2001
Held-to-maturity securities	**42**	62
Investment securities (note a)	**866**	1,630
Other investments – long-term portion (note b)	**–**	–
	908	1,692

a. Investment securities

In HK$ million	The Group 2002	2001
Unlisted, at cost	**1,764**	2,034
Less: Provision for impairment in value	**(1,027)**	(713)
	737	1,321
Listed, at cost		
Hong Kong	**72**	106
Overseas	**270**	1,360
	342	1,466
Less: Provision for impairment in value	**(213)**	(1,157)
	129	309
Total investment securities	**866**	1,630
Quoted market value of listed investment securities as at December 31	**81**	299

b. Other investments

In HK$ million	The Group 2002	2001
Unlisted		
Overseas	**62**	–
Listed, at quoted market value		
Hong Kong	**269**	526
Overseas	**63**	104
	332	630
	394	630
Less: Current portion classified as current assets	**(394)**	(630)
	–	–

During the year, certain listed securities were transferred from investment securities to other investments. These transfers were effected at fair value. The aggregate unrealized holding losses at the dates of transfer which had not been previously recognized of approximately HK$28 million (2001: HK$193 million) were recognized in the income statement at the dates of transfer.

c. During 2002, the Group entered into certain derivative contracts, in the form of equity swap and equity option contracts, with a third party with the effect of entering into forward sale of a portion of certain quoted other investments plus written call options for the remaining portion of those quoted other investments. The underlying quoted other investments with aggregate carrying value of approximately HK$237 million have been placed as collateral for the transaction. The equity swap and equity option contracts have terms of up to five years from the date of the contracts and will mature in 2007 (see note 33(a)).

23 INVESTMENTS (continued)

d. As at December 31, 2002, no investment securities and other investments are subject to restrictions on sale. As at December 31, 2001, certain investment securities and other investments with a carrying value of approximately HK$191 million are subject to restrictions on sale (i) for a period of six months to three years from the date of purchase, or (ii) unless the securities are registered with the Securities and Exchange Commission of the United States or exemption from registration is obtained.

24 CURRENT ASSETS AND LIABILITIES

a. Properties held for sale

In HK$ million	The Group 2002	2001
Properties held for sale:		
Located in Macau	**2**	–
	2	–

b. Inventories

In HK$ million	The Group 2002	2001
Raw materials	**10**	15
Work-in-progress	**235**	187
Finished goods	**218**	147
Consumable inventories	**18**	23
	481	372

c. Accounts receivable

An aging analysis of trade receivable is set out below:

In HK$ million	The Group 2002	2001
0 – 30 days	**1,197**	1,490
31 – 60 days	**279**	235
61 – 90 days	**81**	54
91 – 120 days	**61**	65
Over 120 days	**106**	99
	1,724	1,943

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

24 CURRENT ASSETS AND LIABILITIES (continued)

d. Gross amounts due to customers for contract work

In HK$ million	The Group 2002	2001
Contract costs incurred plus attributable profit less foreseeable losses	**801**	700
Less: estimated value of work performed	**(811)**	(748)
	(10)	(48)

The total amount of progress billings, included in the estimated value of work performed as at December 31, 2002, is approximately HK$753 million (2001: HK$591 million).

Included in non-current assets at December 31, 2002 is approximately HK$8 million (2001: HK$6 million) representing retentions receivable from customers in respect of construction contracts in progress.

e. Short-term borrowings

In HK$ million	The Group 2002	2001
Bank loans	**75**	167
Loan from a shareholder	**–**	10
Other loans	**–**	99
Current portion of long-term borrowings	**79**	2
	154	278
Secured	**145**	144
Unsecured	**9**	134

Please refer to note 36 to the financial statements for details of the Group's banking facilities.

As at December 31, 2002, the Company had no unsecured loans (2001: HK$10 million).

f. Accounts payable

An aging analysis of accounts payable is set out below:

In HK$ million	The Group 2002	2001
0 – 30 days	**534**	317
31 – 60 days	**56**	93
61 – 90 days	**120**	16
91 – 120 days	**37**	21
Over 120 days	**413**	244
	1,160	691

24 CURRENT ASSETS AND LIABILITIES (continued)

g. Provisions

In HK$ million	The Group Staff related costs	Onerous contract *(note i)*	Others	Total	The Company Onerous contract *(note i)*
Balances as at January 1, 2002	**230**	**1,004**	**140**	**1,374**	**1,004**
Release of provision during the year	**–**	**(464)**	**–**	**(464)**	**(464)**
Provisions used during the year	**(230)**	**(540)**	**(70)**	**(840)**	**(540)**
Balances as at December 31, 2002	**–**	**–**	**70**	**70**	**–**

i. Upon the adoption of SSAP 28 “Provisions, contingent liabilities and contingent assets” in 2001, the Group recorded a provision for onerous contract for a share option agreement entered between the Company and the minority shareholder of a subsidiary through an adjustment to the opening deficit as at January 1, 2001. The provision was made based on the estimated fair value of the Group’s obligation under the share option agreement. In 2001, the minority shareholder exercised a portion of the options and the remaining portion has been exercised in 2002. The exercise of the said options in 2002 has resulted in a release of provision of approximately HK$464 million included in the net gains on investments (see note 26(d)).

Management considers all provisions to be current in nature.

25 LONG-TERM LIABILITIES

In HK$ million	The Group 2002	2001
Long-term borrowings (note a)	**27,757**	33,222
Convertible bonds (note b)	**13,609**	14,653
	41,366	47,875

a. Long-term borrowings

In HK$ million	The Group 2002	2001
Repayable within a period		
– not exceeding one year	**79**	2
– over one year, but not exceeding two years	**123**	2
– over two years, but not exceeding five years	**406**	16,523
– over five years	**27,228**	16,697
	27,836	33,224
Less: Amounts repayable within one year included under current liabilities	**(79)**	(2)
	27,757	33,222
Representing:		
US$4,700 million term loan (note i)	**6,094**	22,543
Yen 30,000 million guaranteed notes (note ii)	**1,950**	1,950
US$1,000 million guaranteed notes (note iii)	**7,799**	7,724
HK$5,000 million 6-year term loan (note iv)	**5,000**	–
HK$5,000 million 7-year term loan (note v)	**5,000**	–
Other bank loans	**1,914**	1,005
	27,757	33,222
Secured	**1,908**	1,009
Unsecured	**25,849**	32,213

25 LONG-TERM LIABILITIES (continued)

a. Long-term borrowings (continued)

Details of major long-term borrowings of HK$27,757 million are presented below:

i. US$4,700 million term loan ("Term Loan")

In February 2001, the Group arranged syndicated bank borrowings of US$4,700 million (approximately HK$36,660 million) through PCCW-HKT Telephone Limited ("HKTC"), an indirect wholly-owned subsidiary of the Company. Approximately US$2,377 million was denominated in US dollars and the rest was denominated in Hong Kong dollars. The Term Loan consists of three tranches (A, B & C) which are repayable in three to seven years. Each tranche carries interest at rates ranging from London Interbank Offered rates ("LIBOR") plus 0.85 percent to LIBOR plus 1.45 percent for the US dollar portion and Hong Kong Interbank Offered rates ("HIBOR") plus 0.95 percent to HIBOR plus 1.55 percent for the Hong Kong dollar portion. As of December 31, 2002, the Group had prepaid a total of approximately US$3,919 million (2001: US$1,809 million) of the principal amount.

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

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

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

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

ii. Yen 30,000 million guaranteed notes

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

The Yen Notes are unconditionally and irrevocably guaranteed by HKTC and will rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTC.

iii. US$1,000 million guaranteed notes

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

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

iv. HK$5,000 million 6-year term loan

On March 7, 2002, HKTC entered into an agreement for a six-year HK$5,000 million (approximately US$641 million) term loan facility. This loan is denominated in Hong Kong dollars and matures in March 2008. Interest is payable at HIBOR plus 0.55 percent per annum.

v. HK$5,000 million 7-year term loan

On April 17, 2002, HKTC entered into an agreement for a seven-year HK$5,000 million (approximately US$641 million) term loan facility. This loan is denominated in Hong Kong dollars and matures in April 2009. Interest is payable at HIBOR plus 0.65 percent per annum.

Please refer to note 36 to the financial statements for details of the Group's banking facilities.

Certain covenants in the documentation relating to the borrowings described in (ii), (iii), (iv) and (v) above are less onerous than similar covenants relating to the borrowing described in (i) above.

25 LONG-TERM LIABILITIES (continued)

b. Convertible bonds

In HK$ million	The Group 2002	The Group 2001	The Company 2002	The Company 2001
Beginning of year (notes iii & iv)	**14,653**	8,580	**6,073**	–
Issuance (notes i & ii)	**4,992**	5,850	**1,482**	5,850
Capitalization of interest on principal amount of US$750 million Telstra Bond due 2007 (note iii)	**201**	223	**201**	223
Capitalization of interest on principal amount of US$190 million Telstra Note due 2005 (note ii)	**37**	–	**37**	–
Redemption (note iii)	**(6,274)**	–	**(6,274)**	–
End of year	**13,609**	14,653	**1,519**	6,073

i. On January 29, 2002 (the "Issue Date"), PCCW Capital No. 2 Limited, an indirect wholly-owned subsidiary of the Company, issued US$450 million (approximately HK$3,510 million) 1 percent guaranteed convertible bonds due 2007, which are unconditionally and irrevocably guaranteed on a joint and several basis by the Company and HKTC. The convertible bonds due 2007 are listed on the Luxembourg Stock Exchange. They are convertible, at the option of their holders, into ordinary shares of the Company at an initial conversion price of HK$2.75* (approximately US$0.3526*) per share at any time up to and including the close of business on January 15, 2007. The bonds bear interest at 1 percent per annum, payable semi-annually in arrears on January 29 and July 29 in each year and at maturity, commencing on July 29, 2002. Unless previously redeemed, converted or purchased and cancelled, these bonds will be redeemed in US dollars at 119.383 percent of its principal amount, plus accrued interest on January 29, 2007. The redemption premium is being accrued on a straight-line basis from the date of issuance to the final redemption date of January 29, 2007.

* The conversion price of HK$2.75 (approximately US$0.3526) per share would be adjusted to HK$13.75 (approximately US$1.763) after the implementation of the Share Consolidation in January 2003.

ii. On June 28, 2002, the Company issued the Telstra Note due 2005 to Telstra as part of the disposal of the Group's 40 percent interest in RWC (see note 11(a)). Unless previously redeemed or converted or purchased and cancelled, the Telstra Note due 2005 will be convertible into ordinary shares of the Company on June 30, 2005 or the date which is 30 days after the holder of the Telstra Note due 2005 has given notice to the Company declaring that, amongst other things, an event of default or potential event of default has occurred under REACH's US$1.5 billion syndicated term loan facility or any financing agreement entered into for the purpose of refinancing all or a significant part of such facility; the Company has ceased to have a controlling interest in HKTC; or if HKTC and its subsidiaries have ceased to carry on as their principal business the provision of fixed line telecommunications services in Hong Kong ("Repayment Date"). Interest is payable at 5 percent per annum compounded on a quarterly basis.

On the Repayment Date, the Telstra Note due 2005, plus accrued interest thereon, will be redeemed through its mandatory conversion into ordinary shares of the Company at a conversion price determined by reference to the volume weighted average price of the ordinary shares of the Company as quoted on the Stock Exchange for the 20 dealing days immediately preceding the Repayment Date. The Company is entitled to early redeem the Telstra Note due 2005 in full by giving notice in writing to Telstra. The redemption amount would be the outstanding principal balance together with any unpaid interest accrued at the date of redemption. The Telstra Note due 2005 may be redeemed at the request of Telstra, if a resolution is passed or an order is made that the Company be wound up or dissolved. The Company's obligations to Telstra as the initial holder of the Telstra Note due 2005 are secured by the Group's equity interest in REACH.

25 LONG-TERM LIABILITIES (continued)

b. Convertible bonds (continued)

iii. On February 7, 2001, the Company issued a convertible bond due 2007 with the principal amount of US$750 million (approximately HK$5,850 million) to Telstra ("Telstra Bond due 2007"). The Telstra Bond due 2007 was convertible into ordinary shares of the Company at an initial conversion price of the US dollar equivalent of HK$6.886 per ordinary share at any time on or after the issue date and ends on the day which is 14 business days prior to the end of the sixth year from the issue date. At the end of the fourth year and the end of the sixth year from the issue date, the Company was entitled to require full but not partial conversion depending on the share price of the Company. The Telstra Bond due 2007 bore interest at 5 percent per annum compounding quarterly increasing to 7 percent per annum compounding quarterly in 2005, and interest was payable quarterly. Telstra irrevocably directed that interest be capitalized and added to the principal amount so as to become part of the principal amount and therefore capable of conversion which, accordingly, itself accrued interest quarterly. Unless previously cancelled, redeemed or converted, the Telstra Bond due 2007 was to be redeemed in US dollars at par together with accrued interest upon maturity. The Telstra Bond due 2007 was initially secured with 50 percent of the Group's interest in REACH, which was subject to adjustment in accordance with the terms of the Telstra Bond due 2007.

On June 28, 2002, the Company redeemed the Telstra Bond due 2007, with the outstanding principal amount of US$750 million (approximately HK$5,850 million), together with accrued interest of US$54.38 million (approximately HK$424 million) as part of the disposal of the interest in RWC (see note 11(a)).

iv. On December 5, 2000, convertible bonds due 2005 with the principal amount of US$1,100 million (approximately HK$8,580 million) were issued by PCCW Capital Limited, a wholly-owned subsidiary of the Company. These bonds are listed on the Luxembourg Stock Exchange. They are convertible into ordinary shares of the Company at US$1.0083* (approximately HK$7.865*) subject to adjustments, per share at any time on or after January 5, 2001 and up to the close of business on November 21, 2005 and bear interest at 3.5 percent per annum, payable annually in arrears. Unless previously cancelled, redeemed or converted, these bonds will be redeemed in US dollars at 120.12 percent of the principal amount together with accrued interest on December 5, 2005. If these bonds are fully converted, the Company will be required to issue approximately 1,091 million ordinary shares. The redemption premium is being accrued on a straight-line basis from the date of issuance to the final redemption date of December 5, 2005.

* The conversion price of US$1.0083 (approximately HK$7.865) per share would be adjusted to US$5.0415 (approximately HK$39.325) after the implementation of the Share Consolidation in January 2003.

As at December 31, 2002, none of the above-mentioned convertible bonds had been converted into ordinary shares of the Company.

26 SHARE CAPITAL

	2002 Number of shares (note e)	2002 Nominal value HK$million	2001 Number of shares (note e)	2001 Nominal value HK$million
Authorized:				
Ordinary shares of HK$0.05 each (note e)	**32,000,000,000**	**1,600**	32,000,000,000	1,600
Issued and fully paid ordinary shares of HK$0.05 each (note e):				
Beginning of year	**22,693,349,346**	**1,135**	21,880,913,125	1,094
Exercise of warrants	**–**	**–**	22,938	–
Exercise of staff share options	**–**	**–**	2,388,998	–
Exercise of other share options (note a)	**376,680,000**	**19**	626,390,000	32
Issued for acquisition of a licence (note b)	**175,000,000**	**9**	–	–
Issued for acquisition of 100% holding in Telecommunications Technology Investments Limited	**–**	**–**	183,634,285	9
Issued for cash (note c)	**23,741,024**	**1**	–	–
End of year	**23,268,770,370**	**1,164**	22,693,349,346	1,135

a. A total of 376,680,000 new ordinary shares of HK$0.05 each were issued to the minority shareholder of PCC Holdings Ltd. ("PCCH"), as a result of its conversion of its remaining interest in PCCH into ordinary shares of the Company pursuant to the options granted to the minority shareholder in September 1999 (note d).

26 SHARE CAPITAL (continued)

b. On January 24, 2002, 175,000,000 new ordinary shares of HK$0.05 each were issued at their estimated market value totaling approximately US$48 million (approximately HK$375 million) to a wholly-owned subsidiary of Trans World International, Inc. (“TWI”) as the consideration for the acquisition of a licence to use its sports archive and programmes.

c. During the year, 23,741,024 new ordinary shares of HK$0.05 each were issued at par under the employee share award scheme approved on November 12, 2002 (note 28(b)).

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

d. In September 1999, as part of the acquisition of Pacific Convergence Corporation, Ltd. (“PCC”), the Company entered into an agreement, as subsequently amended, with the minority shareholder of PCCH, under which the minority shareholder can exchange its effective 40 percent shareholding in PCCH, the holding company of PCC, for 1,003,070,000 new ordinary shares of the Company at no further consideration. The option is exercisable for 10 years. The Company has the right to require the minority shareholder to exercise the option at the end of the option period to the extent it has not already been exercised. As of December 31, 2001, the minority shareholder had exercised a portion of the options and the Company had issued 626,390,000 new ordinary shares to the minority shareholder. During the year ended December 31, 2002, the minority shareholder exercised the remaining portion of the options and the Company had issued 376,680,000 new ordinary shares to the minority shareholder.

Pursuant to the terms and conditions of a consulting agreement dated August 17, 1999 and approved by the Company’s shareholders at an extraordinary general meeting held on December 5, 2000, 63,201,097 share options were granted to a non-executive director of the Company on January 10, 2001 at an exercise price of HK$2.356 per share (see note e). During the year, the director did not exercise any of his options to acquire shares in the Company. He resigned as a director of the Company on September 5, 2002.

e. Subsequent to the balance sheet date, 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 Shares of HK$0.05 each were consolidated into one New Share of HK$0.25 with effect from January 8, 2003. Following the Share Consolidation becoming effective on January 8, 2003, the authorized share capital of the Company is HK$1,600,000,000 divided into 6,400,000,000 New Shares, of which 4,653,754,074 New Shares are in issue and fully paid. The New Shares rank pari passu in all respects with each other.

Except for the (loss)/earnings per share and its related note 15, the number of shares, issued share price, number of share options and exercise price of share options stated in the annual report are before adjustment made for the effect of Share Consolidation as illustrated above.

27 RETIREMENT BENEFIT LIABILITY

a. Defined benefit retirement schemes

The Group operates defined benefit retirement schemes (“DB Schemes”) that provide lump sum benefits for employees upon resignation and retirement. The DB Schemes are final salary defined benefit schemes. The scheme assets are administered by independent trustees and are maintained independently of the Group’s finances.

The DB Schemes are funded by contributions from the Group and employees in accordance with qualified independent actuaries’ recommendation from time to time on the basis of periodic valuations.

The latest independent actuarial valuations of the DB Schemes, in accordance with SSAP 34, were carried out on December 31, 2002 and were prepared by Mr Aaron Wong of Watson Wyatt Hong Kong Limited, fellow of the Canadian Institute of Actuaries and also fellow of the Society of Actuaries, USA, using the projected unit credit method. The actuary was of the opinion that the fair value of the scheme assets was sufficient to cover 75.7 percent of the present value of the defined benefit obligations as at December 31, 2002.

27 RETIREMENT BENEFIT LIABILITY (continued)

a. Defined benefit retirement schemes (continued)

i. The net liability recognized in the balance sheet are as follows:

In HK$ million	The Group **2002**
Present value of the defined benefit obligations	**4,578**
Fair value of scheme assets	**(3,466)**
	1,112
Unrecognized actuarial losses	**(526)**
Defined benefit liability in the balance sheet	**586**

The scheme assets include ordinary shares issued by the Company with a fair value of approximately HK$2 million as at December 31, 2002.

ii. Movements in the net liability recognized in the balance sheet are as follows:

In HK$ million	The Group **2002**
Balance as at January 1, 2002	**–**
Transitional liability recognized upon adoption of SSAP 34 (note 38(a))	**521**
Balance as at January 1, 2002, as restated	**521**
Contributions paid for the year	**(240)**
Expense recognized in the income statement for the year	**305**
Balance as at end of year	**586**

iii. Expense recognized in the consolidated income statement is as follows:

In HK$ million	The Group **2002**
Current service cost	**235**
Interest cost	**401**
Expected return on scheme assets	**(428)**
Loss on curtailment and settlement	**97**
	305
The expense is recognized in the following line item in the consolidated income statement:	
General and administrative expenses – retirement costs for other staff (note 8)	**197**
Restructuring costs (notes 7 & 8)	**108**
	305
Actual return on scheme assets	**(341)**

iv. The principal actuarial assumptions used as at December 31, 2002 (expressed as weighted averages) are as follows:

	The Group **2002**
Discount rate	**5.5%**
Expected rate of return on scheme assets	**6.5%**
Future salary increases	**3.5%**

27 RETIREMENT BENEFIT LIABILITY (continued)

b. Defined contribution retirement scheme

The Group also operates defined contribution schemes, including the Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the defined benefit retirement scheme. The schemes are administered by independent trustees.

Under the defined contribution scheme, the employer is required to make contributions to the scheme at rates specified under the rules of the scheme. Where employees leave the scheme prior to the full vesting of the employer's contributions, the amount of forfeited contributions is used to reduce the contributions payable by the Group.

Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5 percent of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the scheme vest immediately upon the completion of the service in the relevant service period.

28 EQUITY COMPENSATION BENEFITS

a. Share option scheme

The Company has a share option scheme which was adopted in September 1994 and amended in May 2002 under which the board of directors (the "Board") of the Company may, at their discretion, invite employees of the Group, including directors of any company in the Group, and other eligible persons, to take up options to subscribe for shares of the Company. For options granted before May 23, 2002, the exercise price in relation to each option was determined by the Board in its absolute discretion, but in any event would not be less than the higher of the nominal value of the shares and 80 percent of the average of the closing prices of the shares on the Stock Exchange for the five trading days immediately preceding the relevant date of offer.

For options granted on or after May 23, 2002, 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 nominal value of a share of the Company; (ii) the closing price of the shares of the Company as stated in the daily quotation sheet of the Stock Exchange on the date of grant; and (iii) the average closing price of the shares of the Company as stated in the daily quotation sheets of the Stock Exchange for the five trading days immediately preceding the date of grant.

The vesting period and exercisable period of the options are determined by the directors but in any case no options can be exercised later than ten years from the date of grant. Each option gives the holder the right to subscribe for one share.

i. Movements in share options

	Number of options	
	2002	2001
	(note 26(e))	(note 26(e))
As at January 1	**596,214,416**	609,260,126
Issued (note iii)	**74,653,500**	297,777,200
Exercised (note iv)	**–**	(2,388,998)
Cancelled/lapsed (note v)	**(123,068,352)**	(308,433,912)
As at December 31 (note ii)	**547,799,564**	596,214,416
Options vested as at December 31	**272,701,628**	95,371,466

28 EQUITY COMPENSATION BENEFITS (continued)

a. Share option scheme (continued)

ii. Terms of unexpired and unexercised share options at balance sheet date

Date of grant	Exercise period	Exercise price HK$ (note 26(e))	Number of options 2002 (note 26(e))	Number of options 2001 (note 26(e))
August 17, 1999 to September 15, 1999	August 17, 2000 to August 17, 2009	2.3560	**123,741,352**	127,533,354
October 25, 1999 to November 23, 1999	August 17, 2000 to October 25, 2009	4.5520	**32,046,000**	36,803,000
December 20, 1999 to January 18, 2000	December 20, 2000 to December 20, 2009	6.7120	**1,080,000**	1,080,000
February 8, 2000 to March 8, 2000	February 8, 2001 to February 8, 2010	15.0480	**433,500**	433,500
August 26, 2000 to September 24, 2000	May 26, 2001 to August 26, 2010	12.0240	**57,168,000**	59,098,000
October 27, 2000 to November 25, 2000	March 15, 2001 to October 27, 2010	4.8720	**73,731,010**	106,863,160
January 22, 2001 to February 20, 2001	January 22, 2001 to January 22, 2011	3.3680	**138,357,902**	203,375,702
February 20, 2001	February 8, 2002 to February 8, 2011	3.7520	**433,500**	433,500
April 17, 2001 to May 16, 2001	May 26, 2001 to April 17, 2011	2.0600	**18,971,000**	20,928,200
May 18, 2001	May 7, 2002 to May 7, 2011	2.2320	**–**	12,000,000
July 16, 2001 to September 15, 2001	July 16, 2002 to July 16, 2011	1.8320	**3,723,800**	4,206,000
August 3, 2001	March 31, 2002 to August 1, 2011	3.3680	**4,000,000**	4,000,000
September 27, 2001	September 27, 2001 to September 7, 2011	1.3630	**18,000,000**	18,000,000
October 15, 2001 to November 13, 2001	October 15, 2002 to October 15, 2011	1.7280	**1,460,000**	1,460,000
May 10, 2002	April 11, 2003 to April 11, 2012	1.5830	**1,158,500**	–
May 28, 2002	April 29, 2003 to April 29, 2012	1.9900	**28,000,000**	–
June 19, 2002	June 19, 2002 to May 21, 2012	2.0180	**2,895,000**	–
August 1, 2002	August 1, 2003 to July 31, 2012	1.6120	**1,000,000**	–
October 11, 2002	October 11, 2002 to October 10, 2007	1.7233	**6,000,000**	–
November 13, 2002	November 13, 2003 to November 12, 2012	1.2300	**35,600,000**	–
			547,799,564	596,214,416

iii. Details of share options granted during the year

Exercise period	Exercise price HK$ (note 26(e))	2002 Consideration received HK$	2002 Number of options (note 26(e))	2001 Consideration received HK$	2001 Number of options (note 26(e))
January 22, 2001 to January 22, 2011	3.3680	**–**	**–**	1,024	232,466,300
February 8, 2002 to February 8, 2011	3.7520	**–**	**–**	1	433,500
May 26, 2001 to April 17, 2011	2.0600	**–**	**–**	371	24,858,600
May 7, 2002 to May 7, 2011	2.2320	**–**	**–**	1	12,000,000
July 16, 2002 to July 16, 2011	1.8320	**–**	**–**	426	4,558,800
March 31, 2002 to August 1, 2011	3.3680	**–**	**–**	1	4,000,000
September 27, 2001 to September 7, 2011	1.3630	**–**	**–**	1	18,000,000
October 15, 2002 to October 15, 2011	1.7280	**–**	**–**	3	1,460,000
April 11, 2003 to April 11, 2012	1.5830	**2**	**1,158,500**	–	–
April 29, 2003 to April 29, 2012	1.9900	**1**	**28,000,000**	–	–
June 19, 2002 to May 21, 2012	2.0180	**5**	**2,895,000**	–	–
August 1, 2003 to July 31, 2012	1.6120	**–**	**1,000,000**	–	–
October 11, 2002 to October 10, 2007	1.7233	**–**	**6,000,000**	–	–
November 13, 2003 to November 12, 2012	1.2300	**–**	**35,600,000**	–	–
		8	**74,653,500**	1,828	297,777,200

iv. Details of share options exercised during the year

Exercise date	Exercise price HK$ (note 26(e))	Market value per share at exercise date HK$ (note 26(e))	2002 Proceeds received HK$	2002 Number of options (note 26(e))	2001 Proceeds received HK$	2001 Number of options (note 26(e))
February 14, 2001	4.552	4.650	**–**	**–**	136,560	30,000
February 15, 2001 to February 23, 2001	3.368	4.375 to 4.900	**–**	**–**	7,810,385	2,318,998
February 20, 2001	2.356	4.650	**–**	**–**	94,240	40,000
			–	**–**	8,041,185	2,388,998

28 EQUITY COMPENSATION BENEFITS (continued)

a. Share option scheme (continued)

v. Details of share options cancelled or lapsed during the year

Exercise period	Exercise price HK$ (note 26(e))	Number of options 2002 (note 26(e))	2001 (note 26(e))
August 17, 2000 to August 17, 2009	2.3560	**3,792,002**	5,341,338
August 17, 2000 to October 25, 2009	4.5520	**4,757,000**	33,320,334
December 7, 2000 to December 7, 2009	5.3920	**–**	2,280,000
December 20, 2000 to December 20, 2009	6.7120	**–**	27,370,000
February 1, 2001 to February 1, 2010	14.4720	**–**	2,000,000
May 26, 2001 to August 26, 2010	12.0240	**1,930,000**	192,521,000
March 15, 2001 to October 27, 2010	4.8720	**33,132,150**	14,546,440
January 22, 2001 to January 22, 2011	3.3680	**65,017,800**	26,771,600
May 26, 2001 to April 17, 2011	2.0600	**1,957,200**	3,930,400
May 7, 2002 to May 7, 2011	2.2320	**12,000,000**	–
July 16, 2002 to July 16, 2011	1.8320	**482,200**	352,800
		123,068,352	308,433,912

b. Share award schemes

In 2002, the Company established two employee share incentive award schemes under which awards of shares may be granted to employees of participating subsidiaries. Directors of the Company are not eligible to participate in either scheme. On June 10, 2002, the Company approved the establishment of a scheme (the "Purchase Scheme") under which selected employees are awarded shares purchased in the market. On November 12, 2002, the Company approved the establishment of a scheme (the "Subscription Scheme") under which selected employees are awarded newly issued shares. The purpose of both the Purchase Scheme and the Subscription Scheme is to recognize the contributions of certain employees of the Group, to retain them for the continued operation and development of the Group, and to attract suitable personnel for the further development of the Group. Under both schemes, following the making of an award to an employee, the relevant shares are held on trust for that employee and then vest over a period of time provided that the employee remains an employee of the Group at the relevant time and satisfies any other conditions specified at the time the award is made. The maximum aggregate number of shares that can be awarded under the two schemes is limited to one percent of the issued share capital of the Company (excluding shares that have already been transferred to employees on vesting).

A summary of movements in shares held under the share award schemes during the year is as follows:

	Number of shares 2002 (note 26(e))	2001 (note 26(e))
As at January 1	**–**	–
Issue of the Company's shares under the share award scheme at par value of HK$0.05 per share (note 26(c))	**23,741,024**	–
Purchases from the market by the trustee at average market price of HK$1.648 per share	**15,935,000**	–
As at December 31	**39,676,024**	–

In HK$ million	2002	2001
Fair value of shares held as at December 31	**48,802**	–
Fair value, on issuance, of shares issued during the year	**33,949**	–
Fair value, on date of purchase, of share purchased from the market	**26,261**	–
Amounts recognized in the consolidated balance sheet as prepaid expenses	**24,841**	–
Amounts recognized in the consolidated income statement as staff costs	**2,609**	–

28 EQUITY COMPENSATION BENEFITS (continued)

c. Employees' rights to invest in shares of PCCW Japan

PCCW Japan is a company incorporated under the laws of Japan with shares registered on the Over the Counter market in Japan. In August 2000, the Group has established an incentive scheme under which certain employees of the Group are granted with options to acquire equity interests in PCCW Japan. The exercise price of the options to the employees was set at a price not less than the fair value of the shares at the time of issue. Shares of PCCW Japan have been trading below the cost of the options since the first exercisable date, and up to December 31, 2002. A total number of 4,021,000 PCCW Japan shares were held by the incentive scheme which is operated under a limited partnership arrangement. As at December 31, 2002, no options have been exercised by the employees.

29 RESERVES/(DEFICIT)

In HK$ million	2002				
	Share premium	Property revaluation reserve (Restated) (Note 38)	Currency translation reserve	Deficit (Restated) (Note 38)	Total (Restated) (Note 38)
THE GROUP					
Beginning of year, as previously stated	**169,635**	**42**	**(224)**	**(178,229)**	**(8,776)**
Prior period adjustment arising from adoption of new accounting standard for deferred taxation (note 38(b))	**–**	**(42)**	**–**	**(3,358)**	**(3,400)**
Opening balances, as restated	**169,635**	**–**	**(224)**	**(181,587)**	**(12,176)**
Adjustment in relation to the recognition of transitional liability of defined benefit retirement schemes arising from adoption of new accounting standard for employee benefits at January 1, 2002 (note 38(a))	**–**	**–**	**–**	**(723)**	**(723)**
	169,635	**–**	**(224)**	**(182,310)**	**(12,899)**
Issue of ordinary shares and exercise of options, net of issuing expenses	**936**	**–**	**–**	**–**	**936**
Realization of goodwill on disposal of RWC	**–**	**–**	**–**	**4,081**	**4,081**
Translation exchange differences	**–**	**–**	**107**	**–**	**107**
Impairment provision of goodwill attributable to REACH	**–**	**–**	**–**	**8,263**	**8,263**
Impairment provision of goodwill attributable to a subsidiary	**–**	**–**	**–**	**194**	**194**
Loss for the year	**–**	**–**	**–**	**(7,762)**	**(7,762)**
End of year	**170,571**	**–**	**(117)**	**(177,534)**	**(7,080)**
Attributable to:					
– The Company and subsidiaries	**170,571**	**–**	**(117)**	**(178,531)**	**(8,077)**
– Jointly controlled companies	**–**	**–**	**–**	**964**	**964**
– Associates	**–**	**–**	**–**	**33**	**33**
End of year	**170,571**	**–**	**(117)**	**(177,534)**	**(7,080)**
THE COMPANY					
Beginning of year	**169,635**	**–**	**–**	**(129,257)**	**40,378**
Issue of ordinary shares and exercise of options, net of issuing expenses	**936**	**–**	**–**	**–**	**936**
Loss for the year	**–**	**–**	**–**	**(14,049)**	**(14,049)**
End of year	**170,571**	**–**	**–**	**(143,306)**	**27,265**

29 RESERVES/(DEFICIT) (continued)

In HK$ million	Share premium	Property revaluation reserve (Restated) (Note 38)	Currency translation reserve	Deficit (Restated) (Note 38)	Total (Restated) (Note 38)
	2001				
THE GROUP					
Beginning of year, as previously stated	167,035	343	(65)	(186,497)	(19,184)
Prior period adjustment arising from adoption of new accounting standard for deferred taxation (note 38(b))	–	(138)	–	(3,078)	(3,216)
Opening balances, as restated	167,035	205	(65)	(189,575)	(22,400)
Issue of ordinary shares and exercise of options, net of issuing expenses	2,600	–	–	–	2,600
Realization of goodwill on disposal of subsidiaries	–	–	–	33	33
Deficit on revaluation of properties, as previously stated	–	(301)	–	–	(301)
Prior period adjustment arising from adoption of new accounting standard for deferred taxation (note 30(b))	–	96	–	–	96
Deficit on revaluation of properties, as restated	–	(205)	–	–	(205)
Translation exchange differences	–	–	(159)	–	(159)
Realization of goodwill on contribution of assets to a jointly controlled company, as previously stated	–	–	–	6,382	6,382
Prior period adjustment arising from adoption of new accounting standard for deferred taxation (note 38(b))	–	–	–	269	269
Realization of goodwill on contribution of assets to a jointly controlled company, as restated	–	–	–	6,651	6,651
Adjustment to goodwill arising from acquisition of an associate	–	–	–	(39)	(39)
Profit for the year, as previously stated	–	–	–	1,892	1,892
Prior period adjustment arising from adoption of new accounting standard for deferred taxation (note 38(b))	–	–	–	(549)	(549)
Profit for the year, as restated	–	–	–	1,343	1,343
End of year	169,635	–	(224)	(181,587)	(12,176)
Attributable to:					
– The Company and subsidiaries	169,635	–	(224)	(182,240)	(12,829)
– Jointly controlled companies	–	–	–	575	575
– Associates	–	–	–	78	78
End of year	169,635	–	(224)	(181,587)	(12,176)
THE COMPANY					
Beginning of year	167,035	–	–	(130,124)	36,911
Issue of ordinary shares and exercise of options, net of issuing expenses	2,600	–	–	–	2,600
Profit for the year	–	–	–	867	867
End of year	169,635	–	–	(129,257)	40,378

30 DEFERRED TAXATION

a. Movement in deferred tax liabilities during the year is as follows:

In HK$ million	Accelerated tax depreciation	Valuation adjustment resulted from acquisition of subsidiaries	Leasing partnership	Revaluation of properties	Others	Total
	2002					
THE GROUP						
Beginning of year, as previously stated	**180**	**–**	**520**	**–**	**(4)**	**696**
Effect of adoption of new accounting standard (note 38(b))	**1,856**	**506**	**–**	**395**	**(37)**	**2,720**
Opening balances, as restated	**2,036**	**506**	**520**	**395**	**(41)**	**3,416**
Effect of adoption of SSAP 34 (note 38(a))	**–**	**–**	**–**	**–**	**(96)**	**(96)**
	2,036	**506**	**520**	**395**	**(137)**	**3,320**
Deferred taxation (credited)/ charged to income statement during the year (note 13)	**(196)**	**(21)**	**(53)**	**56**	**62**	**(152)**
Exchange differences	**–**	**–**	**–**	**–**	**(3)**	**(3)**
End of year	**1,840**	**485**	**467**	**451**	**(78)**	**3,165**

In HK$ million	Accelerated tax depreciation	Valuation adjustment resulted from acquisition of subsidiaries	Leasing partnership	Revaluation of properties	Others	Total
	2001					
THE GROUP						
Beginning of year, as previously stated	187	–	555	–	(4)	738
Effect of adoption of new accounting standard (note 38(b))	1,655	521	–	138	–	2,314
Opening balances, as restated	1,842	521	555	138	(4)	3,052
Deferred taxation charged/ (credited) to income statement during the year (note 13)	194	(15)	(35)	353	(37)	460
Deferred taxation credited to equity during the year (note b)	–	–	–	(96)	–	(96)
End of year	2,036	506	520	395	(41)	3,416

30 DEFERRED TAXATION (continued)

b. Deferred taxation credited to equity during the year is as follows:

In HK$ million	The Group 2002	2001
Property revaluation reserve (note 29)	**–**	(96)

c. Deferred income tax assets are recognized for tax loss carry forwards to the extent that realization of the related tax benefit through the future taxable profits is probable. The Group has unutilized estimated tax losses of HK$11,240 million (2001: HK$9,992 million) to carry forward for deduction against future taxable income. Tax losses of HK$1,205 million (2001: approximately HK$811 million) will expire within 1–5 years from December 31, 2002. The remaining portion of the tax losses, mainly relating to Hong Kong companies, can be carried forward indefinitely.

31 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

In HK$ million	The Group 2002	2001 (Restated) *(Note 39)*
(Loss)/Profit before taxation	**(6,482)**	3,227
Adjustment for:		
Losses on disposal of interests in RWC and MobileOne, net	**1,433**	–
Impairment provision for goodwill attributable to REACH	**8,263**	–
Impairment provision for goodwill attributable to a subsidiary	**309**	–
Provision for inventory obsolescence	**26**	38
Write-off of intangible assets	**8**	4
Interest income	**(164)**	(548)
Interest expense	**1,948**	3,108
Finance charges	**226**	545
Depreciation	**2,623**	2,437
Unrealized holding losses on other investments, net	**142**	194
Realized losses on disposal of other investments	**182**	2
Realized gain on disposal of investment in subsidiaries, a jointly controlled company and associates	**(34)**	(264)
Realized gain on disposal of investment securities	**(56)**	(14)
Provision for impairment of investments	**581**	263
Provision for impairment of fixed assets	**232**	27
Release of provision for an onerous contract	**(464)**	(477)
Loss on disposal of fixed assets	**76**	63
Provision for doubtful debts	**148**	57
Amortization of intangible assets	**112**	76
Amortization of goodwill	**85**	50
Amortization of business development costs	**12**	–
Amortization of premium received from equity options	**(32)**	(361)
Provision for property held for development	**–**	60
Dividend income	**–**	(125)
Share of results of associates and jointly controlled companies	**(831)**	(681)
Share of results of unconsolidated subsidiaries	**–**	(152)
Gain on termination of cross currency swap contracts	**(332)**	–
Unrealized exchange differences	**–**	1

31 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

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

In HK$ million	The Group 2002	2001 (Restated) *(Note 39)*
OPERATING PROFIT BEFORE CHANGES IN WORKING CAPITAL	**8,011**	7,530
Decrease/(Increase) in operating assets:		
– properties under development	**(2,204)**	(1,260)
– inventories	**(135)**	64
– accounts receivable	**(32)**	(207)
– prepayments, deposits and other current assets	**54**	293
– gross amounts due from customers for contract work	**–**	53
– amount due from jointly controlled companies and associates	**–**	(1,238)
– amounts due from related companies	**204**	(33)
Increase/(Decrease) in operating liabilities:		
– accounts payable, provisions, accruals, other payables and deferred income	**159**	1,067
– amount due to minority shareholders of subsidiaries	**5**	(5)
– gross amounts due to customers for contract work	**(38)**	48
– amounts due to related companies	**(446)**	450
– advances from customers	**(277)**	(48)
CASH GENERATED FROM OPERATIONS	**5,301**	6,714
Interest paid	**(221)**	(231)
Interest received	**82**	549
Dividend received	**–**	8
Tax paid		
– Hong Kong profits tax paid	**(1,243)**	(1,296)
– Overseas tax paid	**(2)**	(28)
NET CASH INFLOW FROM OPERATING ACTIVITIES	**3,917**	5,716

b. Acquisitions of subsidiaries

In HK$ million	The Group 2002	2001
Net assets acquired:		
Fixed assets	**–**	138
Accounts receivable, prepayments, deposits and other assets	**–**	92
Cash and bank balances	**–**	27
Accounts payable, accruals and other payables	**–**	(115)
Other long-term liabilities	**–**	(26)
Minority interests	**–**	(13)
	–	103
Goodwill arising on acquisition	**–**	1,033
	–	1,136
Satisfied by:		
Issuance of ordinary shares	**–**	1,043
Cash from internal resources	**–**	93
	–	1,136
Analysis of the net outflow of cash and cash equivalents in respect of the purchase of subsidiaries:		
Cash	**–**	(93)
Cash and bank balances acquired	**–**	27
Net cash outflow in respect of acquisitions of subsidiaries	**–**	(66)

31 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

c. Analysis of cash and cash equivalents

In HK$ million	The Group 2002	2001
Cash and bank balances	**8,638**	8,923
Bank loans and overdrafts	**(37)**	(75)
Restricted cash (included in "prepayments, deposits and other current assets" on consolidated balance sheet (note 36))	**(720)**	(1,405)
Cash and cash equivalents as at December 31	**7,881**	7,443

d. Major non-cash transactions

A total of 376,680,000 ordinary shares of HK$0.05 each were issued to the minority shareholder of PCCH, as a result of its conversion of its remaining interest in PCCH into ordinary shares of the Company.

On January 24, 2002, the Company issued 175,000,000 ordinary shares of HK$0.05 each at their estimated market value totaling approximately US$48 million (approximately HK$375 million) to a wholly-owned subsidiary of TWI for the acquisition of a license to use its sports archive and programmes.

On June 28, 2002, the Company disposed of its entire 40 percent equity interest in RWC to Telstra for a consideration of HK$4,792 million that was satisfied by the redemption of the Telstra Bond due 2007 together with its accrued interest and the issuance of the Telstra Note due 2005 (see note 11(a)).

32 NET LEASE PAYMENTS RECEIVABLE

A company within the Group is a limited partner in a number of limited partnerships, which own and lease assets to third parties.

In HK$ million	The Group 2002	2001
The net investment in relation to these finance leases comprises:		
Net lease payments receivable	**475**	475
Less: Current portion of net lease payments receivable	**–**	–
	475	475

Non-recourse finance of HK$2,600 million (2001: HK$2,847 million) has been offset against net rentals receivable in arriving at the above net investment in finance leases.

33 FINANCIAL INSTRUMENTS

a. Equity options

During the year, the Group entered into certain derivative contracts, in the form of equity swap and equity option contracts, with a third party with the effect of entering into forward sale of a portion of certain quoted other investments plus written call options for the remaining portion of those quoted other investments. The deemed forward sale effectively eliminated the Group's exposure to market price fluctuation and accordingly, the underlying quoted other investments were carried at the deemed forward price as at December 31, 2002. The Group received advance receipt of approximately HK$187 million for the deemed forward sales and the amount was included in other long-term liabilities in the consolidated balance sheet and is interest bearing at commercial rate. The Group recognized a gain of approximately HK$10 million for marking the quoted other investments to the deemed forward price and the gain has been reflected in net gains on investments. The Group also received premiums of approximately HK$25 million for the written call options with notional amount of approximately HK$71 million. The premiums received were recorded as deferred income and are being amortized into income on a straight-line basis over the life of the call options. The underlying quoted other investments were carried at market value at each balance date and any unrealized holding gain or loss are recognized in the income statement in the period as it arises. The underlying quoted other investments for both the deemed forward sale and written call options have been placed as collateral for the above equity swap and equity option transactions (note 23(c)).

33 FINANCIAL INSTRUMENTS (continued)

a. Equity options (continued)

Apart from the above, as at December 31, 2002, the Group had other outstanding written equity call options with a total notional amount of approximately HK$157 million (2001: approximately HK$157 million). Other than the equity options as aforementioned in previous paragraph, the Group did not receive premiums on writing new equity options in 2002 (2001: approximately HK$53 million). The premiums received were recorded as deferred income and are being amortized into income on a straight-line basis over the life of the related contracts.

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

b. Interest rate options

The Group entered into interest rate options to manage its interest rate risk. As at December 31, 2002, the total notional amount of such instruments was HK$150 million (2001: HK$190 million).

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

c. Cross currency swap

As at December 31, 2002, the Group had outstanding cross currency swap contracts to buy US$2,740 million and Yen 30,000 million (2001: US$1,100 million and Yen 30,000 million) at various rates totaling approximately HK$21,372 million and HK$1,950 million (2001: HK$8,580 million and US$250 million), respectively, to hedge against the Group's exposure to foreign currencies and interest rate fluctuations.

During the year ended December 31, 2002, the Group closed out certain cross currency swap contracts and recognized a gain of approximately HK$332 million (2001: Nil). The gain is reflected under net gains on investments (see note 6).

34 COMMITMENTS

a. Capital

In HK$ million	The Group	
	2002	2001
Authorized and contracted for	**4,155**	4,045
Authorized but not contracted for	**7,436**	11,378
	11,591	15,423

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

In HK$ million	The Group	
	2002	2001
Investments	**137**	419
Property development (note i)	**11,080**	13,974
Development of Internet business	**101**	524
Construction contracts	**24**	125
Acquisition of fixed assets	**247**	378
Others	**2**	3
	11,591	15,423

i. The Group has a project agreement with the Government of Hong Kong (the "Government") to design, build and market the Cyberport development at Telegraph Bay on the Hong Kong Island (the "Cyberport Project"). Pursuant to the Cyberport Project Agreement entered into on May 17, 2000, the total construction costs of the Cyberport Project are estimated to be approximately HK$15.8 billion. The total construction costs incurred for the Cyberport Project up to December 31, 2002 were approximately HK$4.4 billion (2001: HK$2 billion). Accordingly, the outstanding commitment for the Cyberport Project as at December 31, 2002 was approximately HK$11 billion (2001: HK$14 billion).

34 COMMITMENTS (continued)

b. Operating leases

As at December 31, 2002, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

Land and buildings

In HK$ million	The Group 2002	2001
Within 1 year	**188**	181
After 1 year but within 5 years	**288**	255
After 5 years	**123**	161
	599	597

Equipment

In HK$ million	The Group 2002	2001
Within 1 year	**35**	49
After 1 year but within 5 years	**29**	51
	64	100

c. Others

As at December 31, 2002, the Group had outstanding forward foreign exchange contracts to buy US$160 million (2001: US$290 million) at various rates totaling approximately HK$1,245 million (2001: HK$2,264 million). Further, the Group had outstanding forward foreign exchange contracts to buy approximately S$110 million (2001: Nil) totaling approximately US$63 million (2001: Nil).

35 CONTINGENT LIABILITIES

In HK$ million	The Group 2002	2001	The Company 2002	2001
Performance guarantee	**74**	48	**1**	7
Tender guarantee	**10**	–	**–**	–
Advance payment guarantee	**14**	–	**–**	–
Guarantees given to banks in respect of credit facilities granted to				
– subsidiaries	**–**	–	**14,112**	8,580
– jointly controlled company	**–**	4	**–**	4
Guarantee in lieu of cash deposit	**20**	3	**–**	2
Guarantee in respect of an investment commitment of an associate	**–**	104	**–**	–
Staff mortgage loan guarantee	**5**	–	**–**	–
Guarantee indemnity	**11**	–	**–**	–
	134	159	**14,113**	8,593

On April 23, 2002, a writ of summons was issued against PCCW-HKT Limited ("HKT"), an indirect wholly-owned subsidiary of the Company, by New Century Infocomm Tech Co., Ltd. for its failure to purchase 6,522,000 shares of Taiwan Telecommunication Network Services Co., Ltd. ("TTNS"), an indirect subsidiary of the Company, pursuant to an option agreement entered into on July 24, 2000. The total claim against HKT amounted to approximately HK$90 million (NT$418 million), being the purchase price of shares in TTNS, contractual interest for the period January 1, 2001 to January 2, 2002 at 6.725 percent per annum and interest on the due amount pursuant to Sections 48 and 49 of the High Court Ordinance, Cap. 4. However, this figure should be reduced by the current market value of the shares in TTNS which would be transferred to HKT in the event that the claimants were successful in their claim. A defence was filed by HKT on May 29, 2002. Based on legal advice received, the directors consider that HKT has valid defences, therefore no provision has been made.

36 BANKING FACILITIES

Aggregate banking facilities as at December 31, 2002 were HK$21,660 million (2001: HK$27,958 million) of which the unused facilities as at the same date amounted to HK$3,521 million (2001: HK$4,250 million).

A summary of major loan agreement terms is set out in note 25(a).

Security pledged for certain banking facilities includes:

In HK$ million	The Group 2002	2001
Investment properties	**3,830**	2,703
Land and buildings	**93**	73
Investments	**312**	–
Fixed deposit	**122**	–
	4,357	2,776

Cyber-Port Limited, an indirect wholly-owned subsidiary of the Company, was granted a standby letter of credit facility amounting to approximately HK$722 million (2001: HK$1,405 million) from a bank for the purpose of providing a cashflow guarantee covering an amount equal to the 6-month forecast net cashflow requirements of the Cyberport Project, defined in and pursuant to the terms of the Cyberport Project Agreement. Such facility is secured by a bank fixed deposit of approximately HK$720 million (2001: approximately HK$1,405 million) placed by the Company. The amount of restricted cash is included in “prepayments, deposits and other current assets” on the balance sheet.

37 POST BALANCE SHEET EVENTS

The following events occurred subsequent to December 31, 2002 up to the date of approval of these financial statements by the Board of Directors:

a. Pursuant to an ordinary resolution passed at an extraordinary general meeting of the Company held on January 7, 2003, every five issued and unissued Shares were consolidated into one New Share with effect from January 8, 2003. Following the Share Consolidation becoming effective on January 8, 2003, the authorized share capital of the Company is HK$1,600,000,000 divided into 6,400,000,000 New Shares, of which 4,653,754,074 New Shares are in issue and fully paid. The New Shares rank pari passu in all respects with each other.

In addition, the conversion prices of the outstanding convertible bonds issued by certain wholly-owned subsidiaries of the Company and which are convertible into Shares are adjusted by the same factor as the Share Consolidation, namely by five times the conversion prices prior to the Share Consolidation. Accordingly, the US$1,100 million guaranteed convertible bonds issued by PCCW Capital Limited, which were convertible into Shares at a conversion price of US$1.0083 (approximately HK$7.865) per Share, are convertible into New Shares at a conversion price of US$5.0415 (approximately HK$39.324) per New Share following the Share Consolidation. The US$450 million guaranteed convertible bonds issued by PCCW Capital No. 2 Limited, which were convertible into Shares at a conversion price of HK$2.75 (approximately US$0.3526) per Share, are convertible into New Shares at a conversion price of HK$13.75 (approximately US$1.763) per New Share following the Share Consolidation.

The relevant exercise prices applicable to all outstanding options granted by the Company pursuant to the Company’s share option scheme are adjusted as a result of the Share Consolidation by the same five-fold factor as applies to the conversion prices applicable to the convertible bonds.

b. On January 24, 2003, PCCW Capital No. 3 Limited, an indirect wholly-owned subsidiary of the Company, privately placed US$456 million Guaranteed Notes due 2013 to raise funds for general working capital purposes. The notes are unconditionally and irrevocably guaranteed by the Company.

37 POST BALANCE SHEET EVENTS (continued)

c. On February 26, 2003, PCC Investments Limited ("PCCI"), a wholly-owned subsidiary of the Company, Commercial Radio Productions Limited ("CRP") and PCC Skyhorse Holding Limited ("Skyhorse"), a joint venture company of which 60 percent of the share capital was held by PCCI and the remaining 40 percent was held by CRP, entered into an agreement. Pursuant to this agreement, Skyhorse repurchased CRP's entire 40 percent shareholding in Skyhorse on normal commercial terms for HK$80 million which was settled by a cash payment from Skyhorse's internal resources arising as a result of PCCI's original equity commitment in the joint venture.

d. On March 5, 2003, the Financial Secretary, Mr Antony Leung, proposed the profits tax rate to be increased from 16 percent to 17.5 percent with effect from the year of assessment 2003/04.

e. On March 14, 2003, the Company completed a five-year term loan facility for HK$3,003 million (approximately US$385 million) on an unsecured basis. The loan is repayable in 2008. The proceeds will be used for general corporate purposes.

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

a. Adoption of SSAP 34 "Employee benefits"

SSAP 34 prescribes the accounting and disclosure for all forms of consideration given by an enterprise in exchange for services rendered by employees. The underlying principle is that the cost of providing employee benefits should be recognized in the period in which the benefits are earned by the employees, rather than when they are paid or payable.

The Group has been providing defined benefit retirement schemes to certain of its employees. Prior to the adoption of SSAP 34, contributions to the defined benefit retirement schemes were made in accordance with the advice of qualified independent actuaries and were recognized as costs of retirement benefits to the income statement in the relevant accounting period. Special contributions were made to the retirement schemes as recommended by the actuaries and were deferred and amortized to the income statement on a systematic basis over the employees' average expected service lives.

With effect from January 1, 2002, in order to comply with SSAP 34, the Group adopted a new policy for defined benefit retirement schemes as set out in note 2(z). As a result of the adoption of this accounting policy, the Group has chosen to recognize the entire transitional liability immediately under the transitional provision of SSAP 34. As at January 1, 2002, the transitional liability of the Group's defined benefit retirement schemes, which represented the excess of the defined benefit obligation over the fair value of the scheme assets, was HK$521 million. The amount was recognized retrospectively against the opening balance of the deficit as at January 1, 2002 and the defined benefit liability has been carried in the consolidated balance sheet as non-current liabilities. In addition, the Group wrote off the unamortized balance of special contribution of HK$298 million that was made to the defined benefit retirement schemes in 1998. A resultant adjustment of HK$723 million after netting of deferred tax impact of HK$96 million was made to the opening balance of the deficit of the Group as at January 1, 2002. Comparative financial statements have not been restated.

b. Adoption of SSAP 12 "Income taxes"

The Hong Kong Society of Accountants issued SSAP 12 "Income taxes" ("SSAP 12 (revised)") in August 2002, which supercedes the previous SSAP 12 "Accounting for deferred taxes". The new standard will be effective for accounting periods beginning on, or after January 1, 2003. The Group has elected to adopt the SSAP 12 (revised) in the consolidated financial statements as of and for the year ended December 31, 2002.

SSAP 12 (revised) requires deferred tax assets and liabilities to be provided in full using the liability method, on temporary differences arising between the tax base of an asset or a liability and its carrying amount in the financial statements at any point in time. Deferred tax assets or liabilities arising from temporary differences need to be measured at the tax rates enacted or substantially enacted by the balance sheet date. The principal temporary differences arise from depreciation of fixed assets, revaluation surplus of certain non-current assets, provision for pensions, tax losses carried forward, and, in relation to acquisitions, the difference between the fair values of the net assets acquired and their tax base.

38 ADJUSTMENTS RETROSPECTIVELY APPLIED UPON ADOPTION OF NEW ACCOUNTING STANDARDS IN HONG KONG (continued)

b. Adoption of SSAP 12 "Income taxes" (continued)

Deferred tax liabilities are provided in full on all taxable temporary differences while deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Movements of deferred tax assets and liabilities between balance sheet dates need to be reported either in the income statement or as an item of recognized gain or loss in reserve movements.

In prior years, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future.

The adoption of SSAP 12 (revised) represents a change in accounting policy, which has been applied retrospectively so that comparatives presented have been restated to conform to the changed policy. As a result of the new accounting policy, the Group's loss for the year and the amount charged to deficit has been decreased by HK$140 million (2001: the Group's profit decreased by HK$549 million) and the net liabilities as at year end have been increased by HK$3,009 million (2001: HK$3,400 million). The new accounting policy has been adopted retrospectively, with the opening balances of deficit and the comparative information adjusted for the amounts relating to prior periods. The opening deficit of the Group at January 1, 2001 and 2002 have been increased by HK$3,078 million and HK$3,358 million respectively representing the unprovided net deferred tax liabilities as at those dates. This change has resulted in an increase in deferred tax liabilities at December 31, 2001 by HK$2,720 million.

39 COMPARATIVE FIGURES

The presentation and classification of items in the consolidated cash flow statement have been changed due to the adoption of the requirements of SSAP 15 (revised) "Cash flow statements". As a result, cash flow items from taxation, returns on investments and servicing of finance have been classified into operating and financing activities as set out in note 31(a) and consolidated cash flow statement. Comparative figures have been reclassified to conform with the current year's presentation.

Certain comparative figures have also been adjusted as a result of (i) changes in accounting policies for employee benefits and deferred taxation, details of which are set out in note 38 and (ii) reclassification of certain operations among business segments, details of which are set out in note 4.

The financial statements as of and for the year ended December 31, 2001 were audited by another firm of certified public accountants who expressed an unqualified opinion on the financial statements in their report dated March 20, 2002. The financial statements audited by them did not reflect the effects of the adoption of SSAP 12 "Income taxes" as described in note 38(b).

Five Year Financial Summary

For the year ended December 31, 2002

Results HK$ million	**2002**	2001* (Restated)	2000* (Restated)	1999	1998
TURNOVER BY PRINCIPAL ACTIVITY					
Telecommunications Services ("TSS")[1]	**18,007**	19,827	7,537	133	277
Business eSolutions[3]	**2,234**	1,936	450	–	–
Infrastructure	**685**	1,368	459	18	1
Others[2]	**793**	468	641	1	7
Reconciliation of inter-segment sales	**(1,607)**	(1,640)	(1,796)	–	–
	20,112	21,959	7,291	152	285
Profit/(Loss) from operations	**4,380**	5,450	(127,069)	281	(50)
Finance (costs)/income, net	**(1,997)**	(3,056)	(2,356)	56	(12)
Gain on disposal of discontinued operations	**–**	–	–	21	–
Share of results of equity accounted entities	**831**	833	627	(5)	1
Impairment loss for goodwill attributable to the interest in Reach Ltd.	**(8,263)**	–	–	–	–
Losses on disposal of interests in Joint Venture (Bermuda) No. 2 Limited and MobileOne Ltd., net	**(1,433)**	–	–	–	–
(Loss)/Profit before taxation	**(6,482)**	3,227	(128,798)	353	(61)
Taxation	**(1,406)**	(1,982)	(554)	(7)	(2)
(Loss)/Profit after tax	**(7,888)**	1,245	(129,352)	346	(63)
Minority interests	**126**	98	23	1	1
(Loss)/Profit for the year	**(7,762)**	1,343	(129,329)	347	(62)

Notes:

* Comparative figures have been restated to conform with current year's classification as follows:

1. Retail consumer broadband and narrowband Internet access services and related multimedia services were transferred to TSS from Internet Services in 2002.
2. The remainder of Internet Services, which primarily comprises costs associated with the production of English and Chinese Internet and broadband content, is included under Others in 2002.
3. The operations of Internet Data Centers were merged into and are reported under Business eSolutions in 2002.

Assets and Liabilities As at December 31, in HK$ million	**2002**	2001 (Restated)	2000 (Restated)	1999 (Restated)	1998
Total non-current assets	**37,161**	38,130	35,805	7,360	183
Total current assets	**12,602**	13,711	32,497	6,551	166
Total current liabilities	**(9,004)**	(10,966)	(72,658)	(1,484)	(213)
Net current assets/(liabilities)	**3,598**	2,745	(40,161)	5,067	(47)
Total assets less current liabilities	**40,759**	40,875	(4,356)	12,427	136
Total non-current liabilities	**(46,267)**	(51,372)	(12,992)	(1,183)	(19)
Net (liabilities)/assets	**(5,508)**	(10,497)	(17,348)	11,244	117

Schedule of Principal Properties

Year 2002

Property	Classification	Status	Existing Use	Gross Site Area (sq.m.)	Gross Floor Area (sq.m.)	Lease Term*	Group Interest
The PRC							
Pacific Century Place, Beijing, 2A Worker's Stadium Road, North Chaoyang District, Beijing				29,323			
Tower A (except 13th Floor for own use)	Investment properties	Existing	Office for lease		39,562	Medium	100%
Tower B	Investment properties	Existing	Office for lease		20,104	Medium	100%
Tower C	Investment properties	Existing	Residential		21,718	Medium	100%
Tower D	Investment properties	Existing	Residential		10,946	Medium	100%
Carpark Block	Investment properties	Existing	For lease		452 spaces	Medium	100%
Podium	Investment properties	Existing	Shopping mall and basement carpark for lease		67,525 and 388 carpark spaces	Medium	100%
Hong Kong							
The Broadway, 54-62 Lockhart Road, Wanchai, Hong Kong	Investment properties	Existing	Office/shop for lease		6,092	Long	100%
Section A of Lot No. 3054 The Remaining Portion of Lot No. 3087 Lot Nos. 3199, 3203 & 3205 Demarcation District No. 104 Mai Po, Yuen Long, New Territories	Properties held for development	Vacant agricultural land	Land Bank	15,671	Not applicable	Medium	100%
18th Floor & 20th Floor, the roof thereabove & Parking Space Nos. 5, 6, 7, 8, L3, L4 & L5 on 1st Floor Paramount Building, No.12 Ka Yip Street, Chai Wan, Hong Kong	Land and building	Existing	Workshop, office and storage	Not applicable	4,878	Medium	100%
4th to 5th, 7th to 13th, 16th to 18th, half of 20th, 21st to 26th, 28th, 30th to 31st, half of 32nd, 34th to 38th Floors, PCCW Tower, TaiKoo Place, No. 979 King's Road, Quarry Bay, Hong Kong	Investment properties	Existing	Office for lease		36,266	Long	100%
12th to 13th, 16th, half of 17th, 21st to 24th Floors and the flat roof thereof East Exchange Tower, Nos. 38-40 Leighton Road, Causeway Bay, Hong Kong	Investment properties	Existing	Carparks, telephone exchange and offices		3,046	Long	100%

* Lease term:
Long term: Lease not less than 50 years
Medium term: Lease less than 50 years but not less than 10 years

Investor Relations

FINANCIAL CALENDAR

2002	Final Results	March 2003
2003	Annual General Meeting	May 2003
2003	Interim Results	August/September 2003

LISTINGS

The Company's securities are listed on The Stock Exchange of Hong Kong Limited, and in the form of American Depositary Receipts ("ADRs") on the New York Stock Exchange, Inc. Each ADR represents 10 ordinary shares of the Company. Certain convertible bonds and USD guaranteed notes issued by wholly-owned subsidiaries of the Company, are listed on the Luxembourg Stock Exchange. The convertible bonds are convertible into ordinary shares of the Company.

The Company is subject to the regulations of the United States Securities and Exchange Commission ("SEC") as they apply to foreign companies whose securities are listed on a U.S. stock exchange. As required by the United States securities laws, the Company will file an annual report on Form 20-F with the SEC on or before June 30, 2003. Once filed, a copy of the Form 20-F may be obtained from our website or Investor Relations office.

ADR holders registered on the books of the ADR Depositary Bank in New York (including beneficial owners) as at close of business April 11, 2003, can vote by proxy at the Annual General Meeting by completing a voting instruction card provided by the Depositary Bank. The Depositary will tabulate and transmit the votes to the Company before the Annual General Meeting.

Additional information and specific enquiries concerning the Company's ADRs should be directed to the Company's ADR Depositary at the address given on this page.

Other enquiries regarding the Company should be addressed to Investor Relations at the address given on this page.

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PCCW is listed on The Stock Exchange of Hong Kong Limited (SEHK: 0008)
with an ADR listing on the New York Stock Exchange (NYSE: PCW)