

SOS ✓

IMPORTANT

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Pacific Century CyberWorks Limited, you should at once hand this circular, together with the enclosed form of proxy, to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected, for transmission to the purchaser or transferee.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

This circular is not an offer of, nor is it intended to invite offers for, shares in iLink.net Holdings Limited to be issued under the separate listing proposal as mentioned in this circular nor shares or other securities of Pacific Century CyberWorks Limited, including the Convertible Bonds (as defined herein).

PACIFIC CENTURY CYBERWORKS LIMITED

(盈科數碼動力有限公司)

(Incorporated in Hong Kong with limited liability)

**NON-PROVISION OF ASSURED ENTITLEMENTS
UNDER THE PROPOSED SEPARATE LISTING OF
iLINK.NET HOLDINGS LIMITED ON
THE GROWTH ENTERPRISE MARKET OF
THE STOCK EXCHANGE OF HONG KONG LIMITED;
APPROVAL OF THE SHARE OPTION SCHEME
OF iLINK.NET HOLDINGS LIMITED;
CONNECTED TRANSACTIONS INVOLVING
THE PROPOSED CONVERTIBLE BONDS PLACING
AND THE PROPOSED GRANT OF THE MILLER OPTIONS;
PROPOSAL FOR CHANGE OF THE COMPANY'S CHINESE NAME;
AND GENERAL MANDATES TO ISSUE SECURITIES
AND TO REPURCHASE SECURITIES**

**Financial adviser in respect of the
Proposed Convertible Bonds Issue**

BNP PARIBAS PEREGRINE

**Independent financial adviser to
the Independent Board Committee
in relation to the non-provision of assured
entitlements under the proposed separate
listing of iLink.net Holdings Limited and
the proposed Convertible Bonds Placing**



VICKERS BALLAS

**Independent financial adviser to
the Independent Board Committee
in relation to the proposed grant
of the Miller Options**

ANGLO CHINESE
CORPORATE FINANCE, LIMITED

A letter from the Independent Board Committee is set out on pages 30 and 31 of this circular. A letter from Vickers Ballas Capital Limited containing its advice to the Independent Board Committee in relation to the non-provision of assured entitlements under the proposed separate listing of iLink.net Holdings Limited and the proposed Convertible Bonds Placing (as defined herein) is set out on pages 32 to 39 of this circular. A letter from Anglo Chinese Corporate Finance, Limited containing its advice to the Independent Board Committee in relation to the proposed grant of the Miller Options (as defined herein) is set out on pages 40 to 50 of this circular.

A notice convening an extraordinary general meeting of Pacific Century CyberWorks Limited to be held on 5 December, 2000 at 11:00 a.m. in the Conference Room, 14th Floor, Hongkong Telecom Tower, TaiKoo Place, 979 King's Road, Quarry Bay, Hong Kong is set out on pages 83 to 87 of this circular. Whether or not you are able to attend the meeting, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so wish.

13 November, 2000

CONTENTS

	<i>Page</i>
Definitions	1
Letter from the Board	
Introduction	12
The proposed separate listing of iLink.net	14
Convertible Bonds Placing	17
The Consulting Agreement and the proposed grant of the Miller Options	22
Change of PCCW's Chinese name	25
General Mandates to issue securities and to repurchase securities	26
Extraordinary General Meeting	27
Advice	28
General	29
Letter from the Independent Board Committee	30
Appendix I — Letter from Vickers Ballas	32
Appendix II — Letter from Anglo Chinese	40
Appendix III — A summary of the principal terms of the iLink.net Scheme	51
Appendix IV — A summary of the principal terms of the Convertible Bonds	58
Appendix V — Explanatory Statement for the Repurchase Mandate	65
Appendix VI — General Information	70
Notice of Extraordinary General Meeting	83

DEFINITIONS

In this Circular, unless the context requires otherwise, the following expressions have the following meanings:

“Anglo Chinese”	Anglo Chinese Corporate Finance, Limited, an investment adviser registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong) and the independent financial adviser to the Independent Board Committee in relation to the proposed grant of the Miller Options
“Associates”	has the same meaning ascribed thereto under the Listing Rules
“Associated Company”	any subsidiary or holding company of PCCW or any company controlled by Mr. Li Tzar Kai, Richard (“PCG Private Company”), any subsidiary of such holding company or PCG Private Company, and any company in which PCCW or any such holding company or PCG Private Company holds or controls directly or indirectly not less than 20 per cent. of the issued share capital
“BNP Paribas Peregrine Securities”	BNP Paribas Peregrine Securities Limited, a dealer registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong)
“Board”	the board of Directors
“Bonds Issuer”	PCCW Capital Limited (formerly known as Tolworth Finance Limited), a wholly-owned subsidiary of PCCW, incorporated under the laws of the British Virgin Islands
“Business Day”	a day on which banks in Hong Kong are generally open for banking business, other than a Saturday or Sunday
“Cause”	the occurrence of any of the following events: <ul style="list-style-type: none">(i) Mr. Miller has been convicted of a criminal offence which involves dishonesty or fraud or the property of PCCW or any Associated Company; or(ii) Mr. Miller commits (a) a serious breach of any of his obligations under the Consulting Agreement or the IP Agreement or his fiduciary duty to PCCW or any of its Associated Companies, or (b) material self-dealing or conflict of interest with respect to the rights or interests of PCCW intended to personally and substantially enrich Mr. Miller; or

DEFINITIONS

- (iii) Mr. Miller repeatedly and wilfully violates the internal procedures or policies of PCCW (e.g. conduct constituting employment discrimination or sexual harassment) after written notice by the Board or its chairman of such violations; or
- (iv) Mr. Miller is censured by the regulatory authorities in Hong Kong or is, or becomes, prohibited by law or the regulatory authorities in Hong Kong or the United States from being a director or acts in any manner (whether in the course of his duties under the Consulting Agreement or otherwise) which is reasonably likely to bring him, PCCW or any Associated Company into disrepute; or
- (v) Mr. Miller wilfully disobeys any lawful and reasonable request made by the Board or its chairman; or
- (vi) Mr. Miller fails, or continues to fail, to provide the consultancy services under the Consulting Agreement to the standards or to the timescales reasonably required by the Board or its chairman, after having been notified in writing by the Board or its chairman of the relevant standards and timescales; or
- (vii) Mr. Miller commits any act of bankruptcy or makes any arrangements or composition with his creditors generally,

provided that in relation to paragraphs (ii), (iii), (iv), (v) and (vi), Mr. Miller shall only be construed as having violated those provisions if he fails to cure such violation (if such violation is curable) within 60 days of being requested in writing to do so by the Board or its chairman

"Change in Control"

- (i) a general offer is made to all Shareholders (or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror) and such offer becomes or is declared unconditional;
- (ii) all or substantially all of the business or assets of PCCW are disposed of by PCCW to a party or parties other than a subsidiary or affiliate of PCCW, pursuant to a partial or complete liquidation of PCCW, sale of assets (including shares of a subsidiary of PCCW) or otherwise; or

DEFINITIONS

	(iii) PCCW is merged or consolidated with any entity (other than a subsidiary or affiliate of PCCW) in a transaction where the Shareholders immediately prior to such transaction own less than 50 per cent. of the shares of the surviving entity immediately following such transaction
"Closing Date"	the date of issue of the US\$600 million Convertible Bonds which shall be 5 December, 2000 or such other date as may be agreed between PCCW, the Bonds Issuer and BNP Paribas Peregrine Securities on behalf of the Convertible Bonds Underwriters
"Committee"	the committee authorised and charged by the board of iLink.net with the administration of the iLink.net Scheme, which committee shall include, but not limited to, the non-executive and/or the independent non-executive directors of iLink.net from time to time
"Companies Ordinance"	Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
"Composite Document"	the composite document dated 26 May, 2000 issued to the shareholders of HKT in connection with the Scheme of Arrangement
"Consulting Agreement"	the consulting agreement dated 17 August, 1999 entered into between PCCW and Mr. Miller
"Conversion Price"	Initially US\$1.0083 per Share (being approximately HK\$7.865 as converted at a fixed exchange rate of HK\$7.80=US\$1.00), subject to adjustment, in accordance with the terms and conditions of the Convertible Bonds and the Trust Deed both before and after the Closing Date
"Conversion Shares"	Shares which may fall to be issued upon conversion of the US\$500 million Convertible Bonds
"Convertible Bonds"	the US\$600 million Convertible Bonds and the US\$500 million Convertible Bonds which are to be unconditionally and irrevocably guaranteed by PCCW and which may be converted into Shares at any time during the Conversion Period as described in Appendix IV to this Circular
"Convertible Bonds Issue"	the Convertible Bonds Placing and the Convertible Bonds Subscription
"Convertible Bonds Placing"	the proposed issue of the US\$500 million Convertible Bonds under the US\$500 million Bonds Subscription Agreement

DEFINITIONS

“Convertible Bonds Subscription”	the proposed issue of the US\$600 million Convertible Bonds under the US\$600 million Bonds Subscription Agreement
“Convertible Bonds Underwriters”	BNP Paribas Peregrine Securities and HSBC
“Director(s)”	the director(s) of PCCW
“Doncaster”	Doncaster Group Limited, a company incorporated in Hong Kong with limited liability and an indirectly wholly-owned subsidiary of PCCW
“Excluded Shareholder(s)”	Shareholder(s) whose names appear on the register of members of PCCW on the Record Date and whose addresses as shown on such register are outside Hong Kong or who are unable to give the necessary certifications required of Qualifying Shareholders in respect of the Rights Issue as described in the announcement of PCCW dated 23 October, 2000
“Exercise Period”	a period of one year commencing on the date of issue of the Warrants, which is expected to be on or about 1 December, 2000, during which the subscription rights attaching to the Warrants may be exercised from time to time.
“Extraordinary General Meeting”	the extraordinary general meeting of PCCW to be held on 5 December, 2000 at 11:00 am in the Conference Room, 14th Floor, Hongkong Telecom Tower, TaiKoo Place, 979 King’s Road, Quarry Bay, Hong Kong , notice of which is set out on pages 83 to 87 of this Circular
“Facilities Agreement”	the facilities agreement dated 29 February, 2000 (as amended and supplemented) and originally made as at that date between PCCW (as parent of the borrower); Doncaster (as borrower); BOCI Capital Limited; HSBC; Banque Nationale de Paris, Hong Kong Branch; Barclays Capital Asia Limited (as co-ordinating arrangers); Bank of China, Hong Kong Branch; Banque Nationale de Paris, Hong Kong Branch; Barclays Bank PLC; HSBC Bank plc; The Hongkong and Shanghai Banking Corporation Limited; Hang Seng Bank Limited and Hang Seng Finance Limited (as underwriters); HSBC (as facility agent and security trustee) and BOCI Capital Limited (as paying agent) relating to the granting of aggregate facilities of up to US\$12 billion (equivalent to approximately HK\$93.6 billion) to Doncaster, details of which are set out in the Composite Document
“GEM”	the Growth Enterprise Market of the Stock Exchange

DEFINITIONS

“GEM Listing Committee”	the listing sub-committee of the board of the Stock Exchange with responsibility for GEM
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“General Mandates”	the Issue Mandate and the Repurchase Mandate to be considered and, if thought fit, approved at the Extraordinary General Meeting
“Good Reason”	(i) the failure to pay in a timely manner any amounts due to Mr. Miller under the Consulting Agreement; and (ii) a material breach by PCCW of any provision of the Consulting Agreement that PCCW fails to remedy or cease within 30 days after notice thereof by Mr. Miller
“Greater China”	Hong Kong, Taiwan and Mainland China
“Group”	PCCW and its subsidiaries
“HKT”	Cable & Wireless HKT Limited, a company incorporated in Hong Kong with limited liability, the shares of which were formerly listed on the Stock Exchange, and currently an indirect wholly-owned subsidiary of PCCW
“HKT Group”	HKT and its subsidiaries
“HSBC”	HSBC Investment Bank Asia Limited, an exempt dealer under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong) and a licensed bank under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)
“iLink.net”	iLink.net Holdings Limited, a company incorporated in the Cayman Islands with limited liability
“iLink.net Articles”	the articles of association of iLink.net
“iLink.net Convertible Note”	the convertible note indirectly held by PCCW and convertible into iLink.net Shares
“iLink.net Group”	iLink.net and its subsidiaries
“iLink.net Scheme”	an employees’ share option scheme proposed to be adopted by iLink.net, a summary of the principal terms of which is set out in <i>Appendix III to this Circular</i>
“iLink.net Shares”	shares in the capital of iLink.net issued or to be issued

DEFINITIONS

"Independent Board Committee"	an independent committee of the Board consisting of Dr. The Hon Li Kwok Po, David, OBE, JP and Sir Roger Lobo, CBE, JP, both of whom are independent non-executive Directors
"Independent Shareholders"	Shareholders other than Mr. Miller and his Associates
"Intel Pacific Options"	the options granted to Intel Pacific, Inc. on 15 September, 1999 under which Intel Pacific, Inc. has the right to subscribe for 1,003,070,000 Shares
"IP Agreement"	the agreement regarding confidential information and intellectual property dated 17 August, 1999 entered into between PCCW and Mr. Miller
"Issue Mandate"	the unconditional general mandate to the Directors to allot, issue and deal with additional Shares and other securities convertible into Shares in the manner as set out in the notice of Extraordinary General Meeting
"Latest Practicable Date"	6 November, 2000, being the latest practicable date prior to the printing of this Circular for ascertaining certain information contained herein
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Major Shareholders"	PCD, PCG and PCRD, together being the single largest shareholder group of PCCW interested in an aggregate of approximately 38.2% of the existing issued share capital of PCCW as at the Latest Practicable Date
"Maturity Date"	the Business Day falling immediately prior to the fifth anniversary of the Closing Date
"Miller Options"	the options proposed to be granted by PCCW to Mr. Miller under the Consulting Agreement to subscribe for 63,201,097 Shares at an exercise price of HK\$2.356 per Share
"Minority Shareholders"	Shareholders other than the Major Shareholders and their respective Associates
"Mr. Miller"	Mr. Avram Miller
"NetFort"	NetFort Offshore Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of iLink.net

DEFINITIONS

“Optional Convertible Bonds”	the additional Convertible Bonds with an aggregate principal amount of up to US\$200 million (equivalent to approximately HK\$1,560 million) to be issued by the Bonds Issuer (on the same terms as the Convertible Bonds) upon exercise of the Over-allotment Option
“Over-allotment Option”	the option granted by PCCW to BNP Paribas Peregrine Securities on behalf of the Convertible Bonds Underwriters exercisable at any time from the date of the US\$600 million Bonds Subscription Agreement up to the date falling 30 days after the Closing Date, pursuant to which BNP Paribas Peregrine Securities may require the Bonds Issuer to issue all or some only of the Optional Convertible Bonds
“PCCW” or “Company”	Pacific Century CyberWorks Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Stock Exchange
“PCD”	Pacific Century Diversified Limited, a company incorporated in the Cayman Islands with limited liability, which is indirectly wholly owned by Mr. Li Tzar Kai, Richard
“PCG”	Pacific Century Group Holdings Limited, a company incorporated in the British Virgin Islands with limited liability, which is wholly owned by Mr. Li Tzar Kai, Richard, and is the ultimate controlling shareholder of PCRD
“PCRD”	Pacific Century Regional Developments Limited, a company incorporated in Singapore with limited liability, the shares of which are listed on the Singapore Securities Trading Limited
“Qualifying Shareholders”	Shareholders, other than the Excluded Shareholders, whose names appear on the register of members of PCCW as at the close of business on the Record Date and subject to PCCW’s right, in its discretion, to vary the requirements for Qualifying Shareholders
“Record Date”	the record date by reference to which entitlements to the Rights Issue will be determined, which date is Monday, 13 November, 2000
“Repurchase Mandate”	the unconditional general mandate to the Directors to repurchase PCCW’s securities in the manner as set out in the notice of the Extraordinary General Meeting

DEFINITIONS

"Rights Issue"	the proposed rights issue of PCCW on the basis of 30 Rights Shares (with Warrants to be issued in the proportion of two Warrants for every one Rights Share) for every 1,000 existing Shares, further details of which are set out in the announcement of PCCW dated 23 October, 2000 and the document relating to the Rights Issue which is being despatched by PCCW to the Shareholders on 13 November, 2000
"Rights Share(s)"	new rights share(s) to be issued and allotted under the Rights Issue
"Scheme of Arrangement"	the scheme of arrangement between HKT and its then shareholders under Section 166 of the Companies Ordinance which became effective on 17 August, 2000
"SDI Ordinance"	Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong)
"SFC"	the Securities and Futures Commission of Hong Kong
"Shareholders"	shareholders of PCCW
"Share Option Scheme"	the employee share option scheme of PCCW adopted on 20 September, 1994 (as amended on 22 December, 1995 and 29 July, 1999)
"Share(s)"	ordinary share(s) of HK\$0.05 each in the capital of PCCW
"Share Underwriting Agreements"	the conditional underwriting agreements between PCCW and each of the Major Shareholders dated 23 October, 2000 in connection with the Rights Issue (as amended)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscription Price"	HK\$6.50 per Rights Share
"subsidiary" or "holding company"	has the meaning defined in section 2 of the Companies Ordinance
"Takeovers Code"	The Hong Kong Code on Takeovers and Mergers
"Telstra"	Telstra Corporation Limited, a company incorporated in Australia with limited liability, the shares of which are listed on the Australian Stock Exchange Limited

DEFINITIONS

“Telstra Convertible Bonds”	the US\$750 million subordinated convertible bonds due 2006 to be issued by PCCW to Telstra pursuant to the Telstra Transactions and which are convertible into Shares at the conversion price which is an amount equal to 115% of the volume weighted average market closing price for the sales of Shares listed on the Stock Exchange over the 45 trading days commencing on 13 October, 2000, subject to adjustment
“Telstra Transactions”	the transactions between PCCW, its relevant subsidiaries and Telstra, details of which were disclosed in the announcement of PCCW dated 13 October, 2000
“Trust Deed”	a trust deed constituting the Convertible Bonds to be entered into by the Bonds Issuer, PCCW and the trustee to be appointed for the Convertible Bonds
“US\$500 million Bonds Subscription Agreement”	a conditional subscription agreement entered into between PCCW, the Bonds Issuer and PCG dated 23 October, 2000 in connection with the issue by the Bonds Issuer of the US\$500 million Convertible Bonds (as may be amended from time to time)
“US\$500 million Convertible Bonds”	Convertible Bonds with an aggregate principal amount of US\$500 million (equivalent to approximately HK\$3,900 million) to be subscribed for by PCG or such person(s) which PCG may procure to subscribe for the US\$500 million Convertible Bonds
“US\$600 million Bonds Subscription Agreement”	a conditional subscription agreement entered into between PCCW, the Bonds Issuer and the Convertible Bonds Underwriters dated 23 October, 2000 in connection with the issue by the Bonds Issuer of the US\$600 million Convertible Bonds (as may be amended from time to time)
“US\$600 million Convertible Bonds”	Convertible Bonds with an aggregate principal amount of US\$600 million (equivalent to approximately HK\$4,680 million) and, upon exercise of the Over-allotment Option, the Optional Convertible Bonds, to be subscribed for by the Convertible Bonds Underwriters or such person(s) which the Convertible Bonds Underwriters may procure to subscribe for the US\$600 million Convertible Bonds
“Vickers Ballas”	Vickers Ballas Capital Limited, an investment adviser registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong) and the independent financial adviser to the Independent Board Committee in relation to non-provision of assured entitlements under the proposed separate listing of iLink.net and the proposed Convertible Bonds Placing

DEFINITIONS

“Warrant(s)”	warrant(s) to be issued by PCCW in registered form in units of subscription rights each entitling the holder(s) thereof to subscribe in cash during the Exercise Period for new Share(s) at an exercise price of HK\$7.50 per Share, subject to adjustment
“Warrant Share(s)”	new Share(s) falling to be issued upon the exercise of the subscription rights attaching to the Warrants
“HK\$”	Hong Kong dollars
“S\$”	Singapore dollars
“US” or “United States”	United States of America, its territories and possessions, any State of the United States, and the District of Columbia
“US\$” or “US dollars”	United States dollars

Unless otherwise specified in this Circular, Hong Kong dollar amounts have been translated, for the purpose of illustration only, using the rate of US\$1.00 = HK\$7.80. No representation is made that any amounts in US\$ or HK\$ could have been or could be converted at the above rate or at any other rates or at all.

PACIFIC CENTURY CYBERWORKS LIMITED

(盈科數碼動力有限公司)

(Incorporated in Hong Kong with limited liability)

Executive Directors:

LI Tzar Kai, Richard (*Executive Chairman*)
YUEN Tin Fan (*Deputy Chairman*)
Peter TO (*Deputy Chairman*)
CHEUNG Wing Lam, Linus (*Deputy Chairman*)
Alexander Anthony ARENA
YUEN Kee Tong
David Norman PRINCE
CHUNG Cho Yee, Mico
Peter Anthony ALLEN
CHAN Ching Cheong, George
John Todd BONNER

Registered office:

38/F, Citibank Tower
Citibank Plaza
3 Garden Road
Central
Hong Kong

Non-Executive Directors:

Avram MILLER
The Hon Raymond George Hardenbergh SEITZ
Robert Earl LERWILL
Graham Martyn WALLACE

Independent Non-Executive Directors:

Dr FUNG Kwok King, Victor, CBE
Dr The Hon LI Kwok Po, David, OBE, JP
Sir Roger LOBO, CBE, JP
Prof. CHANG Hsin-kang

13 November, 2000

To the Shareholders

Dear Sir or Madam,

**NON-PROVISION OF ASSURED ENTITLEMENTS
UNDER THE PROPOSED SEPARATE LISTING OF
iLINK.NET HOLDINGS LIMITED ON
THE GROWTH ENTERPRISE MARKET OF
THE STOCK EXCHANGE OF HONG KONG LIMITED;
APPROVAL OF THE SHARE OPTION SCHEME
OF iLINK.NET HOLDINGS LIMITED;
CONNECTED TRANSACTIONS INVOLVING
THE PROPOSED CONVERTIBLE BONDS PLACING
AND THE PROPOSED GRANT OF THE MILLER OPTIONS;
PROPOSAL FOR CHANGE OF THE COMPANY'S CHINESE NAME;
AND GENERAL MANDATES TO ISSUE SECURITIES
AND TO REPURCHASE SECURITIES**

LETTER FROM THE BOARD

INTRODUCTION

Proposed separate listing of iLink.net

It was announced on 9 October, 2000 that iLink.net has made a formal application to GEM for the proposed separate listing of iLink.net Shares on GEM. As iLink.net was not a major subsidiary of PCCW and the proposed separate listing of iLink.net was less than 15% of the size test as provided in Chapter 14 of the Listing Rules, the proposed separate listing of iLink.net therefore did not constitute a notifiable transaction under the Listing Rules and approval of Shareholders is not required. However, the Directors propose not to offer any assured entitlements for the Shareholders to subscribe for iLink.net Shares. The non-provision of such assured entitlements is subject to the approval of Minority Shareholders. Further, iLink.net proposes to adopt and implement the iLink.net Scheme for its employees and such iLink.net Scheme, subject to the approval of GEM Listing Committee and shareholders of iLink.net, requires the approval of the Shareholders other than iLink.net Scheme participants under Chapter 17 of the Listing Rules.

Telstra Transactions

On 13 October, 2000, PCCW announced, inter alia, the execution of conditional documentation for implementation of the strategic alliance (the "Alliance") with Telstra (a brief summary of which is set out under the section headed "Material Changes" in Appendix VI to this Circular).

Proposed Rights Issue and Convertible Bonds Issue

On 23 October, 2000, PCCW announced the Rights Issue. As at the Latest Practicable Date, 21,242,944,137 Shares were in issue. On the basis that no Shares are issued or repurchased by PCCW from the Latest Practicable Date up to the Record Date and subject to the completion of the Rights Issue, a total of 637,288,324 Rights Shares will be issued at HK\$6.50 per Rights Share and a total of 1,274,576,648 Warrants will be issued, each entitling the holders thereof to subscribe in cash during the Exercise Period for new Shares at a price of HK\$7.50 per Share, subject to adjustment.

The announcement also stated that the Major Shareholders had entered into the Share Underwriting Agreements with PCCW, pursuant to which each of them has irrevocably undertaken to PCCW to take up their respective entitlements under the Rights Issue in full (subject to certain adjustments) and has agreed to underwrite the balance of the Rights Shares. A document relating to the Rights Issue will be despatched to Shareholders on 13 November, 2000, but the Rights Issue is not subject to the approval of the Shareholders. The Rights Issue is only being offered to Qualifying Shareholders and will not be offered to US Persons (as defined in Regulation S of the US Securities Act of 1933, as amended) or residents of Canada, Australia, Japan or the Republic of Ireland. PCCW retains the right, however, at its discretion to vary the requirements for Qualifying Shareholders.

It was also announced on 23 October, 2000 that the Bonds Issuer and PCCW entered into the US\$500 million Bonds Subscription Agreement and the US\$600 million Bonds Subscription Agreement for the issue of Convertible Bonds with an aggregate principal amount of US\$1,100 million, or upon the exercise of the Over-allotment Option in full, US\$1,300 million. Such Optional Convertible Bonds will be issued on the same terms and conditions as the Convertible Bonds.

LETTER FROM THE BOARD

The estimated net proceeds from the Rights Issue, the exercise of the rights attached to the Warrants, the proceeds from the US\$800 million Convertible Bonds (including the Optional Convertible Bonds of US\$200 million if the Over-allotment Option is exercised in full) and the US\$500 million Convertible Bonds amount to approximately HK\$4.1 billion, HK\$9.6 billion, HK\$6.1 billion and HK\$3.9 billion respectively. The proceeds are currently intended to be used to reduce the Group's bank borrowings (including borrowings under the Facilities Agreement) and as general working capital of the Group.

Completion of each of the US\$600 million Bonds Subscription Agreement, the US\$500 million Bonds Subscription Agreement and each of the Share Underwriting Agreements is not dependent on the completion of any of the other agreements referred to above. The Major Shareholders have undertaken to PCCW that neither they nor their respective Associates will subscribe for the US\$600 million Convertible Bonds.

Under the US\$500 million Bonds Subscription Agreement, PCG has agreed to subscribe, or procure subscribers, for the US\$500 million Convertible Bonds. As PCG is a substantial Shareholder (and the entire issued share capital of PCG is beneficially owned by Mr. Li Tzar Kai, Richard, a substantial Shareholder and a Director), the Convertible Bonds Placing constitutes a connected transaction for PCCW under the Listing Rules and will therefore require the approval of the Minority Shareholders at the Extraordinary General Meeting.

Proposed Grant of the Miller Options

Pursuant to the terms of the Consulting Agreement entered into between PCCW and Mr. Miller on 17 August, 1999, PCCW had, subject to the approval of the Shareholders, agreed to grant the Miller Options to Mr. Miller. At the time of entering into the Consulting Agreement, Mr. Miller was not a Director or otherwise a connected person of PCCW under the Listing Rules. However, Mr. Miller was appointed a non-executive Director on 14 January 2000. Accordingly, Mr. Miller is now a connected person of PCCW for the purposes of the Listing Rules and the proposed grant of the Miller Options to Mr. Miller under the Consulting Agreement constitutes a connected transaction for PCCW under the Listing Rules. Therefore, the proposed grant of the Miller Options requires the approval of the Independent Shareholders at the Extraordinary General Meeting.

Change of the Chinese name of PCCW

As a result of the merger of PCCW and HKT in August this year, the Directors propose to change the Chinese name of PCCW from 盈科數碼動力有限公司 to 電訊盈科有限公司.

General

BNP Paribas Peregrine Capital Limited has been appointed as the financial adviser to PCCW in respect of the Rights Issue and the Convertible Bonds Issue. The Independent Board Committee has been formed to advise the Minority Shareholders as to whether the non-provision of assured entitlements in the proposed separate listing of iLink.net is fair and reasonable and as to whether the terms of the Convertible Bonds Placing are fair and reasonable and in the interests of the Minority Shareholders taken as a whole, and to advise the Independent Shareholders as to whether the terms of the Miller Options are fair and

LETTER FROM THE BOARD

reasonable and are in the interests of the Independent Shareholders taken as a whole. Vickers Ballas has been appointed as the independent financial adviser to advise the Independent Board Committee in respect of the non-provision of assured entitlements under the proposed separate listing of iLink.net Shares and the Convertible Bonds Placing and Anglo Chinese has been appointed as the independent financial adviser to advise the Independent Board Committee in respect of the proposed grant of the Miller Options.

The purpose of this Circular is to provide you with further information on the *non-provision of assured entitlements under the proposed separate listing of iLink.net Shares*, the iLink.net Scheme, the Convertible Bonds Placing, the proposed grant of the Miller Options, the change of the Chinese name of PCCW and the General Mandates, to provide you with the advice of the Independent Board Committee and to provide Shareholders with a notice of the Extraordinary General Meeting at which ordinary resolutions will be proposed for approving the non-provision of assured entitlements for Shareholders to subscribe for iLink.net Shares, the iLink.net Scheme, the Convertible Bonds Placing, the grant of the Miller Options, the General Mandates and a special resolution to approve the change of the Chinese name of PCCW.

THE PROPOSED SEPARATE LISTING OF iLINK.NET

Background of iLink.net

iLink.net is a company incorporated in the Cayman Islands with limited liability on 10 August, 2000. Through its subsidiaries, iLink.net currently operates two data centres in Hong Kong providing Internet connectivity, dedicated server hosting and co-location services, and a range of value-added services. Its objective is to become a leading Internet application solutions provider offering comprehensive Internet application solutions, including a wide range of data centre services and application service provider services, targeting small and medium enterprises in Asia with a primary focus in Greater China. The unaudited consolidated net asset value of NetFort, the former holding company of the iLink.net Group before the establishment of iLink.net, as at 30 June, 2000 was approximately HK\$47 million.

As at the Latest Practicable Date, iLink.net is owned as to approximately (i) 40.84% by PCCW through certain wholly-owned subsidiaries; (ii) 30.38% by RadarNet Limited, a wholly-owned subsidiary of DotCom Pacific Ventures Limited; (iii) 11.25% by HSBC International Trustee Limited, the trustee of a discretionary trust, under which HSBC International Trustee Limited may at its discretion sell and transfer iLink.net Shares to beneficiaries who are directors, employees or consultants of iLink.net or its direct or indirect subsidiaries, holding companies, shareholders or associated companies; (iv) 6.00% by Dell Ventures, L.P., the venture capital arm wholly-owned by Dell Computer Corporation; and (v) 11.53% by Newspeed Technology Limited, a wholly-owned subsidiary of Henderson Investment Limited. Other than as set out above, each of RadarNet Limited, HSBC International Trustee Limited, Dell Ventures, L.P. and Newspeed Technology Limited is independent of the directors, chief executive or substantial shareholders of PCCW, any of its subsidiaries or their respective Associates.

LETTER FROM THE BOARD

PCCW, through its indirect wholly-owned subsidiary, also holds the iLink.net Convertible Note convertible into 267,000 iLink.net Shares. PCCW intends to exercise its right to convert the iLink.net Convertible Note into iLink.net Shares at the proposed listing of iLink.net. It is expected that iLink.net will continue to be an associated company of PCCW after the conversion of the iLink.net Convertible Note and the proposed listing of iLink.net.

Financial results

The unaudited consolidated net asset value of NetFort, the former holding company of the iLink.net Group before the establishment of iLink.net, as at 30 June, 2000 was approximately HK\$47 million. A summary of the unaudited consolidated results of NetFort for each of the six-months ended 31 December, 1999 and 30 June, 2000 respectively is set out below.

	For the six months ended 31 December, 1999	For the six months ended 30 June, 2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	—	6,476
Loss before taxation	(3,755)	(17,127)
Net loss attributable to shareholders of NetFort	(3,755)	(17,127)

Benefits of the proposed spin-off

It is considered that the proposed separate listing of iLink.net will produce clear commercial benefits to both PCCW and iLink.net in that (i) PCCW will be able to realise value in one of its investment projects in the form of a more liquid security which is consistent with PCCW's investment strategies; (ii) iLink.net will be able to raise further funds for the expansion and development of its business with a more distinct identity; and (iii) iLink.net will be able to attract strategic investors, who can produce synergy for iLink.net, to invest and form strategic partnerships with iLink.net.

Spin-off requirements

Prior to the reorganisation of iLink.net completed on 15 August, 2000, iLink.net was a subsidiary of PCCW. Under such circumstances, PCCW is required to fulfil all the spin-off requirements stipulated under Practice Note 15 to the Listing Rules before the separate listing of iLink.net can be implemented. However, iLink.net was not a major subsidiary of PCCW and the proposed separate listing of iLink.net was less than 15% of the size test as provided in Chapter 14 of the Listing Rules. Accordingly, the proposed separate listing of iLink.net does not constitute a notifiable transaction under the Listing Rules and approval of Shareholders is not required.

Assured entitlements

Under Practice Note 15 to the Listing Rules, PCCW is required to offer the Shareholders assured entitlements to subscribe for a proportion of any iLink.net Shares issued or sold,

LETTER FROM THE BOARD

unless minority shareholders agree in a general meeting to waive such entitlements. Given that the unaudited consolidated net asset value of NetFort, the former holding company of the iLink.net Group before the establishment of iLink.net, was approximately HK\$47 million, as at 30 June, 2000 and PCCW has a large shareholders' base of 21,242,944,137 Shares at the Latest Practicable Date, any assured entitlements offered to the Shareholders would be negligible and would create a number of odd lots. As odd lots are normally traded at a discount to the price per share for the board lot, the Directors therefore consider that it may not be practical to make a preferential offer to the existing Shareholders and therefore seek Minority Shareholders' approval for the non-provision of assured entitlements of iLink.net Shares.

iLink.net Scheme

iLink.net proposes to adopt and implement the iLink.net Scheme. The total number of iLink.net Shares over which options may be granted pursuant to the iLink.net Scheme, when aggregated with any iLink.net Shares subject to any other schemes involving the issue or grant of options over iLink.net Shares shall not exceed such number of iLink.net Shares as shall represent 10 per cent. of the nominal amount of the total issued share capital of iLink.net from time to time (excluding iLink.net Shares issued upon exercise of options granted pursuant to the iLink.net Scheme or any other scheme). A committee will be established by the directors of iLink.net to administer the iLink.net Scheme.

The iLink.net Scheme is a share incentive scheme. The iLink.net Scheme will provide an opportunity for employees of the iLink.net Group who have made contributions to the business and development of iLink.net Group to participate in the equity of iLink.net at no direct cost to its profitability.

The objectives of the iLink.net Scheme are to incentivise the employees of iLink.net to optimise their efficiency and productivity and to promote long term commitment of employees whose contributions are important to the growth and development of the iLink.net Group. A summary of the principal terms of the iLink.net Scheme is set out in Appendix III hereto.

The iLink.net Scheme is subject to the approvals of GEM Listing Committee and the shareholders of iLink.net as well as the approval of the Shareholders other than iLink.net Scheme participants in accordance with Chapter 17 of the Listing Rules. If iLink.net decides to adopt the iLink.net Scheme prior to the proposed listing, the adoption of the iLink.net Scheme will be subject to the approvals of the Shareholders other than iLink.net Scheme participants and the shareholders of iLink.net.

General

Whether the proposed listing of iLink.net will proceed will depend, among other things, on market conditions prevailing at the time immediately before the proposed listing. Furthermore, there is no assurance that the approval for the listing of, and permission to deal in, iLink.net Shares on GEM will be granted by the GEM Listing Committee.

LETTER FROM THE BOARD

The boards of directors of PCCW and iLink.net respectively have not made a final decision as to whether and when the proposed listing of iLink.net will be launched. Shareholders should exercise caution in dealing in the securities of PCCW. A further announcement in relation to the proposed listing of iLink.net will be made by PCCW if and when appropriate.

CONVERTIBLE BONDS PLACING

US\$500 million Bonds Subscription Agreement

Date: 23 October, 2000

Parties: Bonds Issuer as issuer
PCCW as guarantor
PCG as subscriber

Subject to the fulfillment of the conditions set out below under the section headed "Conditions of the Convertible Bonds Placing", PCG has agreed to subscribe, or procure subscribers, for the US\$500 million Convertible Bonds. The due payment of all sums payable by the Bonds Issuer under the US\$500 million Convertible Bonds are to be unconditionally and irrevocably guaranteed by PCCW.

Conditions of the Convertible Bonds Placing

Closing of the Convertible Bonds Placing is subject to the satisfaction of the conditions set out in the US\$500 million Bonds Subscription Agreement which include the following:

- there being no breach of the representations and warranties in the US\$500 million Bonds Subscription Agreement by the Bonds Issuer and/or PCCW which would entitle PCG to terminate such agreement;
- PCCW and the Bonds Issuer performing all of their respective obligations under the US\$500 million Bonds Subscription Agreement on or before the Closing Date;
- the Luxembourg Stock Exchange having agreed to list the US\$500 million Convertible Bonds on the Luxembourg Stock Exchange;
- the Stock Exchange granting the approval of or not objecting to the issue of the US\$500 million Convertible Bonds, and granting listing of, and permission to deal in, the Shares to be issued upon conversion of the US\$500 million Convertible Bonds;
- approval of the Convertible Bonds Placing (including the issue of the Conversion Shares) by the Minority Shareholders at an extraordinary general meeting of PCCW; and
- all consents, approvals and waivers required under the Facilities Agreement having been obtained.

LETTER FROM THE BOARD

- delivery to BNP Paribas Peregrine Securities of legal opinions of legal advisers in relevant jurisdictions;
- delivery to BNP Paribas Peregrine Securities letters from the Bonds Issuer's auditors and PCCW's auditors in such form and with such contents as BNP Paribas Peregrine Securities may reasonably require;
- delivery to BNP Paribas Peregrine Securities letter(s) of the registrar for the Convertible Bonds confirming that the US\$500 million Convertible Bonds represented by a global certificate have been registered in the name of the nominee of the holders of the Bonds;
- the execution of the Trust Deed incorporating the terms of the Convertible Bonds in a form reasonably acceptable to BNP Paribas Peregrine Securities, an agency agreement and all other documents ancillary to the transactions contemplated under the US\$500 million Bonds Subscription Agreement; and
- the delivery to BNP Paribas Peregrine Securities of certified copies of:—
 - (a) the memorandum and articles of association of each of the Bonds Issuer and PCCW; and
 - (b) the resolutions of the board of directors of each of the Bonds Issuer and PCCW, authorising the execution of the abovementioned Trust Deed and agency agreement and the entering into and performance of the transactions contemplated thereby.

Subject to the foregoing, the US\$500 million Bonds Subscription Agreement is expected to become unconditional, and the US\$500 million Convertible Bonds are expected to be issued, on 5 December, 2000.

The US\$500 million Bonds Subscription Agreement may be terminated in certain circumstances. In particular, PCG may terminate the US\$500 million Bonds Subscription Agreement, by notice in writing to the Bonds Issuer and PCCW, at any time on or prior to the Closing Date:

- **if there comes to the notice of PCG any matter or event showing any of the representations, warranties and/or undertakings of PCCW and/or the Bonds Issuer under the US\$500 million Bonds Subscription Agreement to be untrue or misleading in any material respect which, if capable of remedy, has not been remedied in accordance with the terms of the US\$500 million Bonds Subscription Agreement;**
- **if there is any material breach on the part of PCCW and/or the Bonds Issuer of any provision of the US\$500 million Bonds Subscription Agreement; or**
- **if there has been, since the date of the US\$500 million Bonds Subscription Agreement, any change or any development or event involving a prospective change which might individually or in the aggregate have a material adverse effect on the condition (financial or otherwise), prospects, business, earnings, properties or results of operations of the**

LETTER FROM THE BOARD

Bonds Issuer or PCCW or any of the Material Subsidiaries (as defined in Appendix IV to this Circular) of PCCW itself or the Group taken as a whole (but disregarding losses of PCCW's subsidiaries arising from their ordinary course of business), save as disclosed in the Composite Document and any other announcements published by PCCW pursuant to the Listing Rules up to the date of the US\$500 million Bonds Subscription Agreement.

Principal terms of the Convertible Bonds

A summary of the principal terms of the Convertible Bonds is set out in Appendix IV to this Circular.

Listing

Application will be made for the listing of the Convertible Bonds on the Luxembourg Stock Exchange. No application will be made for the listing of, and permission to deal in, the Convertible Bonds on any other stock exchange.

PCCW will apply to the Stock Exchange for the listing of, and permission to deal in, the Shares to be issued upon conversion of the Convertible Bonds.

Connected Transaction

As PCG is a substantial Shareholder (and the entire issued share capital of PCG is beneficially owned by Mr. Li Tzar Kai, Richard, a substantial Shareholder and a Director), the Convertible Bonds Placing constitutes a connected transaction for PCCW under the Listing Rules and is therefore conditional upon, inter alia, the approval of the Minority Shareholders being obtained at the Extraordinary General Meeting. The Major Shareholders and their respective Associates will abstain from voting on the relevant resolution at the Extraordinary General Meeting.

The terms of the US\$500 million Bonds Subscription Agreement are similar to those of the US\$600 million Bonds Subscription Agreement, which terms have been arrived at after arm's length negotiations between PCCW and the Convertible Bonds Underwriters and reflect normal commercial terms. The Directors (including the Independent Board Committee) consider the terms of the US\$500 million Bonds Subscription Agreement (to which the Convertible Bonds Placing is subject) to be on normal commercial terms and are fair and reasonable and in the interests of PCCW and the Minority Shareholders taken as a whole.

General

The Convertible Bonds, the Guarantee (as defined in Appendix IV to this Circular) and the Shares may not be offered, sold, converted, pledged or otherwise transferred within the United States or to, or for the account or benefit of, US Persons (as defined in Regulation S of the US Securities Act of 1933, as amended). Further information on United States selling restrictions is included in Appendix IV to this Circular.

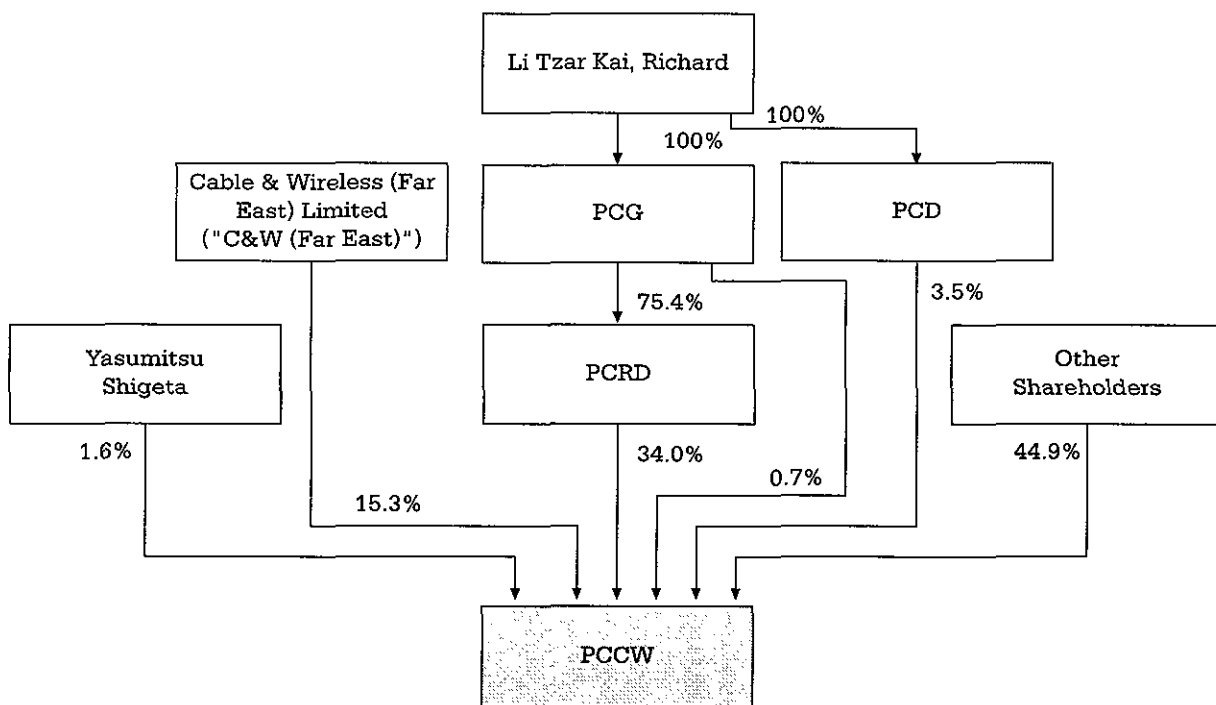
LETTER FROM THE BOARD

As at the Latest Practicable Date, there were a total of 21,242,944,137 Shares in issue. Assuming full conversion of the US\$500 million Convertible Bonds into Shares at the initial Conversion Price of US\$1.0083 per Share and a fixed exchange rate of US\$1.00=HK\$7.80, PCCW will issue approximately 495.88 million new Shares, representing (i) approximately 2.3% of the existing issued share capital of PCCW; (ii) approximately 2.1% of the issued share capital of PCCW as increased by the Rights Shares and the Warrant Shares; (iii) approximately 2.1% of the issued share capital of PCCW as increased by the Rights Shares, the Warrant Shares and Shares to be issued upon full conversion of the US\$500 million Convertible Bonds; (iv) approximately 2.0% of the issued share capital of PCCW as increased by the Rights Shares, the Warrant Shares, the Shares to be issued upon full conversion of the US\$600 million Convertible Bonds (assuming no exercise of the Over-allotment Option) and the Shares to be issued upon full conversion of the US\$500 million Convertible Bonds; and (v) approximately 2.0% of the issued share capital of PCCW as increased by the Rights Shares, the Warrant Shares, the Shares to be issued upon full conversion of the US\$600 million Convertible Bonds (assuming exercise of the Over-allotment Option in full) and Shares to be issued upon full conversion of the US\$500 million Convertible Bonds, but in each case without taking into account Shares which may be issued upon conversion of the Telstra Convertible Bonds.

The aggregate net proceeds of the Convertible Bonds Placing are estimated to be approximately US\$499 million (equivalent to approximately HK\$3,892.2 million) all of which will be used for partially reducing the borrowings of the Group under the Facilities Agreement.

Shareholding structure of PCCW

To the best of the knowledge of the Directors and, according to the registers required to be maintained by PCCW under the SDI Ordinance, the shareholding structure of PCCW as at the Latest Practicable Date was as follows:



LETTER FROM THE BOARD

Assuming that no other issue of Shares is made by PCCW prior to the Record Date and no Rights Shares are subscribed for by the Qualifying Shareholders and that the Major Shareholders themselves subscribe for all of the Rights Shares falling to be taken up under their respective underwriting obligations pursuant to the Share Underwriting Agreements, the aggregate shareholding of the Major Shareholders in PCCW immediately before completion of the Rights Issue, after completion of the Rights Issue but before exercise of the Warrants and conversion of the Convertible Bonds, upon exercise of the Warrants but before conversion of the Convertible Bonds and after full conversion of the Convertible Bonds (assuming no exercise of the Over-allotment Option) are as follows:

	(1)	(2)	(3)	(4)	(5)
	Immediately before completion of the Rights Issue and the Convertible Bonds Issue (assuming no issue of Shares pursuant to options granted under the Share Option Scheme and no repurchase of Shares by PCCW)	Immediately after completion of the Rights Issue (assuming that the Major Shareholders have taken up all the Rights Shares) but before the exercise of the Warrants and the conversion of the Convertible Bonds	After completion of the Rights Issue (assuming that the Major Shareholders have taken up all the Rights Shares) and the exercise of the Warrants in full but before conversion of the Convertible Bonds (assuming no exercise of the Over-allotment Option)	After completion of the Rights Issue (assuming that the Major Shareholders have taken up all the Rights Shares) and the exercise of the Warrants and conversion of the US\$500 million Convertible Bonds but before the conversion of the US\$600 million Convertible Bonds (assuming no exercise of the Over-allotment Option)	After completion of the Rights Issue (assuming that the Major Shareholders have taken up all the Rights Shares) and the exercise of the Warrants and conversion of the Convertible Bonds (assuming no exercise of the Over-allotment Option)
The Major Shareholders	approximately 8,114.5 million Shares (approximately 38.2%)	approximately 8,751.8 million Shares (approximately 40.0%)	approximately 10,026.4 million Shares (approximately 43.3%)	approximately 10,522.2 million Shares (approximately 44.5%)	approximately 10,522.2 million Shares (approximately 43.4%) ^(Note)
Yasumitsu Shigeta ("Mr. Shigeta")	approximately 332.5 million Shares (approximately 1.6%)	approximately 332.5 million Shares (approximately 1.5%)	approximately 332.5 million Shares (approximately 1.4%)	approximately 332.5 million Shares (approximately 1.4%)	approximately 332.5 million Shares (approximately 1.4%)
Cable and Wireless (Far East)	approximately 3,259.4 million Shares (approximately 15.3%)	approximately 3,259.4 million Shares (approximately 14.9%)	approximately 3,259.4 million Shares (approximately 14.1%)	approximately 3,259.4 million Shares (approximately 13.8%)	approximately 3,259.4 million Shares (approximately 13.4%)
Other Shareholders	approximately 9,536.5 million Shares (approximately 44.9%)	approximately 9,536.5 million Shares (approximately 43.6%)	approximately 9,536.5 million Shares (approximately 41.2%)	approximately 9,536.5 million Shares (approximately 40.3%)	approximately 10,131.6 million Shares (approximately 41.8%)

Note: If the Over-allotment Option is exercised in full, the aggregate number of Shares held by the Major Shareholders will remain the same but the aggregate shareholding of the Major Shareholders in PCCW will be reduced to 43.0%.

LETTER FROM THE BOARD

In scenarios (3) to (5) above, the aggregate interest of the Major Shareholders in the Company will be increased from approximately 38.2% to approximately 43.3%, 44.5% and 43.4% respectively. Subject to the grant of a waiver from the Executive Director of the SFC, if the Major Shareholders increase their aggregate holding of voting rights in PCCW by more than 5% in any 12 month period, they are required to make a general offer under the Takeovers Code. The lowest percentage holding of the Major Shareholders has been 38.2% since August 2000.

THE CONSULTING AGREEMENT AND THE PROPOSED GRANT OF THE MILLER OPTIONS

The Consulting Agreement

On 17 August, 1999, Mr. Miller and PCCW entered into the Consulting Agreement pursuant to which Mr. Miller has agreed to serve as a consultant to PCCW for an initial term of nine years from the date of that agreement (the "Initial Term"). The Consulting Agreement will continue on a year to year basis (each, a "Renewal Term") after the expiry of the Initial Term, unless, at least 90 days prior to the expiration of the Initial Term or any Renewal Term, either PCCW or Mr. Miller gives written notice of determination not, to renew the term of the Consulting Agreement.

Under the Consulting Agreement, Mr. Miller has agreed to provide and has provided general advice and assistance to PCCW which includes, but shall not be limited to, advice and assistance with respect to strategic planning, joint venture opportunities, investment opportunities, introduction to companies and persons in business relevant or beneficial to PCCW and its Associated Companies, licensing agreements and the raising of capital. PCCW may require Mr. Miller to perform services not only for PCCW but also for any Associated Company where such services are consistent with Mr. Miller's position with PCCW.

To date, Mr. Miller has not been required to perform any services for any Associated Company which is not a subsidiary of PCCW and PCCW intends, and will not, require Mr. Miller to perform services for any Associated Companies which are not subsidiaries of PCCW.

PCCW paid Mr. Miller a total sum of US\$500,000 under the Consulting Agreement (the sum of US\$250,000 was paid shortly after the execution of the Consulting Agreement and an additional sum of US\$250,000 was paid to Mr. Miller on 15 September 2000). Apart from the afore-mentioned sum to which Mr. Miller is entitled under the Consulting Agreement, Mr. Miller shall not be entitled to any additional cash compensation from PCCW by reason of his acting as a member of the Board. His only other remuneration (for his services to PCCW and any Associated Company) will be in the form of the Miller Options as referred to below.

PCCW has been advised by the Stock Exchange that it was under an obligation under its listing agreement with the Stock Exchange to announce, at the time the Consulting Agreement was entered into, the proposed grant of the Miller Options. However, PCCW did not make such announcement at that time as PCCW was of the view that it did not have an

LETTER FROM THE BOARD

obligation to do so until such time a circular was about to be despatched to Shareholders seeking their approval to the grant of the Miller Options. PCCW notes that part of the details of the Miller Options were disclosed in the circular to Shareholders dated 26 May 2000 in connection with the proposed merger with HKT and in the announcement relating to the same. Full disclosure of the Miller Options in accordance with the Listing Rules is therefore made in this Circular and PCCW will issue an announcement upon despatch of this Circular.

The proposed grant of the Miller Options

As part of the remuneration package to be given to Mr. Miller for his services under the Consulting Agreement, PCCW agreed, subject to the approval of the Shareholders, to grant the Miller Options to Mr. Miller.

The Miller Options proposed to be granted under the Consulting Agreement will entitle Mr. Miller to subscribe for 63,201,097 Shares at an exercise price of HK\$2.356 per Share. The grant of the Miller Options is, as mentioned earlier, conditional upon Independent Shareholders' approval. If Independent Shareholders' approval is obtained, PCCW must within 60 days of the date of such approval grant the Miller Options to Mr. Miller. The Miller Options shall have a term of ten years from the date of grant and shall vest and become exercisable as to 10 per cent. of the Shares which are subject to the Miller Options ("Miller Option Shares") on the date of grant. An additional 10 per cent. of the Miller Option Shares shall vest and become exercisable on each of the first through to the ninth anniversaries of the date of grant. As mentioned above, Mr Miller does not have any other form of remuneration apart from the Miller Options and the cash remuneration of US\$500,000 (as mentioned above) which he has already received. Therefore, if Independent Shareholders' approval to the grant of the Miller Options to Mr. Miller is not obtained, Mr. Miller will not receive any other remuneration under the Consulting Agreement.

Vesting on Change in Control

In the event of a Change in Control of PCCW prior to the date that all of the Miller Options are vested, the Miller Options shall become vested and exercisable as to an additional 12,640,219 Shares (i.e. 20 per cent. of the Miller Option Shares), but in no event greater than 63,201,097 Shares. All remaining unvested Miller Options shall lapse.

Vesting on Termination of the Consulting Agreement

If the Consulting Agreement is terminated by PCCW without Cause or by Mr. Miller for Good Reason prior to the date that all of the Miller Options are vested, the Miller Options shall become vested and exercisable as to an additional 10 per cent. of the Miller Option Shares. All remaining unvested Miller Options shall lapse.

If the Consulting Agreement is terminated by PCCW for Cause or by Mr. Miller without Good Reason, then Mr. Miller shall not be entitled to any further vesting of the Miller Options.

LETTER FROM THE BOARD

Vesting on Death

In the event of the death of Mr. Miller, any unexercised vested Miller Options may be exercised by his personal representatives within 12 months of the date of his death.

Term of Exercise

Mr. Miller may, in his sole discretion, exercise all or any part of the vested Miller Options upon notice to PCCW to such effect at any time prior to 10 years from the date of grant of the Miller Options, except that upon the termination of the Consulting Agreement by PCCW for Cause or by Mr. Miller without Good Reason any vested Miller Options held by Mr. Miller at the date of such termination shall expire immediately.

Exercise Procedure

As soon as practicable but in any event not later than 60 days after the exercise of the vested Miller Options and receipt by PCCW of the aggregate Miller Options subscription price for the Shares represented by such vested Miller Options, PCCW shall issue to Mr. Miller the Shares represented by such exercised vested Miller Options and, on such date, such Shares shall be duly authorised and issued, fully paid and free and clear of any liens and shall rank pari passu with the then existing Shares but subject to the terms and provisions of the Consulting Agreement.

Application will be made by PCCW for the listing of, and the permission to deal in, the Shares to be issued under the Miller Options.

There are no voting rights attached to the Miller Options (but the Shares underlying the Miller Options shall upon issue have the same voting rights as the then existing Shares) and there is no provision for the transfer of the Miller Options to any third party under the Consulting Agreement.

Capital Restructuring

In the event of any alteration in the capital structure of PCCW whilst any Miller Option remains exercisable, whether by way of capitalisation of profits or reserves, rights issue, consolidation, reclassification, reconstruction, sub-division or reduction of the share capital of PCCW, or otherwise (except on an issue of securities of PCCW as consideration in a transaction which shall not be regarded as circumstances requiring alteration or adjustment) such corresponding alterations (if any) shall be made in:

- (i) the number of Shares subject to any Miller Option so far as such Miller Option remains unexercised; and/or
- (ii) the exercise price,

as the auditors of PCCW shall, at the request of PCCW or Mr. Miller, certify in writing to be in their opinion fair and reasonable, provided that any such alterations shall be made on the basis that Mr. Miller shall have the same proportion of the equity capital of PCCW as that to which he was entitled to subscribe had he exercised all the Miller Options held by him

LETTER FROM THE BOARD

immediately before such adjustments and the aggregate exercise price payable by Mr. Miller on the full exercise of any Miller Option shall remain as nearly as possible the same as (but shall not be greater than) it was before such event and that no such alterations shall be made the effect of which would be to enable a Share to be issued at less than its nominal value.

Connected Transaction

Mr. Miller was not a Director or otherwise a connected person of PCCW under the Listing Rules when he entered into the Consulting Agreement with PCCW. Mr. Miller was subsequently appointed as a non-executive Director on 14 January, 2000 pursuant to the provisions of the Consulting Agreement.

Since Mr. Miller is a Director and therefore a connected person of PCCW for the purposes of the Listing Rules, the proposed grant of the Miller Options to Mr. Miller under the Consulting Agreement constitutes a connected transaction of PCCW under the Listing Rules.

Mr. Miller's contribution to PCCW

Mr. Miller's areas of expertise in the technology and telecommunications industry (being mainly consumer broadband content and venture investing) is extensive. Prior to becoming a consultant and a non-executive member of the Board, Mr. Miller contributed to the development of a number of important technology companies including Intel Corporation and CMGI, Inc.. Since becoming a consultant and later a member of the Board, Mr. Miller has contributed significantly to the expansion and development of PCCW's business. His contributions to PCCW include, amongst other things, initiating and negotiating major partnership alliances with PCCW (for example, the alliance with CMGI, Inc.), introducing the Group to relevant technology providers (such as iBeam Broadcasting Corporation), developing strategies for the development of content and advising on the organisational development of the Group in the United States. Mr. Miller has also advised on the recent merger of PCCW with HKT. With Mr. Miller's reputation in the industry, his areas of expertise and wide range of contacts within the media, telecommunications and technology industries, the Directors are of the opinion that Mr. Miller's services are highly valuable to PCCW and that the remuneration package given for his services should be commensurate with that given to his peers who command the highest remuneration in publicly traded internet companies. For this reason, the Directors are of the view that the proposed grant of the Miller Options to Mr. Miller pursuant to the Consulting Agreement and the terms of the Miller Options are fair and reasonable so far as PCCW and the Independent Shareholders taken as a whole are concerned.

CHANGE OF PCCW'S CHINESE NAME

Following the merger of PCCW with HKT which became effective on 17 August, 2000, the Directors believe that it would be appropriate to change the Chinese name of PCCW from 盈科數碼動力有限公司 to 電訊盈科有限公司. The Directors believe that the proposed Chinese name of PCCW will retain its local character and underpin its very substantial strengths in the telecommunications sector in Hong Kong while reinforcing the strengths of the

LETTER FROM THE BOARD

combined group which resulted from the merger, especially in the Internet sector. The English name of PCCW will remain unchanged as Pacific Century CyberWorks Limited. All existing certificates for Shares and American Depositary Receipts for Shares bearing the name of "Pacific Century CyberWorks Limited 盈科數碼動力有限公司" will continue to be legal and valid evidence of title to Shares and shall remain legal and valid for trading and settlement purposes.

Further details of the business operation of the Group are contained in the Rights Issue document of PCCW which is being despatched to Shareholders on 13 November, 2000.

The change of the Chinese name of PCCW will become effective after approval of the Shareholders to such name change has been obtained at the Extraordinary General Meeting and the issuance of a Certificate of Incorporation on Change of Name by the Registrar of Companies in Hong Kong. An announcement will be made in respect of the effective date of the change of the Chinese name of PCCW.

GENERAL MANDATES TO ISSUE SECURITIES AND TO REPURCHASE SECURITIES

At an annual general meeting of PCCW held on 22 June, 2000, an ordinary resolution was passed to renew the general mandate given to the Directors to allot, issue and deal in Shares provided that (otherwise than in connection with a rights issue, scrip dividend or similar scheme or issue of shares under a share option or similar scheme) the aggregate value of such Shares did not exceed the aggregate of 20% of the aggregate nominal amount of the share capital of PCCW in issue as at the date of passing of that resolution. The Directors have not issued any Shares nor securities convertible into Shares pursuant to the said general mandate since 22 June, 2000, however, the proposed US\$600 million Convertible Bonds and the proposed issue of Warrants may be issued pursuant to the said general mandate.

Following the merger between PCCW and HKT in August, 2000, the share capital of PCCW increased to HK\$1,061,345,390.75. As at the Latest Practicable Date, there were 21,242,944,137 Shares in issue. The Directors therefore propose a resolution to grant the Issue Mandate to the Directors to exercise the powers of PCCW to allot, issue and deal in Shares not exceeding 20% of the aggregate nominal amount of the issued share capital of PCCW in issue as at the date of the passing of the proposed resolution. Assuming a total of 637,288,324 Rights Shares will be issued and no other Shares are issued or repurchased by PCCW from the Latest Practicable Date up to the date of passing of that resolution, the Issue Mandate will allow the Directors to allot, issue and deal in up to 4,376,046,492 new Shares.

An ordinary resolution will also be proposed at the Extraordinary General Meeting to grant the Repurchase Mandate to the Directors to repurchase securities not exceeding 10% of the aggregate nominal amount of the issued share capital of PCCW (or in the case of Warrants, not exceeding 10% of the aggregate amount of subscription rights attaching to the outstanding Warrants), as at the date of the passing of the resolution. On the basis that no Shares are issued or repurchased by PCCW from the Latest Practicable Date up to the Record Date, and subject to the completion of the Rights Issue on or before 5 December, 2000, a total of 637,288,324 Rights Shares and a total of 1,274,576,648 Warrants will be

LETTER FROM THE BOARD

issued and the total number of Shares then in issue will be 21,880,232,461 Shares. Subject to the grant of the Repurchase Mandate, PCCW would be allowed to repurchase a maximum of 2,188,023,246 Shares and a maximum of 127,457,664 Warrants on the basis that no further Shares will be issued (and on the presumption that a total of 637,288,324 Rights Shares will be issued on or before 5 December, 2000 pursuant to the Rights Issue) or repurchased from the Latest Practicable Date up to the date of the Extraordinary General Meeting.

The Directors believe that it is in the interests of PCCW and the Shareholders as a whole if the General Mandates are granted at the Extraordinary General Meeting. Save for the Convertible Bonds Issue, the Rights Issue (with Warrants) and the proposed issue of Telstra Convertible Bonds, the Directors currently have no present intention to raise further capital by issuing new Shares or securities convertible or exchangeable into Shares.

An explanatory statement to provide the Shareholders with all the information reasonably necessary to enable them to make an informed decision whether to vote for or against the resolution concerning the Repurchase Mandate is set out in the Appendix V to this Circular.

EXTRAORDINARY GENERAL MEETING

The Extraordinary General Meeting is to be held on 5 December, 2000 at 11:00 a.m. in the Conference Room at 14th Floor, Hongkong Telecom Tower, TaiKoo Place, 979 King's Road, Quarry Bay, Hong Kong. A notice of the Extraordinary General Meeting is set out on pages 83 to 87 of this Circular. At the Extraordinary General Meeting, ordinary resolutions will be proposed to approve the non-provision of assured entitlements to iLink.net Shares under the proposed separate listing of iLink.net, the iLink.net Scheme, the proposed Convertible Bonds Placing and the issue of Conversion Shares, the grant of the Miller Options and the General Mandates respectively, and a special resolution to approve the change of the Chinese name of PCCW.

The Major Shareholders and their respective Associates which held approximately 38.2% of the issued share capital of PCCW as at the Latest Practicable Date will not vote on the resolutions set out in the notice of the Extraordinary General Meeting to approve the non-provision of assured entitlements in relation to the proposed separate listing of iLink.net, and to approve the proposed Convertible Bonds Placing and the issue of Conversion Shares. Mr. Miller and his Associates will abstain from voting on the resolution to approve the grant of the Miller Options.

A form of proxy for use at the Extraordinary General Meeting is enclosed. Shareholders are requested to complete the enclosed form of proxy and return the same to PCCW's share registrar, Central Registration Hong Kong Limited, at Rooms 1901-5, 19th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong in accordance with the instructions printed thereon not less than 48 hours before the time of the Extraordinary General Meeting (or any

LETTER FROM THE BOARD

adjourned meeting thereof) whether or not they intend to be present at the meeting. Completion and return of the form of proxy will not preclude Shareholders from attending and voting in person at the Extraordinary General Meeting or any adjourned meeting should they so wish.

An announcement will be made by PCCW following conclusion of the Extraordinary General Meeting to inform Shareholders of the results of the Extraordinary General Meeting.

ADVICE

Your attention is drawn to (i) the letter from the Independent Board Committee which follows this letter and contains the advice of the Independent Board Committee concerning the non-provision of assured entitlements to iLink.net Shares under the proposed separate listing of iLink.net, the proposed Convertible Bonds Placing (including any issue of the Conversion Shares), and the proposed grant of the Miller Options; (ii) the letter from Vickers Ballas in Appendix I to this Circular which contains the advice of Vickers Ballas to the Independent Board Committee in relation to the non-provision of assured entitlements to iLink.net Shares under the proposed separate listing of iLink.net and the proposed Convertible Bonds Placing and the principal factors and reasons considered by Vickers Ballas in arriving at its advice; and (iii) the letter from Anglo Chinese in Appendix II to this Circular which contains the advice of Anglo Chinese to the Independent Board Committee in relation to the proposed grant of the Miller Options and the principal factors and reasons considered by Anglo Chinese in arriving at its advice.

Vickers Ballas has been appointed to advise the Independent Board Committee concerning the non-provision of assured entitlements to iLink.net Shares under the proposed separate listing of iLink.net and the proposed Convertible Bonds Placing (including any issue of the Conversion Shares). The Independent Board Committee, having taken into account the advice of Vickers Ballas, considers that the waiver of the requirement for assured entitlements to iLink.net Shares under the proposed separate listing of iLink.net and the proposed Convertible Bonds Placing (including any issue of the Conversion Shares) are in the interests of PCCW and the terms of the proposed Convertible Bonds Placing (including any issue of the Conversion Shares) are fair and reasonable so far as the Minority Shareholders are concerned. Accordingly, the Independent Board Committee has recommended the Minority Shareholders to vote in favour of the resolutions with regard thereto to be proposed at the Extraordinary General Meeting.

Anglo Chinese has been appointed to advise the Independent Board Committee on the proposed grant of the Miller Options. The Independent Board Committee, having taken into account the advice of Anglo Chinese, considers that the proposed grant of the Miller Options is in the best interests of PCCW and that the terms of the Miller Options are fair and reasonable so far as the Independent Shareholders of PCCW are concerned. Accordingly, the Independent Board Committee has recommended the Independent Shareholders to vote in favour of the ordinary resolution with regard thereto to be proposed at the Extraordinary General Meeting.

LETTER FROM THE BOARD

As mentioned above and for the reasons set out above, the Directors consider that the implementation of iLink.net Scheme, the General Mandates and the change of the Chinese name of PCCW are in the best interests of PCCW and the Shareholders taken as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the resolutions relating to the iLink.net Scheme, the General Mandates and the change of the Chinese name of PCCW.

GENERAL

Your attention is drawn to the additional information set out in the appendices to this Circular.

Yours faithfully,
For and on behalf of the Board
YUEN Tin Fan
Deputy Chairman

PACIFIC CENTURY CYBERWORKS LIMITED

(盈科數碼動力有限公司)

(Incorporated in Hong Kong with limited liability)

Independent Board Committee:

Dr The Hon LI Kwok Po, David, OBE, JP
Sir Roger LOBO, CBE, JP

Registered office:

38/F, Citibank Tower
Citibank Plaza
3 Garden Road
Central
Hong Kong

13 November, 2000

To Minority Shareholders and/or Independent Shareholders

Dear Sir or Madam,

We refer to this Circular (the "Circular") dated 13 November, 2000 issued by PCCW to Shareholders, of which this letter forms part. Terms defined in the Circular have the same meanings when used in this letter, unless the context requires otherwise.

As independent non-executive Directors who are independent of the parties involved in the non-provision of assured entitlements under the proposed separate listing of iLink.net, the Convertible Bonds Placing (including any issue of the Conversion Shares) and the proposed grant of the Miller Options, we have been appointed by the Directors to advise you as to whether, in our opinion, the non-provision of assured entitlements under the proposed separate listing of iLink.net, the terms of the Convertible Bonds Placing (including any issue of the Conversion Shares) and the proposed grant of the Miller Options are fair and reasonable so far as the Minority Shareholders and the Independent Shareholders (as the case may be) as a whole are concerned.

The text of the letter from Vickers Ballas, as the independent financial adviser to advise us regarding the non-provision of assured entitlements under the proposed separate listing of iLink.net and the Convertible Bonds Placing (including any issue of the Conversion Shares), containing its advice, together with the principal factors taken into consideration in arriving at such advice, are set out in Appendix I to the Circular.

The text of the letter from Anglo Chinese, as the independent financial adviser to advise us regarding the proposed grant of the Miller Options, containing its advice, together with the principal factors taken into consideration in arriving at such advice, are set out in Appendix II to this Circular.

We have discussed with the management of PCCW the proposed separate listing of iLink.net, the terms of the Convertible Bonds Placing, the Consulting Agreement and the Miller Options, the reasons for the non-provision of assured entitlements of iLink.net Shares to Shareholders under the proposed separate listing of iLink.net Shares, the Convertible

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Bonds Placing (including any issue of the Conversion Shares), the proposed grant of the Miller Options to Mr. Miller and the basis upon which the terms of the Convertible Bonds Placing (including any issue of the Conversion Shares) and the Miller Options have been determined.

Having considered the advice given by Vickers Ballas and the principal factors and reasons taken into consideration by them in arriving at their advice, we are of the view that the non-provision of assured entitlements to Shareholders under the proposed separate listing of iLink.net Shares and the terms of the Convertible Bonds Placing (including any issue of the Conversion Shares) are fair and reasonable so far as the Minority Shareholders are concerned.

Having considered the advice given by Anglo Chinese and the principal factors and reasons taken into consideration by them in arriving at their advice, we are of the view that Mr. Miller's consulting services to the Group have been and will continue to be of benefit to the Group and the proposed grant of the Miller Options to Mr. Miller and the terms of the Miller Options are fair and reasonable so far as the Independent Shareholders are concerned.

Accordingly, we recommend that the Minority Shareholders vote in favour of the ordinary resolution in respect of the non-provision of assured entitlements under the proposed separate listing of iLink.net and the ordinary resolution to approve the Convertible Bonds Placing. We also recommend that the Independent Shareholders vote in favour of the ordinary resolution to approve the proposed grant of the Miller Options to Mr. Miller. All such resolutions will be proposed at the Extraordinary General Meeting.

Your attention is also drawn to the letter from the Board set out on pages 11 to 29 of the Circular and the additional information set out in the appendices to the Circular.

Yours faithfully,

For and on behalf of

The Independent Board Committee of

Pacific Century CyberWorks Limited

Dr. The Hon Li Kwok Po, David

Sir Roger Lobo

The following is the text of the letter from Vickers Ballas, the independent financial adviser to the Independent Board Committee, in relation to the non-provision of assured entitlements under the proposed separate listing of iLink.net and the terms of the Convertible Bonds Placing, prepared for the purpose of inclusion in this Circular:



VICKERS BALLAS

Vickers Ballas Capital Limited
19th Floor, Far East Finance Centre
16 Harcourt Road
Admiralty
Hong Kong

13 November, 2000

The Independent Board Committee
Pacific Century CyberWorks Limited

Dear Sirs,

(i) WAIVER OF ASSURED ENTITLEMENTS FOR SUBSCRIPTION OF NEW SHARES IN iLINK.NET HOLDINGS LIMITED

(ii) THE CONVERTIBLE BONDS PLACING

We refer to our engagement as the independent financial adviser to the Independent Board Committee in relation to (i) the proposed waiver (the "Waiver") to be sought from the Minority Shareholders to waive the assured entitlements to subscribe for iLink.net Shares; and (ii) the Convertible Bonds Placing, details of which are contained in a circular (the "Circular") to Shareholders dated 13 November, 2000, of which this letter forms part. Expressions used in this letter shall have the same meanings as defined in the Circular unless defined otherwise.

Save for 301,267 Shares held by one of our fellow subsidiaries in its normal course of business as at the Latest Practicable Date, we did not have any beneficial interest in the share capital of any member of the Group nor did we have any right to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

In formulating our recommendation, we have relied on the information and facts contained or referred to in the Circular. We have also assumed that the information and representations contained or referred to in the Circular were true and accurate at the time they were made and continue to be so at the date of the despatch of the Circular. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors. We have also been advised by the Directors and believe that no material facts have been omitted from the Circular.

We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. We have not, however, conducted an independent verification of the information nor have we conducted any form of in-depth investigation into the businesses and affairs or the prospects of PCCW or iLink.net or any of their respective subsidiaries and associates.

THE WAIVER

In arriving at our opinion for the reasonableness of seeking the Waiver, we have considered the following principal factors and reasons:

Background information

The Group is now one of Asia's largest communications companies and Hong Kong's leading provider of integrated communication services, including a full array of local and international fixed and wireless telecommunications services, Internet access, interactive multimedia services and other services, backed by a fully-digital fibre optical broadband network located in Hong Kong. It is the Group's policy to invest in Internet and telecommunication related ventures and projects for the purpose of leveraging PCCW's broadband platform. PCCW agreed to invest in NetFort in August 1999 and a heads of agreement was signed in September 1999 for a total investment of approximately US\$9 million for an 80% interest in the then issued share capital of NetFort. At that time and prior to the reorganisation (as explained below) undertaken by NetFort for the purpose of its proposed listing on the GEM, NetFort was a subsidiary of PCCW. iLink.net is principally engaged in the provision of a wide range of data centre services and application services, targeting principally small to medium enterprises in Asia with a primary focus in Greater China.

Following the subsequent reorganisation undertaken by NetFort in the 3rd quarter of 2000, which involved PCCW's disposal of its 17% interest in NetFort and the private placement effected by iLink.net to other professional and strategic investors, PCCW's current shareholding interest in iLink.net was reduced to approximately 40.8%. In addition, PCCW also holds the iLink.net Convertible Note, which can be converted into 267,000 iLink.net Shares, representing approximately 23.1% of the share capital of iLink.net as enlarged by such conversion. iLink.net is currently treated as an associated company of PCCW. We understand from the Directors that notwithstanding the full conversion of the iLink.net Convertible Note upon completion of the proposed separate listing of iLink.net, it is the intention of PCCW to maintain iLink.net as an associated company of PCCW.

As stated in the section headed "Letter from the Board" in the Circular, we note that the Directors consider that it would not be practical to make a preferential offer to the existing Shareholders as the unaudited consolidated net asset value of NetFort, the former holding company of the iLink.net Group before the establishment of iLink.net, was approximately HK\$47 million, as at 30 June, 2000 and PCCW has a large equity base of 21,242,944,137 Shares as at the Latest Practicable Date, any assured entitlements offered to the Shareholders would be negligible and would create a number of odd lots which are normally traded at a discount to the price per share for the board lot. Hence the Directors

propose to seek the Waiver from the Minority Shareholders. Under Practice Note 15 of the Listing Rules, PCCW is required to exercise due regard to the interests of all the existing Shareholders by providing them with an assured entitlement to subscribe for iLink.net Shares, and that all Shareholders should be treated equally. However, it is further stated in Practice Note 15 of the Listing Rules that such assured entitlement requirement may be waived by the Minority Shareholders by way of a resolution in general meeting.

Reasons

As noted from the "Letter from the Board" set out in the Circular, the main reason for seeking the Waiver is due to the immateriality of the assured entitlement ratio of iLink.net Shares available to Shareholders.

Immateriality in terms of asset value and financial performance

We note that the Group had unaudited pro forma net liabilities of approximately HK\$31,478 million as at 31 March, 2000 assuming the merger (the "Merger") with Cable & Wireless HKT Limited completed on 31 March, 2000. As the pro forma net liabilities mainly arose from the Merger, we consider that it would also be appropriate to make reference to the financial position of the Group prior to the Merger in comparing with the financial position of iLink.net. In this regard, the unaudited consolidated net asset value of NetFort, the former holding company of the iLink.net Group before the establishment of iLink.net, was approximately HK\$47 million, as at 30 June, 2000 represented approximately 0.2% of the audited net asset value of the Group (prior to the Merger) of approximately HK\$22,740 million as at 31 March, 2000. Given these analyses, we concur with the Directors' views that iLink.net's asset base is relatively insignificant as compared to those of the Group. In terms of earnings contribution, we understand that iLink.net has yet to make a positive contribution to PCCW.

Immateriality in terms of estimated ratio of assured entitlement

We further understand from the Directors that the proposed size of the proposed separate listing of iLink.net would also be insignificant in relative terms as compared to the Group's existing market capitalisation. Should there be a preferential offer on iLink.net Shares, assuming a maximum entitlement scenario, based on iLink.net's 0.2% contribution to the net asset value of the Group, each Shareholder would be offered approximately two iLink.net Shares for every 1,000 Shares held under the assured entitlement arrangement. Nonetheless, in practical terms, the final assured entitlement ratio will be less than the maximum entitlement scenario and likely represents 10% (as noted in other cases of spin-off on the GEM) of the total number of new or existing iLink.net Shares made available for subscription or for sale. Assuming that such number of iLink.net Shares representing 20% of iLink.net's issued share capital will be issued for subscription upon listing and that the assured entitlements account for 10% of such 20% issued share capital, the assured entitlement ratio would have amounted to two iLink.net Shares for 50,000 Shares. Hence, the potential investment benefit arising from the assured entitlement arrangement will likely be even more immaterial. Under this circumstance, we consider that the potential value of the assured entitlement arrangement of iLink.net Shares is negligible in the case of PCCW and should have no significant impact on the Shareholders' investment value in

PCCW. In addition, due to the large disparity between the valuation of PCCW and iLink.net, a significant number of Shareholders who, under the assured entitlement arrangement, would only be entitled to odd lots of iLink.net Shares. As we note that it is common for odd lots to be traded at a discount to the prevailing market price whilst the corresponding transaction costs will not be reduced in relative terms, this discount in the share price of odd lots of iLink.net Shares is unfavourable to the Shareholders.

Cost effectiveness

We note from PCCW's record that approximately 2.4% of Shareholders have their registered addresses on PCCW's register of members in places outside Hong Kong in over 30 countries. In order to offer iLink.net Shares to all Shareholders including those overseas Shareholders under an assured entitlement arrangement as required under the Listing Rules, PCCW would be required to comply with the applicable laws by having the prospectus of iLink.net registered (if applicable) in all these overseas jurisdictions. In view of the immateriality factor as explained above, we take the view that it will be too onerous both in terms of time and expense to offer the assured entitlements for iLink.net Shares to Shareholders, and will render it not cost effective to do so. To ensure compliance with the laws in over 30 overseas jurisdictions will definitely cause delay to iLink.net's listing timetable which, in our opinion, may not be in the best interests of PCCW and the Shareholders.

In the case that the Waiver is not approved by the Minority Shareholders and PCCW is required to offer assured entitlements for Shareholders to subscribe iLink.net Shares, PCCW may, for the reasons stated above, not be able to make available the assured entitlements to those overseas Shareholders as mentioned above.

Effects on the Shareholders

The interest of all Shareholders (including the Major Shareholders) is identical so far as the Waiver is concerned. We understand from the Directors that the proposed valuation of iLink.net under the proposed separate listing of iLink.net will be above PCCW's cost of investment in iLink.net and iLink.net's net asset value before the proposed separate listing of iLink.net respectively. Hence, although no assured entitlement arrangement on iLink.net Shares will be made available to Shareholders, Shareholders' indirect interest (through their interests in PCCW) in the net asset value of iLink.net will not be diluted upon completion of the proposed separate listing of iLink.net.

THE CONVERTIBLE BONDS PLACING

In arriving at our opinion on the fairness of the Convertible Bonds Placing, we have considered the following principal factors and reasons:

Background and reasons

We note that the Convertible Bonds Placing forms part of the Convertible Bonds Issue and, together with the Rights Issue, form the Group's fund raising plan to primarily reduce certain of its bank borrowings and also to fund its general working capital requirements. We further note that the completion of each of the Convertible Bonds Placing, the Convertible Bonds Subscription and the Rights Issue is not dependent on completion of each other.

The aggregate net proceeds of the Convertible Bonds Placing are estimated to be approximately US\$499 million (equivalent to approximately HK\$3,892.2 million) all of which will be used for partially reducing the borrowings of the Group under the Facilities Agreement.

The US\$500 million Convertible Bonds account for 45% of the Convertible Bonds Issue (before the exercise of the Over-allotment Option) whilst the remaining balance of the US\$600 million Convertible Bonds are fully underwritten by the Convertible Bond Underwriters. We note that upon full conversion of the US\$500 million Convertible Bonds at the initial Conversion Price of US\$1.0083 per Share (being approximately HK\$7.865 as converted at a fixed exchange rate of HK\$7.80 = US\$1.00), a total of approximately 495.88 million new Shares will be issued, and without taking into account Shares which may be issued upon conversion of the Telstra Convertible Bonds, the 495.88 million new Shares represent:

- approximately 2.3% of the existing issued share capital of PCCW;
- approximately 2.1% of the issued share capital of PCCW as increased by the Rights Shares and the Warrant Shares;
- approximately 2.1% of the issued share capital of PCCW as increased by the Rights Shares, the Warrant Shares and Shares to be issued upon full conversion of the US\$500 million Convertible Bonds;
- approximately 2.0% of the issued share capital of PCCW as increased by the Rights Shares, the Warrant Shares and Shares to be issued upon full conversion of the Convertible Bonds Issue (assuming no exercise of the Over-allotment Option); and
- approximately 2.0% of the issued share capital of PCCW as increased by the Rights Issue, the Warrant Shares and Shares to be issued upon full conversion of the Convertible Bonds Issue (assuming exercise of the Over-allotment Option in full).

We consider that upon conversion of the US\$500 million Convertible Bonds, the shareholding dilution effect to the Minority Shareholders is immaterial. Given this and the fact that (i) the terms of the US\$500 million Convertible Bonds are identical to those of the US\$600 million Convertible Bonds; (ii) the Convertible Bonds Placing forms part of the fund raising plan to reduce the Group's bank borrowings, we consider that the Convertible Bonds Placing as a method of fund raising for PCCW in the current circumstances is fair and reasonable. Accordingly, we concur with the Directors' views that the Convertible Bonds Placing is in the interests of PCCW and the Shareholders as a whole.

Terms of the US\$500 million Convertible Bonds

We note that the terms of the US\$500 million Convertible Bonds are identical to those of the US\$600 million Convertible Bonds and such terms have been agreed after arm's length negotiations between PCCW and the Convertible Bonds Underwriters.

We have reviewed for comparison purposes the principal terms of the convertible securities (the "Relevant Comparable Issues") issued by PCCW, China Mobile (Hong Kong) Limited ("China Mobile") and PCRD which were placed to independent institutional and professional investors. Set out below is the summary of the principal terms of the Relevant Comparable Issues and those of the Convertible Bonds.

Name of company	Date of announcement	Principal amount (Note 1)	Life (Year)	Ranking	Coupon rate (Note 2)	Conversion premium
PCRD (Note 3a)	29 August, 2000	US\$200 million (Note 3b)	6	secured unsubordinated ("Note 3b")	3% p.a.	28%
PCCW	13 October, 2000	US\$750 million (Note 4a)	6	secured subordinated ("Note 4b")	5% p.a. for year 1-4 7% p.a. for year 5-6	15% (Note 4c)
China Mobile	31 October, 2000	US\$690 million	5	unsecured unsubordinated	2.25% p.a.	17.5%
PCCW	23 October, 2000	US\$1,100 million	5	unsecured unsubordinated	3.5% p.a.	21%

Notes:

1. All the convertible securities were issued at par value of the principal amount.
2. The conversion premium is the premium of the conversion price over the share's closing price as at the last trading day preceding the date of the announcement on the issue of the convertible bonds.
3.
 - a. PCRD, a company incorporated in Singapore, the shares of which are listed on the Singapore Securities Trading Limited, is one of the Major Shareholders holding approximately 34% of PCCW as at the date of the Share Underwriting Agreements.
 - b. The US\$200 million exchangeable bonds allow holders to exchange their bonds into existing Shares and are secured on the underlying Shares.
4.
 - a. The convertible bonds are proposed to be issued to Telstra.
 - b. This convertible bond issue will initially be secured by 50% of PCCW's holding in the issued share capital of a joint venture company to be established between PCCW and Telstra operating a global Internet Protocol backbone business and supported by a guarantee to be issued by a subsidiary of PCCW. PCCW's obligations under this convertible bond issue will be subordinated to all unsubordinated payment obligations of PCCW.
 - c. As the conversion price for this convertible issue is calculated at 115% of the volume weighted average market closing price for the Shares over the 45 trading days following the signing of the definitive agreements with Telstra on 13 October, 2000, the conversion premium for this convertible issue is stated as 15% for the purpose of this letter.

Whilst we understand that the principal terms of a convertible issue are principally determined with regard to the industry prospects and company-specific risks of the issuer as well as its particular business and financial position, we consider that the Relevant Comparable Issues would give us a fair indication on how the market would price the US\$500 million Convertible Bonds should it have been placed to independent institutional and professional third parties. Based on the above analysis, we note that the coupon rate and the conversion premium of the US\$500 million Convertible Bonds are higher than those of the convertible issue by China Mobile which was issued at around the same time with a comparable issue size and similar unsecured and unsubordinated status. Although China Mobile is regarded as having a similar business profile to PCCW, which makes its convertible issue a fair comparison to the US\$500 million Convertible Bonds, we consider that the differentiation in principal terms of the two issues merely reflects the potential risk and return specific to PCCW and China Mobile respectively. In this regard, we consider that the coupon rate of the US\$500 million Convertible Bonds is not unreasonable in this context and we note that the Relevant Comparable Issues by PCCW and PCRD respectively also have a higher coupon rate than China Mobile. We also note that the coupon rate and the conversion premium of the US\$500 million Convertible Bonds are within the range of those issued by PCRD, which allow holders to exchange their bonds into existing Shares, and PCCW previously to independent institutional investors, which were based on arm's length negotiation. Given the above analysis and the fact that the terms of the US\$500 million Convertible Bonds are identical to those of the US\$600 million Convertible Bonds which are fully underwritten by the Convertible Bond Underwriters who are independent of PCCW, we consider that the principal terms of the US\$500 million Convertible Bonds are fair and reasonable.

Furthermore, we note that whilst the Relevant Comparable Issues did not have a redemption premium feature, the Convertible Bonds Issue has a redemption premium feature which gives rise to a redemption yield of 7% at maturity. Although such redemption yield of 7% would not affect the coupon rate of 3.5% p.a, assuming the US\$500 million Convertible Bonds are not being converted into Shares but are being redeemed by PCCW at maturity, the 7% redemption yield would represent PCCW's cost of funding for the US\$500 million. We have compared this percentage of redemption yield with PCCW's existing cost of bank borrowings and understand from PCCW's management that this percentage of redemption yield is comparable to the Group's existing cost of borrowings for US\$ denominated bank loans.

We have compared the status of the US\$500 million Convertible Bonds, which are direct, unconditional, unsecured and unsubordinated, with those of other common Eurobond issues placed to professional and institutional investors and we consider the status of the US\$500 million Convertible Bonds to be common to a convertible bond issue of this type.

Apart from the principal terms of the US\$500 million Convertible Bonds as set out above, we have also reviewed the other proposed terms and conditions of the US\$500 million Convertible Bonds and consider that such terms and conditions are normal commercial terms of a convertible issue of this type and are fair and reasonable.

Having considered all of the above analyses, we concur with the views of the Directors that the terms of the US\$500 million Convertible Bonds are fair and reasonable so far as PCCW and the Minority Shareholders as a whole are concerned. As stated above, given that (i) the shareholding dilution effect upon the full conversion of the US\$500 million Convertible Bonds is immaterial; (ii) the terms of the US\$500 million Convertible Bonds are identical to those of the US\$600 million Convertible Bonds; (iii) the proceeds of the US\$500 million Convertible Bonds are to be used for the repayment of the Group's bank borrowings; and (iv) the US\$500 million Convertible Bonds forms part of the recent fund raising plan of PCCW, which includes the Rights Issue and the Convertible Bonds Subscription, we consider the Convertible Bonds Placing to be a fair, reasonable and appropriate method of fund raising for PCCW in the current circumstances.

RECOMMENDATION

Having taken into account the principal factors and reasons referred to above, we concur with the views of the Directors that the Waiver and the Convertible Bonds Placing are in the interests of PCCW and the Minority Shareholders. Furthermore, we also consider the Waiver and the terms of the Convertible Bonds Placing to be fair and reasonable so far as the Minority Shareholders as a whole are concerned. Accordingly, we advise the Independent Board Committee to recommend the Minority Shareholders that they vote in favour of the ordinary resolutions to be proposed at the Extraordinary General Meeting to approve the Waiver and the Convertible Bonds Placing including the issue of new Shares which may fall to be issued upon conversion of the US\$500 million Convertible Bonds.

Yours faithfully,

For and on behalf of

VICKERS BALLAS CAPITAL LIMITED

Alex Lau

Director

Flavia Hung

Director

The following is the text of the letter from Anglo Chinese, the independent financial adviser to the Independent Board Committee, in relation to the proposed grant of the Miller Options, prepared for the purpose of inclusion in this circular:

ANGLO CHINESE
CORPORATE FINANCE, LIMITED

40th Floor, Two Exchange Square, 8 Connaught Place, Central, Hong Kong.

財務顧問有限公司
美高

13 November, 2000

The Independent Board Committee
Pacific Century CyberWorks Limited
38th Floor, Citibank Tower
Citibank Plaza
3 Garden Road
Central
Hong Kong

Dear Sirs,

Consulting Agreement between Mr. Avram Miller and PCCW

We refer to our appointment by PCCW to advise you in connection with the terms of a Consulting Agreement entered into between Mr. Avram Miller, a director of PCCW, and PCCW, further details of which are contained in a circular to Shareholders dated 13 November, 2000, of which this letter forms part. Expressions used in this letter shall have the same meanings as defined in this Circular, unless the context requires otherwise.

The Consulting Agreement was entered into on 17 August, 1999 and is subject to the approval of Shareholders, which approval has yet to be obtained. Since entering the agreement, Mr. Miller has become a director of PCCW and consequently the grant of options under the terms of the Consulting Agreement now constitutes a connected transaction under the Listing Rules, which is required to be approved by Independent Shareholders, being those Shareholders other than Mr. Miller and his Associates. This approval will be sought at the extraordinary general meeting of PCCW to be held on 5 December, 2000.

Apart from normal professional fees for our services to PCCW, which are described above, no arrangement exists whereby Anglo Chinese will receive any fees or benefits from PCCW, its subsidiaries, Mr. Miller or any of their respective Associates.

In formulating our opinion we have reviewed the Consulting Agreement, price information published by the Stock Exchange, the circulars to its shareholders published by PCCW since August 1999, background material of Mr. Miller's business career, his contribution to the PCCW group since entering the Consulting Agreement to PCCW and certain publicly available information on some of the companies with which he is or has been associated. We have also commissioned PricewaterhouseCoopers LLP to prepare a

competitive review of Mr. Miller's compensation package. The review was completed in August 2000 and covers data collated by PricewaterhouseCoopers LLP for 1999 and the early part of 2000 which period includes the time when the Consulting Agreement was negotiated. In summary, the review was designed to meet the following objectives:

- to review and summarise Mr. Miller's cash and equity compensation package;
- examine how Mr. Miller's qualifications and experience may influence his value in the market place as a director or consultant;
- provide a competitive analysis of executive remuneration of non-executive directors of Internet companies, principally in the United States; and
- provide an assessment as to the competitiveness and reasonableness of Mr. Miller's compensation.

While this review has provided us with information on executive remuneration in the Internet space which has assisted us in forming an opinion on the terms of the Consulting Agreement, we wish to stress that the opinions expressed in this letter are entirely our own.

We consider the information that we have received is sufficient to reach the conclusions set out in this letter and have no reason to doubt the truth, accuracy or completeness of the information provided to us by Mr. Miller and other Directors on Mr. Miller and his contribution to the Group and have been advised by the Directors that no material information has been omitted from the information provided to us or referred to in the Circular, of which this letter forms part. We have relied on this information and have not verified it. We have also relied on information published in this document and have assumed that the statements made in it are true and will continue to be true until the extraordinary general meeting to be held on 5 December, 2000.

The Consulting Agreement

The following is a summary of the principal terms of the Consulting Agreement which was entered into on 17 August, 1999.

- The term of the agreement: The initial term of the Consulting Agreement is for a period of nine years ("Initial Term") and shall thereafter be renewed automatically for additional terms of one year unless at least 90 days prior notice is given by PCCW or Mr. Miller to terminate the agreement.
- The services to be rendered: Mr. Miller has agreed to act as a consultant to PCCW or any company associated with it to provide general advice and assistance including advice on strategic planning, joint venture opportunities, investment opportunities, introduction to companies and business people relevant or beneficial to the Group. While the agreement is widely drafted as to which companies Mr. Miller will provide consulting services and includes private companies controlled by Mr. Li Tzar Kai, Richard, we understand that Mr. Miller has provided advice only to PCCW under the Consulting Agreement and we understand that PCCW will not require Mr. Miller to provide consulting services to

any Associated Companies which are not members of its group under the Consulting Agreement. The Consulting Agreement requires Mr. Miller to be available on a regular basis for meetings with management and the Board of PCCW but specifies no minimum time required to be devoted to PCCW business. Mr. Miller also agreed, if requested, to become a director of PCCW and accepted an invitation to join its board on 14 January, 2000.

- Compensation: Under the Consulting Agreement Mr. Miller received a cash payment of US\$250,000, equivalent to approximately HK\$1,950,000, on 20 August, 1999 and an additional cash payment of US\$250,000 on 15 September, 2000. The payment of US\$500,000 which has already been made is the only cash compensation payable by PCCW under the Consulting Agreement. Mr. Miller was also granted an option to purchase 63,201,097 shares in PCCW, at an exercise price of HK\$2.356 per Share which represented a discount of 20% to the average market value of the shares in PCCW based on the closing prices on the five trading days immediately before the date on which the Consulting Agreement was entered into on 17th August, 1999. The number of shares in PCCW was determined as 1% of the then issued share capital of PCCW, less such number of shares at the average five day closing price that had a value equal to US\$500,000. This deduction was made to reflect the cash payment of US\$500,000 under the Consulting Agreement. The term of the Miller Options is for 10 years and the Miller Options vest as to 10% on the date of grant of the Miller Options, which will be within sixty days of the approval of the Consulting Agreement by independent shareholders and a further 10% will be vested on each anniversary date of the grant of the Miller Options. A further 10% of the Miller Options will vest and become exercisable if the Consulting Agreement is terminated for any reason other than cause by PCCW or for good reason by Mr. Miller. Any Miller Options not vested will cease to be exercisable and will be cancelled. If the Consulting Agreement is terminated for cause, then no further Miller Options will be vested. In the event there is a change in control of PCCW, 20% of the Miller Options will vest and become exercisable or such lesser number if such vesting would result in the grant of Miller Options over more than 63,201,097 shares in PCCW being vested.
- Termination: In addition, the agreement can be terminated for Cause by PCCW, which events include in respect of Mr. Miller the conviction for a commercial offense involving dishonesty or fraud, serious breach of the Consulting Agreement, censure by the Hong Kong regulatory authorities and the failure to provide the consulting services specified in the agreement.

The background of Mr. Miller in venture investment

Until April 1999 Mr. Miller had been employed by Intel Corporation ("Intel") where he worked for some fifteen years in a number of senior capacities, the last of which was corporate vice president of business development, where he contributed to the development of Intel's business strategies. Intel designs, manufactures and sells computer components and related products. Intel's major products include microprocessors, chipsets, embedded processor and micro controllers, flash memory products, graphics products, network and

communication products, systems management software, conferencing products and digital margins products. When working for Intel Mr. Miller was also responsible in part for the development of Intel's venture capital group and, in particular, for most of Intel's investments in communication companies, Internet companies and enabling technology companies. During this period, Mr. Miller built a successful portfolio which created substantial value for Intel, Mr. Miller also led some important industry initiatives including the development of cable modems and the use of DSL technology for computer communications. Mr. Miller also represented Intel with the press in the general area of the convergence of the communications, entertainment, and computing industries. He was featured as the keynote speaker at many industry conferences.

On leaving Intel, Mr. Miller was presented the opportunity to contribute to the development of a number of well known Internet companies. Shortly thereafter on 14 April, 1999, Mr. Miller joined the board of CMGI, Inc. ("CMGI"), as a non-executive director. CMGI, a company which owns and invests in business-to-business and business-to-consumer Internet companies. CMGI offers products and services for interactive marketing, as well as electronic commerce products and services to consumers and businesses. CMGI also provides Internet content and community services, and Internet strategy and services to corporations. Its shares are traded on the NASDAQ market. He also accepted opportunities to join the boards of ETF Group and World Online International NV as a non-executive director on respectively 1 May, 1999 and 17 May 1999. ETF Group is a European venture fund concentrating on investments in the Internet in both Europe and the United States. World Online International NV serves customers in some fifteen countries, offering Internet access, primarily on a subscription free basis, operates web portals, offers e-commerce services, and provides business solutions to its customers. Its shares are listed on the Amsterdam stock exchange.

Mr. Miller's association with PCCW and his contribution to its development

Mr. Miller's association with the Group started before the formation of PCCW. He represented Intel when it agreed to form Pacific Convergence Corporation, Ltd. ("PCC"), a joint venture company owned as to 60% by Pacific Century Diversified Limited, a company owned by the chairman of PCCW, Mr. Li Tzar Kai, Richard, and 40% by Intel Pacific, Inc. PCC was acquired by PCCW in September, 1999 in a transaction which resulted in Intel Pacific, Inc. becoming a shareholder of PCCW and being granted an option to convert its indirect shareholding in PCC into shares in PCCW.

As a consultant and member of the Board of PCCW, Mr. Miller has provided advice on a number of areas of the PCCW group's business, including:

- the initiation and negotiation of major partnership alliances with PCCW. For example, Mr. Miller was instrumental in the formation of the strategic partnership between CMGI and PCCW, under which both parties acquired a shareholding in each other. This transaction was important in establishing the credentials of PCCW within the Internet sector shortly after its formation and appears to have had a material impact on its share price which placed the Group in a position, prior to PCCW's acquisition of HKT, to make substantial acquisitions and to raise funds for its expansion;

- the development of strategies for the development of content. This was related particularly to developing approaches for introducing PCCW's Network of the World ("NOW") Internet services to the United States market;
- introducing advanced technologies for use by the Group by introducing it to relevant technology providers as well as reviewing the technical design of the NOW product. For instance, Mr. Miller introduced PCCW to iBeam Broadcasting Corporation, a provider of Internet satellite services, which resulted in a joint venture between the two companies. He also introduced PCCW to Soceron Inc., a provider of advanced object-oriented media distribution technology which NOW intends to utilise as a key component of that offering.
- assistance and advice in organisational development of the Group's operations in the United States, including assistance in identifying key personnel to join the group and introducing to the PCCW group technical resources and content sources for NOW;
- assistance and advice in the Group's European and United States expansion plans. This has involved regular meetings reviewing venture opportunities, including introducing potential transactions to the PCCW group and evaluating potential investments; and
- advice on the acquisition of HKT.

Comparison of the Consulting Agreement with Mr. Miller's other consultancies.

The following tabulation gives the compensation arrangements of Mr. Miller at other publicly traded Internet companies and a private venture fund of which Mr. Miller is a non-executive director and consultant:

	CMGI	ETF	World Online
Date of Agreement	14th April, 1999	1st May, 1999	19th May, 1999
Compensation:			
Cash:	None	— Annual fee of US\$228,862 paid quarterly — Sign on fee equal to US\$228,862 paid in early 2000 — US\$1.9 million paid over four years to cover the exercise of the options	None

	CMGI	ETF	World Online
Equity:			
No. of Options:	option to purchase 752,000 shares	options to purchase 115,000 shares	options to purchase 1,069,455 shares with evergreen provision of 333,000 options per year to continue to have 1 million options unvested at all times
% of Outstanding Shares:	0.5% of total shares outstanding at grant	0.65% of total shares outstanding at grant	0.5% of total shares outstanding at grant
Price:	US\$63.78 per share	US\$16.65 per share	US\$0 issue price per share
Vesting:	20% annually over 5 years with a 10-year life	25% annually over 4 years with a 10-year life	1/3 annually over 3 years with a 10-year life

In comparing these compensation arrangements with those agreed between PCCW and Mr. Miller, we believe that consideration should be given for the longer vesting period in respect of the Miller Options conditionally granted by PCCW. Compared over a range of three to five years of vesting, the percentage represented by the option over the total shares outstanding as the day of grant is in line with Mr. Miller's other compensation packages, summarised above. In this regard, it should be appreciated that under the Consulting Agreement, the Miller Options vest over a nine year period, being 10% in each year apart from the initial period of just over a year rather than between an approximately 20% and 33.3% in each year, as is the case with Mr. Miller's other compensation arrangements. We would note, however, that apart from ETF, there is no cash compensation included in Mr. Miller's other remuneration arrangements.

Mr. Miller's standing in the industry

From the representations made to us on Mr. Miller's reputation within the industry, his areas of expertise, being principally consumer broadband, content and venture investing and his wide range of contacts with a number of important companies in the computer, communications and media industries, we would expect Mr. Miller to command a remuneration package which would compare with the highest paid by comparable Internet companies. We have, therefore, reviewed the analysis by PricewaterhouseCoopers LLP on the comparable share option arrangements for non-executive directors granted by publicly traded Internet companies in the United States at and above the 90th percentile. In this regard, equity grants are generally made in the form of appointment and annual non-qualified stock option grants. Non-qualified stock option grants do not carry the tax advantages provided to employees by incentive stock options. The Miller Options to be granted conditionally to Mr. Miller by PCCW are, therefore, broadly similar to the options generally granted by Internet companies.

It is further noted that the perceived value of the individual is a critical determinant in establishing the amount of options granted and the options granted to directors by Internet companies at an early stage in their development tend to reflect the greater potential impact of a director on the value of the enterprise.

It is also noted that since the first quarter of 2000 there has been a substantial decline in the value of the shares of many Internet companies, both here and in the United States, which is likely to have also affected the scale of remuneration of senior executives in that industry. However, in comparing Mr. Miller's remuneration we consider that the appropriate comparison is during the period of approximately fifteen months prior to the end of the first quarter of 2000, which period includes the time when the Consulting Agreement was negotiated.

Comparative analysis of the grant of equity options granted to directors by publicly traded Internet companies in the United States

In comparing Mr. Miller's remuneration arrangements under the Consulting Agreement, we consider that the most appropriate comparable data is that of publicly traded Internet companies in the United States.

The following summarises the option granting practices to non-executive directors of Internet companies at the 90th percentile based on the largest 123 publicly traded Internet companies in the United States:

Percentage of outstanding shares represented by options granted on appointment:	0.34%
Percentage of outstanding shares represented by options granted annually:	0.17%
Average years of vesting:	4 years

Taking each of the components of the option arrangements separately, the range of the percentage of outstanding shares represented by options granted on appointment and annually by these more mature Internet companies was as follows:

90th percentile — range of the percentage of outstanding shares represented by options granted on appointment:	1.347% - 0.358%
90th percentile — range of the percentage of outstanding shares represented by options granted annually:	0.283% - 0.180%

The following summarises the options granting practices of Internet companies at the 90th percentile based on the 122 Internet companies which went public in the United States in 1999 or early 2000:

Percentage of outstanding shares represented by options granted on appointment:	0.32%
Percentage of outstanding shares represented by options granted annually:	0.11%
Average years of vesting:	4 years

Within the 90th percentile group, there was wide variation in the percentage of outstanding shares represented by the options granted on appointment and annually which is illustrated as follows:

90th percentile — range of the percentage of outstanding shares represented by options granted on appointment:	1.151% - 0.318%
90th percentile — range of the percentage of outstanding shares represented by options granted annually:	0.362% - 0.107%

Comparative analysis of the cash element of remuneration paid to non-executive directors by publicly traded Internet companies in the United States

The most common form of cash compensation for a non-executive director of an Internet company is comprised of an annual retainer, board meeting fees and committee fees. It should, however, be noted that more than half the publicly traded Internet companies in the United States did not pay any form of cash remuneration to their non-executive directors.

At the 90th percentile, the following summarises the cash compensation paid by more mature Internet companies to their directors:

Annual retainer fees:	US\$22,000	
Board meeting fees (annualised):	US\$ 1,500	(US\$12,750)
Committee meeting fees (annualised):	US\$ 1,125	(US\$ 3,250)

The same data for publicly traded Internet companies immediately after their initial public offers is as follows:

Annual retainer fees:	US\$25,500	
Board meeting fees (annualised):	US\$ 2,750	(US\$5,400)
Committee meeting fees (annualised):	US\$ 2,250	(US\$6,600)

Principal factors taken into account in arriving at our opinion on the fairness and reasonableness of the terms of the Consulting Agreement

The following are the principal factors we have taken into account in assessing the fairness and reasonableness of the Consulting Agreement:

- *The arrangements were negotiated on an entirely arm's length basis.* When the Consulting Agreement was entered into on 17 August, 1999, Mr. Miller had no connection with PCCW, either as a Director or Shareholder. The terms of the Consulting Agreement were, therefore, negotiated on an entirely arm's length basis and Mr. Miller had no ability to impose the agreement on PCCW.
- *The time when the agreement was entered into.* When the Consulting Agreement was entered into, PCCW had yet to articulate its Internet strategy and was a substantially smaller and less influential a company than it is now. We consider that the compensation arrangements of the Consulting Agreement should be viewed in the light of the circumstances prevailing at the time they were entered into and that Mr. Miller should not be prejudiced by the time it will have taken to obtain Shareholders' approval to these arrangements. From the representations made to us it appears that Mr. Miller has made a significant contribution to the development of PCCW. The articulation of PCCW's Internet strategy and the establishment of a number of partnership arrangements with overseas Internet companies, on which Mr. Miller has provided advice, appear to have contributed materially to the rise in the share price of PCCW. From 17 August, the date of the Consulting Agreement, until 28 February, the price of shares in PCCW increased from HK\$3.20 to HK\$22.15 an increase of some 6.7 times. Since the completion of the acquisition of Cable & Wireless HKT Limited, the Share price of PCCW has declined thereby greatly reducing the value of the Miller Options granted to Mr. Miller.

For comparison purposes, set out below are the last traded prices of the shares in each month commencing in July, 1999, being the month before the Consulting Agreement was entered into:

Date	Price <i>HK\$</i>
1999	
26 July	0.98
31 August	4.90
30 September	6.55
29 October	5.85
30 November	6.65
30 December	18.10

Date	Price HK\$
2000	
31 January	18.35
29 February	21.80
31 March	18.20
28 April	14.50
31 May	15.20
30 June	15.40
31 July	16.35
31 August	14.50
30 September	8.80
31 October	6.00

- The full amount of the Miller Options will only vest if PCCW retains Mr. Miller as a consultant for the Initial Term of its Consulting Agreement. The ability of Mr. Miller to obtain the full benefit of the option arrangements under the Consulting Agreement will, therefore, rely on his continuing contribution to the Group.
- *The option arrangements are comparable with those at or above the 90th percentile of publicly traded Internet companies in the United States.* As stated above, we would regard Mr. Miller as being able to command compensation at the highest level from a company in the Internet space and, accordingly, consider that it is appropriate to compare his option arrangements with the arrangements in the 90th percentile of publicly traded Internet companies in the United States. We consider that account should be taken of the fact that the Miller Options on Shares in PCCW vest over a much longer period than is usual. In our opinion, account should also be taken of the PCCW group's stage of development when the Miller Options were granted conditionally and the expectation of Mr. Miller's contribution to the Group's development. In the light of these factors, we consider that the option arrangements are acceptable.
- *The cash component of the Consulting Agreement is higher than would be expected generally from a publicly traded Internet company in the United States.* Under the Consulting Agreement Mr. Miller has received an aggregate cash payment of US\$500,000, equivalent to approximately HK\$3.9 million. Although this amount is similar to the initial sign on payment and annual fee received by him from ETF, it is substantially higher than the cash payments generally made to non-executive directors of publicly traded Internet companies in the United States. If the aggregate payment is taken over the initial term of the Consulting Agreement, being equivalent to an annual payment of US\$55,555, equivalent to some HK\$433,300, it would appear to be more line with the cash component of the remuneration of non-executive directors of publicly traded Internet companies in the United States. For this reason, we consider this element of the remuneration of Mr. Miller to be acceptable.

Opinion and advice

For the reasons given above, we consider the terms of the Consulting Agreement to be fair and reasonable as far as PCCW and Independent Shareholders generally are concerned. Accordingly, we advise the Independent Board Committee to recommend that Independent Shareholders vote in favour of the resolution to be proposed at the extraordinary general meeting to be held on 5 December, 2000.

Yours faithfully,
For and on behalf of
Anglo Chinese Corporate Finance, Limited
Stephen Clark
Director

The following is a summary of the principal terms of the iLink.net Scheme to be considered at the Extraordinary General Meeting.

(a) **Who may join**

The Committee may offer to grant to any full-time employee (the "Employee") including any executive director of the iLink.net Group as the Committee may in its absolute discretion select options to subscribe for such number of iLink.net Shares as the Committee may determine at the subscription price in accordance with paragraph (e).

(b) **Grant of option**

The Committee shall not offer the grant of an option to any Employee:

- (i) after a price sensitive development in relation to the securities of iLink.net has occurred or a price sensitive matter has been the subject of a decision, until such price sensitive information has been announced in accordance with the GEM Listing Rules; or
- (ii) within the period of one month immediately preceding the date of publication of the interim results or within the period of one month immediately preceding the preliminary announcement of the results of iLink.net for any financial year.

(c) **Grant of options to connected persons**

- (i) Where any offer of the grant of options is proposed to be made to a connected person (as such term is defined in the GEM Listing Rules), such offer must first be approved by the majority of the independent non-executive directors of iLink.net.
- (ii) Where it is proposed that any offer of the grant of options is to be made to a connected person (as defined herein before) who is also a substantial shareholder (as such term is defined in the GEM Listing Rules) of iLink.net or any of his or her associates (as such term is defined in the GEM Listing Rules) which would result in the iLink.net Shares the subject matter of all options granted (including options exercised and outstanding) and proposed to be granted to such person under the iLink.net Scheme and any other scheme(s) in the 12 month period up to and including the proposed date of offer of the grant of the option (a) representing in aggregate over 0.1 per cent. of the issued share capital of iLink.net then in issue; and (b) having a value (on the assumption that all such options had been exercised and all the iLink.net Shares allotted), based on the closing price of the iLink.net Shares at the proposed date of grant, in excess of HK\$5 million, such offer of the grant of options must be approved by the shareholders of iLink.net in general meeting with all the connected persons (as defined hereinbefore) of iLink.net abstaining from voting in favour of the proposed grant.

(d) **Payment on acceptance of option offer**

A sum of HK\$1.00 is payable by the Employee on acceptance of the option offer.

(e) Subscription price of iLink.net Shares

The subscription price for iLink.net Shares in relation to options to be granted under the iLink.net Scheme shall be determined by the Committee and notified to an Employee and shall be at least the highest of (a) the closing price of the iLink.net Shares as stated in the Stock Exchange's daily quotation sheets on the date of an option is offered (the "Offer Date"); (b) the average closing price of the iLink.net Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the Offer Date; and (c) the nominal value of the iLink.net Shares.

(f) Exercise of option

An option may be exercised in whole or in part in the manner provided in the iLink.net Scheme by a grantee giving notice in writing to iLink.net at any time during a period (the "Option Period") commencing one year after the date of grant of the option, and not more than ten years from the Offer Date in accordance with the following schedule (each year below refers to each successive period of twelve months, the first such period commencing on the date of grant of the option):

Period since date of grant	percentage of iLink.net Shares comprised in options which become exercisable (subject to adjustment by the Committee from time to time)
First Year	zero
After the First Year	up to 33 $\frac{1}{3}$ %
After the Second Year	up to 66 $\frac{2}{3}$ % (less the percentage of iLink.net Shares which arose upon the exercise of options between the first anniversary and the second anniversary)
After the Third Year	all shares in respect of which the option has not been previously exercised.

(g) Rights are personal to grantee

An option shall be personal to the grantee and shall not be assignable and no grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest in favour of any third party over or in relation to any option or purport to do any of the foregoing. Any breach of the foregoing shall entitle iLink.net to cancel any outstanding option, or any part thereof, in favour of such grantee.

(h) Rights on ceasing employment

If the grantee of an option ceases to be an Employee for any reason, other than his death or the termination of his employment on one or more of the grounds specified in the

iLink.net Scheme, the grantee may exercise the option up to his entitlement at the date of cessation (to the extent not already exercised) from the date of such cessation until whichever is the earlier of the date of expiry of the Option Period or the last day of the period of three months following the date of such cessation, which date shall be the last actual working day with iLink.net or the relevant subsidiary whether salary is paid in lieu of notice or not.

A grantee of an option shall not be regarded as ceasing to be an Employee and shall continue to be an Employee if he ceases to hold a position of employment with iLink.net or any particular subsidiary of iLink.net but at the same time he takes up a different position of full time employment with iLink.net or another subsidiary of iLink.net, as the case may be.

(i) **Rights on death**

If the grantee of an option ceases to be an Employee by reason of death and none of the events which would be a ground for termination of his employment specified in the iLink.net Scheme has occurred, the legal personal representative(s) of such grantee shall be entitled until whichever is the earlier of the date of expiry of the Option Period or the last day of the period of 12 months from the date of death to exercise the option (to the extent not already exercised) in full or to the extent specified in the notice to exercise such option.

(j) **Rights on take-over**

If a general offer to acquire shares (whether by takeover offer, merger, privatisation proposal by scheme of arrangement between iLink.net and its members or otherwise in like manner) is made to all the holders of iLink.net Shares (or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in concert with the offeror) and such offer, having been approved in accordance with applicable laws and regulatory requirements, becomes or is declared unconditional, the grantee of an option (or his legal personal representatives) shall be entitled to exercise the option (to the extent not already exercised) at any time until whichever is the earlier of the date of expiry of the Option Period or the last day of the period of 14 days after the date on which the offer becomes or is declared unconditional, after which the option shall lapse.

(k) **Rights on a compromise or arrangement**

If an effective resolution is passed during the Option Period for the voluntary winding-up of iLink.net, other than for the purposes of a reconstruction, amalgamation or scheme of arrangement, the grantee (or his legal personal representatives) may by notice in writing to iLink.net, which is received by iLink.net within 21 days after the date of such resolution, elect to be treated, save as provided herein, as if the option (to the extent not already exercised) had been exercised immediately before the passing of such resolution either to its full extent or to the extent specified in the notice, such notice to be accompanied by a remittance for the full amount of the subscription price for the iLink.net Shares in respect of which the notice is given, whereupon no iLink.net Shares will be allotted to the grantee but the grantee will be entitled to receive out of the assets available

in the liquidation *pari passu* with the holders of iLink.net Shares such sum as would have been received in respect of the iLink.net Shares the subject of such election had the grantee been a member of iLink.net in respect of those iLink.net Shares at the time of the resolution.

(l) Ranking of shares

The iLink.net Shares to be allotted upon the exercise of an option will be subject to all the provisions of the iLink.net Articles and will rank *pari passu* with the fully paid iLink.net Shares in issue on the date of allotment or, if that date falls on a day when the register of members of iLink.net is closed, the first day of the reopening of the register of members and accordingly will entitle the holders to participate in all dividends or other distributions paid or made on or after the date of allotment or, if that date falls on a day when the register of members of iLink.net is closed, the first day of the reopening of the register of members, other than any dividend or other distribution previously declared or recommended or resolved to be paid or made with respect to a record date which shall be before the date of allotment, or, if later, before the date of registration of the allotment in the register of members of iLink.net.

(m) Lapse of option

An option shall lapse automatically (to the extent not already exercised) on the earliest of:

- (i) the expiry of the Option Period;
- (ii) the expiry of any of the other periods referred to in sub-paragraph (h), (i) and (j);
- (iii) the date of the commencement of the winding-up of iLink.net;
- (iv) upon the sanctioning pursuant to the Companies Law by the Grand Court of the Cayman Islands of a compromise or arrangement between iLink.net and its members or creditors for the purposes of or in connection with a scheme for the reconstruction of iLink.net or its amalgamation with any other company or companies;
- (v) the date on which the grantee of an option ceases to be an Employee by reason of the termination of his employment on any one or more of the grounds that he has been guilty of misconduct, or has committed an act of bankruptcy or has become insolvent or has made any arrangement or composition with his creditors generally, or has been convicted of any criminal offence involving his integrity or honesty or (if so determined by the board of iLink.net) on any other ground on which an employer would be entitled to terminate his employment at common law or pursuant to any applicable laws or under the grantee's service contract with iLink.net or its subsidiary;
- (vi) where the grantee commits a breach of sub-paragraph (g), the date on which the Committee shall exercise iLink.net's right to cancel the option.

(n) Maximum number of shares

The maximum number of iLink.net Shares in respect of which options may be granted (together with iLink.net Shares issued pursuant to options exercised and iLink.net Shares in respect of which options are then outstanding) under the iLink.net Scheme shall not, when aggregated with any iLink.net Shares subject to any other schemes involving the issue or grant of options over iLink.net Shares or other securities by iLink.net to, or for the benefit of, directors, executives and/or employees of iLink.net or its subsidiaries, exceed such number of iLink.net Shares as shall represent 10 per cent (10%) of the issued share capital of iLink.net from time to time, excluding for this purpose from the calculation of issued share capital (i) any iLink.net Shares issued pursuant to the exercise of options under the iLink.net Scheme or pursuant to the exercise of options under any other scheme; and (ii) any pro rata entitlements to further iLink.net Shares issued in respect of those iLink.net Shares referred to in (i) above during a specified period of 10 consecutive years from the date of adoption thereof ("the Specified Period").

No Employee shall be granted an option which, if exercised in full, would result in such Employee becoming entitled to subscribe for such number of iLink.net Shares as when aggregated with the total number of iLink.net Shares already issued under all the options previously granted to him which have been exercised and issuable under all the options previously granted to him which are for the time being subsisting and unexercised, would exceed 25 per cent (25%) of the aggregate number of iLink.net Shares for the time being issued and issuable under the iLink.net Scheme.

(o) Reorganisation of capital structure

In the event of any capitalisation of profits or reserves, rights issue, consolidation, sub-division or reduction of the share capital of iLink.net (other than an issue of iLink.net Shares as consideration in respect of a transaction involving the acquisition of assets by iLink.net and to which iLink.net is a party), such corresponding alterations (if any) shall be made in:

- (i) the number of iLink.net Shares subject to the iLink.net Scheme;
- (ii) the iLink.net Shares to which options relate;
- (iii) the number of iLink.net Shares subject to outstanding options;
- (iv) the subscription price in relation to each outstanding option;
- (v) the method of exercise of the options,

as the auditors of iLink.net ("Auditors") shall certify in writing to the board of iLink.net to be in their opinion fair and reasonable, provided that any alteration shall be made on the basis that the proportion of the issued share capital of iLink.net to which an option entitles the grantee to subscribe after such alteration shall remain the same as that to which the option carried entitlement immediately before such alteration, but so that no such alteration shall be made the effect of which would be to enable any iLink.net Share to be issued at less than its nominal value.

(p) **Cancellation**

Cancellation of options granted but not exercised before lapse must be approved by a resolution of iLink.net in general meeting (and also by resolution of the shareholders in general meeting of any holding company of iLink.net which is listed on the main board or on GEM, if applicable), with Employees and their associates (as the term "associate" is defined in the GEM Listing Rules) abstaining from voting. Any vote taken at any such meeting to approve such cancellation must be taken by poll.

Where options are cancelled, further options may be granted in relation to the iLink.net Shares the subject of the original unexercised options in accordance with the provisions of the iLink.net Scheme.

(q) **Alterations of the iLink.net Scheme**

The iLink.net Scheme may be altered in any respect by resolution of the board of iLink.net except that the provisions of the iLink.net Scheme as to the matters contained in rule 23.03 of the GEM Listing Rules shall not be altered to the advantage of grantees or prospective grantees unless with the prior sanction of a resolution of the shareholders of iLink.net in general meeting, with any persons who are Employees and their associates (as defined in the GEM Listing Rules) abstaining from voting.

No alteration of the iLink.net Scheme shall operate to affect adversely the terms of issue of any option granted or offered to any Employee for acceptance prior to such alteration, except

- (i) in the case of the cancellation of any option, with the consent of the holder of the option concerned; or
- (ii) in the case of an alteration affecting some but not all outstanding options, with the written consent or sanction of such number of grantees as shall together hold options of the class affected in respect of not less than three fourths in nominal value of all iLink.net Shares then the subject of such options or with the sanction, given by resolution at a meeting of the relevant grantees, passed by such majority of grantees in respect of the nominal value of all iLink.net Shares then the subject of the outstanding options of the class affected as would be required at a meeting of the shareholders of iLink.net under the iLink.net Articles for a variation of rights attached to the iLink.net Shares; or
- (iii) in the case of an alteration affecting all options, with the written consent or sanction of such number of grantees as shall together hold options in respect of not less than three fourths in nominal value of all iLink.net Shares then the subject of such options or with the sanction, given by resolution at a meeting of the grantees passed by such majority of the grantees in respect of the nominal value of all iLink.net Shares then the subject of the outstanding options as would be required at a meeting of the shareholders of iLink.net under the iLink.net Articles for a variation of rights attached to the iLink.net Shares.

Any alterations to the terms and conditions of the iLink.net Scheme which are of a material nature shall first be approved by the Stock Exchange, except where such alterations take effect automatically under the existing terms of the iLink.net Scheme.

(r) Duration and administration

The iLink.net Scheme shall be valid and effective for a period of ten years from the date of adoption thereof and shall be subject to the administration of the Committee whose decision (save as otherwise provided herein) shall be final and binding on all parties.

(s) Conditions of the iLink.net Scheme

The iLink.net Scheme shall take effect subject to the passing of the necessary resolution to approve the iLink.net Scheme by the Shareholders other than iLink.net Scheme participants in general meeting, the passing of the necessary resolution to adopt the iLink.net Scheme by the shareholders of iLink.net in general meeting and the granting by resolution of the shareholders of iLink.net in general meeting of a general mandate to the Committee to issue options up to the limit referred to in sub-paragraph (n) and is conditional upon the GEM Listing Committee granting approval of the iLink.net Scheme, any options which may be granted under the iLink.net Scheme and the listing of and permission to deal in any iLink.net Shares to be issued pursuant to the exercise of options under the iLink.net Scheme. If iLink.net decides to adopt the iLink.net Scheme prior to the proposed listing, the adoption of the iLink.net Scheme will be subject to the approvals of the Shareholders other than iLink.net Scheme participants and the shareholders of iLink.net.

Principal terms of the Convertible Bonds

The following is a summary of the draft terms and conditions of the Convertible Bonds to be found in the US\$500 million Bonds Subscription Agreement and the US\$600 million Bonds Subscription Agreement and is subject to the final terms and conditions of the Convertible Bonds to be included in the Trust Deed. PCCW will notify the Shareholders of any amendment to the terms and conditions of the Convertible Bonds which is material in the context of the approval of the Convertible Bonds Placing. Vickers Ballas will review any such material amendment and, if necessary, will advise the Minority Shareholders accordingly.

The principal terms of the Convertible Bonds are summarised as follows:

Issuer:	PCCW Capital Limited (formerly Tolworth Finance Limited).
Guarantor:	Pacific Century CyberWorks Limited.
Principal Amount:	The aggregate principal amount of the Convertible Bonds is US\$1,100 million, or US\$1,300 million in the event that the Over-allotment Option is exercised in full.
Closing Date:	the date of issue of the US\$600 million Convertible Bonds which shall be 5 December, 2000 or such other date as may be agreed between PCCW, the Bonds Issuer and BNP Paribas Peregrine Securities on behalf of the Convertible Bonds Underwriters.
Issue Price:	100% of the principal amount of the Convertible Bonds (provided that if the US\$500 million Convertible Bonds are issued after the Closing Date, the issue price may be adjusted to a price to be agreed by the Bonds Issuer and PCG by including interest accrued on the Convertible Bonds from the Closing Date to the date of issue of the US\$500 million Convertible Bonds).
Interest:	The Convertible Bonds will bear interest at a rate of 3.5% per annum from the Closing Date up to and including the Maturity Date or, if earlier, the date on which such Convertible Bonds are redeemed, such interest being payable annually in arrear on each anniversary of the Closing Date.
Conversion Price:	The Conversion Price is initially US\$1.0083 per Share and is subject to adjustment upon the occurrence of certain events, including consolidation, subdivision or reclassification of Shares, capitalisation of profits or

reserves, capital distribution, rights issue, issue of Shares other than by way of rights, issue of shares upon conversion or exchange, modification of rights of conversion or exchange. The initial Conversion Price represents a premium of approximately 21% over the closing price of the Shares on the Stock Exchange on Friday, 20 October, 2000 (which is the last trading day prior to the date of the US\$600 million Bonds Subscription Agreement and the US\$500 million Bonds Subscription Agreement), being approximately HK\$6.50 per Share which is equivalent to US\$0.83 converted at a rate of US\$1.00=HK\$7.80.

Conversion Period:

Holders of the Convertible Bonds have the right at any time from and including the date which falls one month from the Closing Date up to, and including the close of business on the day falling 15 days prior to the Maturity Date (or, if the Convertible Bonds shall be called for redemption prior to the Maturity Date, then the close of business on the day falling 7 Business Days prior to the date fixed for redemption) to convert the Convertible Bonds into Shares at the Conversion Price.

Shares issued on conversion will rank *pari passu* in all respects with the Shares in issue as at the conversion date and will entitle the holders thereof to receive all future dividends and distributions which are declared, made or paid after the date of allotment of such Shares.

Maturity Date:

the Business Day falling immediately prior to the fifth anniversary of the Closing Date.

Optional Bonds:

The Bonds Issuer has granted the Over-allotment Option to BNP Paribas Peregrine Securities on behalf of the Convertible Bonds Underwriters, which may be exercised in whole or in part and on one or more occasions, at any time up to the 30th day following the Closing Date to require the Bonds Issuer to issue up to a further US\$200 million aggregate principal amount of the Convertible Bonds.

Redemption:

Unless previously redeemed, purchased and cancelled or converted, each of the Convertible Bonds will be redeemed on the Maturity Date in US dollars at a premium to its principal amount so as to give a yield to maturity of 7% per annum plus accrued interest to the Maturity Date.

- Redemption at the option of the Bonds Issuer: The Bonds Issuer may, on or at any time after the third anniversary from the Closing Date, by having given not less than 30 days' nor more than 60 days' notice, redeem all or from time to time some only of the Convertible Bonds at the Early Redemption Amount (as defined below) together with interest accrued to the date of redemption if (i) the closing price of the Shares on the Stock Exchange translated into US dollars at the prevailing rate below mentioned for a period of 20 consecutive dealing days, the last of which occurs not more than 20 dealing days prior to the date upon which notice of such redemption is published, is at least 120% of the Conversion Price then in effect or (ii) at least 90% in principal amount of the Convertible Bonds has already been redeemed, converted or purchased and cancelled. The prevailing rate for the conversion of the closing price of the Shares in U.S. Dollars referred to above will be the mid exchange rate quoted by the Hong Kong Association of Banks on each of the relevant trading day.
- Tax Redemption: The Bonds Issuer will be entitled to redeem all, but not some, of the Convertible Bonds at any time prior to the Maturity Date at the Early Redemption Amount together with interest accrued to the date of redemption in the event of legal, regulatory, political and other changes relating to, the British Virgin Islands or Hong Kong taxation.
- Withholding tax: All payments of principal and premium (if any) and interest in respect of the Convertible Bonds shall be made by the Bonds Issuer or, as the case may be, PCCW free and clear of, and without withholding or deduction for British Virgin Islands or Hong Kong taxes (unless such withholding is required by law). In such event (subject to certain exceptions described in the terms and conditions of the Convertible Bonds), the Bonds Issuer or PCCW, as the case may be, shall pay such amount as will result in the receipt by the holders of the Convertible Bonds of the net amounts after such withholding or deduction equal to the amounts which would otherwise have been received by them had no such withholding or deduction been required.

Redemption at the option of the holders of the Convertible Bonds:

- (a) If at any time prior to the Maturity Date, PCCW ceases to own at least 50.1% of the issued voting capital of any Principal Subsidiary (as defined below), subject to certain exceptions, then the Bonds Issuer shall at the option of the holders of the Convertible Bonds redeem the Convertible Bonds on the date fixed for redemption at the Early Redemption Amount together with interest accrued to the date of redemption.

(Note: The above redemption provisions will not apply in relation to any disposal of an interest in a Principal Subsidiary effected pursuant to the Telstra Transactions.)

- (b) If at any time PCCW shall be subject to a Change of Control (as defined below) up to and including the second anniversary of the Closing Date then the Bonds Issuer shall at the option of the holders of the Convertible Bonds redeem the Convertible Bonds on the date fixed for redemption at the Early Redemption Amount together with interest accrued to the date of redemption.

Events of Default:

If any of the events of default described in the terms and conditions of the Convertible Bonds occur in relation to the Bonds Issuer, PCCW or, in certain cases, the Material Subsidiaries, then the maturity of the Convertible Bonds may be accelerated. Upon such acceleration the Convertible Bonds shall become immediately due and payable at the Early Redemption Amount.

Form of the Convertible Bonds:

The Convertible Bonds will be issued in registered form. The denomination of each registered certificate is US\$1,000 each. The Convertible Bonds will be represented by a single permanent global bond (the "Global Bond") in registered form without coupons attached, which will be deposited on or about the Closing Date with a common depository for and registered in the name of a nominee for Morgan Guaranty Trust Company of New York, Brussels office as operator of the Euroclear System ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream Luxembourg"). Beneficial interests in the Global Bonds will be shown on and transfers thereof will be effected only through the records maintained by Euroclear and Clearstream Luxembourg. Except as described in the terms and conditions of the Convertible Bonds definitive certificates in respect of the Convertible Bonds will not be issued in exchange for interests in the Global Bond.

Status of the Convertible Bonds:	The Convertible Bonds are to constitute direct, unconditional, unsubordinated and unsecured obligations of the Bonds Issuer and shall at all times rank <i>pari passu</i> and without any preference or priority amongst themselves.
Guarantee:	The due payment of all sums payable by the Bonds Issuer under the Trust Deed and the Convertible Bonds will be unconditionally and irrevocably guaranteed by PCCW. The obligations of PCCW are contained in the Trust Deed and such obligations shall constitute direct, unsubordinated and unsecured obligations of PCCW (the "Guarantee").
Negative Pledge:	The Bonds Issuer and PCCW will not (and will procure that none of their subsidiaries will), subject to certain exceptions, create, or permit to subsist any security interest on any part of its undertaking assets or revenue to secure any Relevant Indebtedness without granting equivalent security for the Convertible Bonds, unless the obligations of PCCW under the Guarantee (i) are secured equally and rateably or (ii) have the benefit of such other security interest as the Trustee considers to be not materially less beneficial to the holders of the Convertible Bonds or as shall be approved by an extraordinary resolution of the holders of the Convertible Bonds.
Amendment:	The Trust Deed contains provisions for convening meetings of holders of the Convertible Bonds. The holders of the Convertible Bonds may by extraordinary resolution modify the terms and conditions of the Convertible Bonds or the provisions of the Trust Deed.
Governing Law:	English Law
Listing:	Application has been made to list the Convertible Bonds on the Luxembourg Stock Exchange

The Convertible Bonds, the Guarantee and the Shares to be delivered upon conversion of the Convertible Bonds have not been, and will not be, registered under the US Securities Act of 1933, as amended (the "Securities Act") or the securities law of any State of the United States. The Convertible Bonds, the Guarantee and the Shares to be delivered upon conversion of the Convertible Bonds are being offered outside of the United States in accordance with Regulation S under the Securities Act and may not be offered, sold, converted, pledged or otherwise transferred within the United States or to, or for the account or benefit of, US persons (as defined in Regulation S of the US Securities Act of 1933, as amended) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

For the purposes of the above:

"Material Subsidiary" means any Subsidiary of PCCW:

- (i) whose EBITDA exceeds at least 12% of the consolidated EBITDA of PCCW and its Subsidiaries; or
- (ii) whose gross assets exceed 12% of the consolidated gross assets of PCCW and its Subsidiaries; or
- (iii) to which is transferred the whole, or substantially the whole, of the assets and undertaking of a Subsidiary which immediately prior to such transfer is a Material Subsidiary,

in each case as based on the then most recent audited consolidated accounts of PCCW and its Subsidiaries; provided that, if a Subsidiary itself has Subsidiaries and produces in respect of any year audited consolidated accounts of such Subsidiary and its Subsidiaries, the references above to EBITDA or gross assets of such Subsidiary shall be construed as references to the EBITDA or gross assets of such Subsidiary and its consolidated Subsidiaries and the reference to the then most recent audited consolidated accounts of such Subsidiary (which are all as determined in accordance with the general accounting principles in the relevant country) shall be construed as a reference to the then most recent audited consolidated accounts of such Subsidiary and its consolidated Subsidiaries.

In the case of a Subsidiary acquired, or any entity becoming a Subsidiary, after the end of the financial period of PCCW to which the latest audited consolidated accounts of PCCW relate, the reference to the then most recent audited consolidated accounts of PCCW for the purpose of the calculations above shall, when audited consolidated accounts of PCCW for the financial period in which the acquisition is made or, as the case may be, in which the relevant company becomes a Subsidiary are published, be deemed to be a reference to the then latest audited consolidated accounts of PCCW, adjusted to consolidate the latest audited accounts of such Subsidiary (consolidated where applicable) in such accounts.

"EBITDA" means profit before tax, net financing expenses (interest expenses and bank charges less interest income), depreciation on fixed assets, amortisation and adjusted by any extraordinary items (in each case as determined in accordance with the general accounting principles in the relevant country); and

"Principal Subsidiary" means any Subsidiary of PCCW:

- (i) whose EBITDA exceeds at least 25% of the consolidated EBITDA of PCCW and its Subsidiaries; or
- (ii) whose gross assets exceed 25% of the consolidated gross assets of PCCW and its Subsidiaries,

in either case as based on the then most recent audited consolidated accounts of PCCW and its Subsidiaries; provided that, if a Subsidiary itself has Subsidiaries and produces in respect of any year audited consolidated accounts of such Subsidiary and its Subsidiaries, the references above to EBITDA or gross assets of such Subsidiary and its consolidated Subsidiaries and the reference to the then most recent audited consolidated accounts of such Subsidiary (which are all as determined in accordance with the general accounting principles in the relevant country) shall be construed as a reference to the then most recent audited consolidated accounts of such Subsidiary and its Subsidiaries.

"Subsidiary" of a person means any company or other business entity of which that person owns or controls (either directly or through one or more other Subsidiaries) more than 50% of the issued share capital or other ownership interest having ordinary voting power to elect directors, managers or trustees of such company or other business entity or any company or other business entity which at any time has its accounts consolidated with those of that person or which, under Hong Kong law or regulations and under generally accepted accounting principles in Hong Kong from time to time, should have its accounts consolidated with those of that person.

"**Early Redemption Amount**" of each of the Convertible Bonds means its principal amount plus, a premium rounded up to the nearest cent, determined in accordance with the following formula:-

$$\text{US\$1,000} \times Z \times \frac{A}{N} = \text{premium}$$

where:

"A" is the actual number of days calculated on a 360 day basis of 12 months of 30 days each from, and including, the Closing Date to, but excluding, the date on which the Convertible Bonds are redeemed, or as the case may be, became due and payable on the occurrence of an event of default;

"N" is the actual number of days calculated on a 360 day basis of 12 months of 30 days each from, and including, the Closing Date to, but excluding, the Maturity Date; and

"Z" is a premium to the principal amount calculated so as to give a yield to maturity of 7% per annum.

"**Relevant Indebtedness**" means any present or future indebtedness of the Bonds Issuer, PCCW or any other Subsidiary in the form of, or represented by, bonds, notes, debenture stock, loan stock or other securities all of which are offered or are capable of being offered to investors in the international debt capital markets which, subject to the proviso to this paragraph, (i) are offered, issued or distributed whether by way of public offer, private placing, acquisition consideration or otherwise and whether issued for cash or in whole or in part for a consideration other than cash, and (ii) are for the time being, or are capable of being, quoted, listed, dealt in or traded on, any stock exchange, over-the-counter market or other centrally organised or regulated securities market. Provided always that, "**Relevant Indebtedness**" does not include (aa) secured or unsecured transferable loan certificates which are exclusively traded between banks or similar licensed or registered financial institutions or similar instruments issued under loan agreements to effect or evidence transfers of rights and/or obligations thereunder or other documents creating or evidencing indebtedness which are not commonly known as securities; nor does it include (bb) in relation to any joint venture or similar collaboration, involving PCCW or any Subsidiary and any other participant in the same or similar industry as PCCW, for the mutual development of any business opportunity in such industry, a principal component of which involves the issue of any bonds, notes, debenture stock, loan stock or other securities which, in the absolute discretion of the Trustee, will not be materially prejudicial to the interests of holders of the Convertible Bonds or pursuant to the Telstra Transactions.

"**Change of Control**" occurs when:

- (aa) any person acting alone acquires, or persons acting together acquire, Control of PCCW or is or are considered to Control PCCW if such person does not, or persons do not have, and would not be deemed to have, Control of PCCW at the date of the issue of the Convertible Bonds; or
- (bb) PCCW consolidates with or merges into any other person, unless the consolidation or merger will not result in the other person acquiring Control of PCCW or the successor entity thereto or PCCW sells or transfers all or substantially all of its assets to any other person or persons; or
- (cc) any person or persons acting together acquire the legal or beneficial ownership of 50.1 per cent or more of PCCW's share capital.

"**Control**" means the right to appoint and/or remove all or the majority of the members of the board of directors of PCCW, whether obtained directly or indirectly, and whether obtained by ownership of share capital, the possession of voting rights, contract or otherwise.

APPENDIX V EXPLANATORY STATEMENT FOR THE REPURCHASE MANDATE

The Listing Rules contain provisions to regulate the repurchase by companies with primary listing on the Stock Exchange of their own securities on the Stock Exchange (the "Share Buy Back Rules"). Under the Share Buy Back Rules, any share repurchased by a company with a primary listing on the Stock Exchange has to comply with the following provisions (in this Appendix V, any reference to shares or Shares shall include, where the context permits, shares of all classes and securities which carry a right to subscribe or purchase shares, of a company or the Company, and shall include warrants):

(a) Shareholders' Approval

The Share Buy Back Rules provide that all on-market share repurchases by a company with its primary listing on the Stock Exchange must be approved in advance by an ordinary resolution, either by way of a general mandate or by a specific approval in relation to specific transactions.

(b) Source of Funds

Repurchase must be funded out of funds which are legally available for the purpose in accordance with the memorandum and articles of association of PCCW and the laws of Hong Kong.

(c) Trading Restrictions

No shares can be repurchased unless they are fully paid-up. A maximum of 10% of the share capital in issue, or in the case of warrants, a maximum of 10% of the warrants that will be in issue, at the date of passing a resolution to approve the Repurchase Mandate may be repurchased on the Stock Exchange and a company may not issue new shares or announce a proposed issue of new shares for a period of 30 days immediately following a share repurchase other than on exercise of warrants, share options or subscription rights granted or existing prior to the date of the repurchase. In addition, all share repurchases on the Stock Exchange in any given calendar month are limited to a maximum of 25% of the trading volume of a company's shares in the immediately preceding calendar month. The Share Buy Back Rules also prohibit a company from making share repurchases on the Stock Exchange if the result of the repurchase would be that less than 25% of the issued share capital would be in public hands. A company may not purchase its own shares on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

(d) Status of Repurchased Shares

The Share Buy Back Rules provide that the listing of all repurchased shares are automatically cancelled and the share certificates must be cancelled and destroyed. Under Hong Kong law, the repurchased shares will be cancelled and the amount of a company's issued capital shall be diminished accordingly.

(e) Suspension of Repurchases

Any share repurchase programme is required to be suspended at any time after a price sensitive development has occurred or has been the subject of a decision until such time as the price sensitive information is publicly announced. In particular, during the period of one month immediately preceding either the preliminary announcement of a company's annual results or the publication of a company's interim report, a company may not repurchase shares on the Stock Exchange, unless the circumstances are exceptional. In addition, the Stock Exchange reserves the right to suspend a share repurchase programme on the Stock Exchange if a company breaches the Listing Rules.

(f) Reporting Requirements

Under the Share Buy Back Rules, share repurchases on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 9:30 a.m. (Hong Kong time) on the following business day regarding the number of shares repurchased and purchase price per share or the highest and lowest prices paid for such shares and shall confirm that such purchases were made on the Stock Exchange in accordance with the Listing Rules and the issuer's primary listing is on the Stock Exchange, that there have been no material changes to the particulars contained herein. In respect of purchases made on another stock exchange, the issuer's report must confirm that such purchases were made in accordance with the domestic rules applying to purchases on that other stock exchange. In addition, a company's annual report is required to disclose a monthly breakdown of share repurchases made during the year including the number of shares repurchased each month (whether on the Stock Exchange or otherwise), the purchase price per share or, if relevant, the highest and lowest price paid and the aggregate price paid. The directors' report must contain reference to the repurchases made during the year and the directors' reasons for making such repurchases.

PCCW shall procure that any broker appointed by PCCW to effect the purchase of shares shall disclose to the Stock Exchange such information with respect to purchases made on behalf of PCCW as the Stock Exchange may request.

(g) Connected Parties

The Share Buy Back Rules prohibit a company from knowingly purchasing shares on the Stock Exchange from a "connected person", that is a director, a chief executive or a substantial shareholder of a listed issuer, its subsidiaries or any of their respective Associates and a connected person is prohibited from knowingly selling his shares to the listed company.

REASONS FOR SHARE REPURCHASE

Although the Directors have no present intention of repurchasing any Shares, they believe that the flexibility afforded by the renewed Repurchase Mandate to be proposed at the Extraordinary General Meeting would be in the best interest of PCCW and the Shareholders. Trading conditions on the Stock Exchange have sometimes been volatile in recent years. At any time in the future when Shares are trading at a discount to their underlying value, the ability of PCCW to repurchase Shares would be beneficial to those Shareholders who retain their investment in PCCW since their percentage interest in the assets of PCCW would increase in proportion to the number of Shares repurchased by PCCW.

SHARE CAPITAL

As at the Latest Practicable Date the issued share capital of PCCW comprised 21,242,944,137 Shares. On the basis that no Shares are issued or repurchased by PCCW from the Latest Practicable Date up to the Record Date, and subject to the completion of the Rights Issue on or before 5 December, 2000, a total of 637,288,324 Rights Shares and a total of 1,274,576,648 Warrants will be issued and the total number of Shares in issue will be 21,880,232,461 Shares.

Subject to the passing of Ordinary Resolution No. 5 set out in the notice convening the Extraordinary General Meeting on pages 83 to 87 of this Circular, PCCW would be allowed under the Repurchase Mandate to repurchase a maximum of 2,188,023,246 Shares and a maximum of 127,457,664 Warrants on the basis that no further Shares will be issued (and assuming that a total of 637,288,324 Rights Shares will be issued on or before 5 December, 2000 pursuant to the Rights Issue) or repurchased from the Latest Practicable Date up to the date of the Extraordinary General Meeting.

FUNDING OF REPURCHASES

The Directors propose that repurchase of Shares under the Repurchase Mandate would be financed by PCCW's internal resources or banking facilities. In repurchasing Shares, PCCW may only apply funds legally available for such purpose in accordance with the memorandum and articles of association of PCCW and laws of Hong Kong.

There might be material adverse impact on the working capital or gearing position of PCCW (as compared with the position disclosed in the published audited accounts of PCCW for the period ended 31 March, 2000) in the event that the Repurchase Mandate were to be carried out in full at any time during the proposed repurchase period. However, the Directors do not propose to exercise the Repurchase Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements or other financial arrangements of PCCW or the gearing levels or financial covenants (if any) which in the reasonable opinion of the Directors are from time to time appropriate for PCCW or which PCCW from time to time agrees to maintain.

APPENDIX V EXPLANATORY STATEMENT FOR THE REPURCHASE MANDATE

MARKET PRICES

The highest and lowest prices for Shares traded on the Stock Exchange during each of the previous twelve months were as follows:

	Shares (Note)		Shares	
	Highest HK\$	Lowest HK\$	Highest HK\$	Lowest HK\$
1999:				
November	6.985A	5.869A	7.00	5.85
December	19.995A	6.597A	20.40	6.60
2000:				
January	19.752A	12.131A	20.15	12.30
February	27.859A	18.248A	28.50	18.60
March	24.170A	17.568A	24.70	17.90
April	18.102A	12.325A	18.45	12.50
May	15.578A	12.811A	15.85	13.00
June	16.403A	14.170A	16.70	14.40
July	16.888A	13.393A	17.20	13.60
August	17.665A	14.267A	18.00	14.50
September	14.510A	8.150A	14.75	8.20
October	8.830A	5.675A	8.90	5.65

Note: Trading prices of Shares adjusted for the Rights Issue

DISCLOSURE OF INTEREST

The Directors have undertaken to the Stock Exchange that they will exercise the buy back mandate in accordance with the Listing Rules and the laws of Hong Kong and in accordance with the regulations set out in the memorandum and articles of association of PCCW.

If as a result of share repurchases by PCCW, a substantial Shareholder's proportionate interest in the voting rights of PCCW increases, such increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a Shareholder, or group of Shareholders acting in concert, could obtain or consolidate control of PCCW or become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code.

PCRD, PCD and PCG ("Concert Parties") are deemed to be parties acting in concert under the Takeover Code and they hold in aggregate a total of 38.2% of the total issued share capital of PCCW as at the Latest Practicable Date. PCRD, PCD and PCG each holds approximately 34%, 3.5% and 0.7% respectively of the total issued share capital of PCCW. In the event that the Directors should exercise in full the buy back mandate to be granted pursuant to the ordinary resolution to be proposed at the forthcoming Extraordinary General Meeting assuming that the Major Shareholders have only taken their respective pro rata entitlements under the Rights Issue and that the Repurchase Mandate allows PCCW to repurchase a maximum of 2,188,023,246 Shares (and on the basis of 21,880,232,461 Shares in issue immediately before the repurchase), the aggregate shareholding of the Concert

APPENDIX V EXPLANATORY STATEMENT FOR THE REPURCHASE MANDATE

Parties in PCCW would be increased to approximately 42.4% of the issued share capital of PCCW. The Directors consider that such repurchase would not give rise to an obligation for the Concert Parties to make a mandatory offer under Rules 26 of the Takeovers Code. However, if they increase their interest in PCCW by more than 5% (for example from 38.2% to 43.3%) within a period of 12 months, the Concert Parties will be required to make a general offer under the Takeovers Code. Note that PCRD's shareholding in PCCW may exceed 35% of the total issued share capital of PCCW (from its current holding, as at the Latest Practicable Date, of approximately 34%). If this occurs, application for a waiver of the possible obligation to make a general offer under Note 6 to Rule 26.1 of the Takeovers Code will be made on the basis that the Concert Parties in total hold more than 35% of the total voting interests in PCCW. In respect of the Share Underwriting Agreements (pursuant to which PCRD's shareholding may exceed 35% when called upon to subscribe for further Shares thereunder), the Executive Director of the Corporate Finance Division of the Securities and Futures Commission had granted such a waiver to PCRD on the basis that PCRD together with PCG and PCD hold in total more than 35% of the voting interests in PCCW. The Directors have no intention to exercise the buy back mandate to such extent that the public shareholding in PCCW would be reduced below 25 per cent of the issued share capital of PCCW.

None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their Associates presently intend to sell shares to PCCW under the buy back mandate in the event that the buy back mandate is approved by the Shareholders.

PCCW has not been notified by any connected persons of PCCW that they have a present intention to sell any Shares, or that they have undertaken not to sell any Shares held by them to PCCW in the event that the buy back mandate is approved by the Shareholders.

SHARE PURCHASES MADE BY PCCW

No purchase of Shares has been made by PCCW during the last six months (whether on the Stock Exchange or otherwise).

RESPONSIBILITY STATEMENT

This Circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to PCCW. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts not contained in this Circular, the omission of which would make any statement in this Circular misleading.

DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, save as disclosed below, none of the Directors or the chief executive of PCCW had any interest in the equity or debt securities of PCCW or any associated corporations (within the meaning of the SDI Ordinance) or which were required to be notified to PCCW and the Stock Exchange pursuant to Section 28 of the SDI Ordinance (including interests which they were deemed or taken to have under Section 31 of, or Part 1 of the Schedule to, the SDI Ordinance) or which were required, pursuant to Section 29 of the SDI Ordinance, to be entered in the register referred to therein or which were required to be notified to PCCW and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

(a) Interests in PCCW**(i) Shares:**

Name	Number of Shares
Li Tzar Kai, Richard (<i>Note 1</i>)	8,114,485,137
Yuen Tin Fan (<i>Note 2</i>)	15,830,000
Peter To	5,200,000
Cheung Wing Lam, Linus	29,524
Alexander Anthony Arena (<i>Note 3</i>)	1,000
Yuen Kee Tong (<i>Note 4</i>)	26,801
David Norman Prince	23,732
Chung Cho Yee, Mico (<i>Note 5</i>)	5,799,589
Peter Anthony Allen	250,000
Chan Ching Cheong, George	1,100,000
Dr. The Hon Li Kwok Po, David, OBE, JP	3,000,000
Professor Chang Hsin-kang	30,000

(ii) *Share Option Scheme:*

Name	Number of Shares under options granted	Option exercisable period	Subscription price per Share (HK\$)
Yuen Tin Fan	10,670,000	17.8.2003 to 17.8.2009	2.356
	32,000,000	26.8.2001 to 26.8.2010	12.024
Peter To	21,800,000	17.8.2001 to 17.8.2009	2.356
Cheung Wing Lam, Linus	16,000,000	26.08.2001 to 26.08.2010	12.024
Alexander Anthony Arena	16,000,000	17.8.2000 to 17.8.2009	2.356
	16,000,000	26.8.2001 to 26.8.2010	12.024
Yuen Kee Tong	800,000	28.02.2001 to 26.08.2010	12.024
David Norman Prince	8,000,000	26.08.2001 to 26.08.2010	12.024
Chung Cho Yee, Mico	17,876,000	17.8.2001 to 17.8.2009	2.356
	10,600,000	26.8.2001 to 26.8.2010	12.024
Peter Anthony Allen	1,360,000	17.8.2000 to 17.8.2009	2.356
	1,786,000	26.8.2001 to 26.8.2010	12.024
Chan Ching Cheong, George	30,789,000	25.10.2000 to 25.10.2009	4.552
John Todd Bonner	5,000,000	17.8.2000 to 25.10.2009	4.552
	4,800,000	26.8.2001 to 26.8.2010	12.024

Subject to the approval of the Independent Shareholders, PCCW intends to grant 63,201,097 share options to Mr. Miller at an exercise price of HK\$2.356 per Share which options will have a term of 10 years from the date of grant.

Note 1: Li Tzar Kai, Richard holds the entire issued share capital of PCG. PCG holds the entire issued share capital of Pacific Century International Limited ("PCIL"). PCIL holds the entire issued share capital of Pacific Century Group (Cayman Islands) Limited ("PCG(CI)"). PCG(CI) holds the entire issued share capital of Anglang Investments Limited ("Anglang"). Anglang and PCG(CI) hold 1,169,067,180 shares and 1,160,991,050 shares in PCRD (an aggregate of 2,330,058,230 shares in PCRD), which constitute approximately 37.9% and approximately 37.6% of the entire issued share capital of PCRD respectively. PCRD holds 7,221,290,321 Shares, which constitute approximately 34.0% of the entire issued share capital of PCCW. PCG holds 140,892,548 Shares, which constitute approximately 0.7% of the entire issued share capital of PCCW. 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 752,302,268 Shares which constitute approximately 3.5% of the entire issued share capital of PCCW. Accordingly, Li Tzar Kai, Richard is interested in an aggregate of 8,114,485,137 Shares (held by PCG, PCRD and PCD).

Note 2: Yuen Tin Fan is deemed to be interested in 2,500,000 Shares by virtue of him being a beneficiary under a discretionary trust.

Note 3: Alexander Anthony Arena holds the 1,000 Shares in the form of 100 ADRs, each representing 10 Shares.

Note 4: Yuen Kee Tong is deemed to be interested in 6,096 Shares held by his spouse.

Note 5: Chung Cho Yee, Mico is deemed to be interested in 89,589 Shares held by his spouse.

(b) **Interests in PCRD**(i) *Ordinary shares of PCRD:*

Name	Number of ordinary shares of S\$0.10 each ("PCRD Shares")
Li Tzar Kai, Richard	2,330,058,230 <i>(Note 1)</i>
Yuen Tin Fan	27,920,000 <i>(Note 2)</i>
Peter To	10,000,000
Peter Anthony Allen	5,010,000

(ii) *Redeemable cumulative preference shares of PCRD:*

Name	Number of redeemable cumulative preference shares of US\$0.01 each
Li Tzar Kai, Richard	87,948,362 <i>(Note 1)</i>

(iii) *Share option scheme of PCRD:*

The following Directors have options to subscribe for PCRD Shares:

Name	Number of PCRD Shares under options granted	Option exercisable period	Subscription price per PCRD Share (S\$)
Alexander Anthony Arena	15,300,000	25.10.2001 to 24.10.2009	0.7584
Chung Cho Yee, Mico	8,000,000	15.4.2001 to 14.4.2004	0.143
Chan Ching Cheong, George	11,960,000	25.10.2000 to 24.10.2009	0.948
John Todd Bonner	5,000,000	25.10.2001 to 24.10.2009	0.7584

Note 1: Li Tzar Kai, Richard holds the entire issued share capital of PCG. PCG holds the entire issued share capital of PCIL. PCIL holds the entire issued share capital of PCG(CI). PCG(CI) holds the entire issued share capital of Anglang. Anglang and PCG(CI) hold 1,169,067,180 PCRD Shares and 1,160,991,050 PCRD Shares respectively (an aggregate of 2,330,058,230 PCRD Shares), which constitute approximately 37.9% and approximately 37.6% of the entire issued share capital of PCRD respectively. Anglang and PCG(CI) hold 57,826,950 and 30,121,412 redeemable cumulative preference shares in PCRD (an aggregate of 87,948,362 redeemable cumulative preference shares in PCRD) respectively. Accordingly, Li Tzar Kai, Richard is interested in 2,330,058,230 PCRD Shares and 87,948,362 redeemable cumulative preference shares in PCRD.

Note 2: Yuen Tin Fan holds 4,370,000 PCRD Shares and is also deemed to be interested in 23,550,000 PCRD Shares by virtue of his being a beneficiary under a discretionary trust. Accordingly, Yuen Tin Fan is interested in an aggregate of 27,920,000 PCRD Shares.

(c) **Interests in Pacific Century Insurance Holdings Limited ("PCIHL")
(a subsidiary of PCRD)**

(i) *Ordinary shares of PCIHL:*

Name	Number of ordinary shares of HK\$1.00 each ("PCIHL Shares")
Li Tzar Kai, Richard	308,627,250 (Note)
Yuen Tin Fan	2,254,000
Peter Anthony Allen	180,000

(ii) *Share option scheme of PCIHL:*

Name	Number of PCIHL Shares under options granted	Option exerciseable period	Subscription price per PCIHL Share (HK\$)
Yuen Tin Fan	16,200,000	7.7.2000 to 6.7.2009	6.28
Peter Anthony Allen	500,000	7.7.2000 to 6.7.2009	6.28
Chung Cho Yee, Mico	1,900,000	7.7.2000 to 6.7.2009	6.28
John Todd Bonner	13,800,000	7.7.2000 to 6.7.2009	6.28

Note: Li Tzar Kai, Richard holds the entire issued share capital of PCG. PCG holds the entire issued share capital of PCIL. PCIL holds the entire issued share capital of PCG(CI). PCG(CI) holds the entire issued share capital of Anglang. Anglang and PCG(CI) hold 1,169,067,180 PCRD Shares and 1,160,991,050 PCRD Shares respectively (an aggregate of 2,330,058,230 PCRD Shares), which constitute approximately 37.9% and approximately 37.6% of the entire issued share capital of PCRD respectively. PCRD is beneficially interested in 308,627,250 PCIHL Shares. Accordingly, Li Tzar Kai, Richard is deemed to be interested in these PCIHL Shares.

- (d) As at the Latest Practicable Date, save as disclosed herein none of the Directors was materially interested in any contract or arrangement to which any member of the Group was a party and which was significant to the business of the Group.
- (e) As at the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in any assets which have been acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group since 31 March, 2000, the date to which the latest published audited financial statements of the Group were made up.

SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as the Directors or chief executive are aware, according to the register of substantial shareholders kept by PCCW under Section 16(1) of the SDI Ordinance, the Shareholders who were directly or indirectly interested in 10% or more of the voting power at any general meeting of PCCW were as follows:

Name	Number of Shares	Shareholding %
Cable and Wireless (Far East) Limited	3,259,384,610	15.3
PCRD	7,221,290,321	34.0
	<i>(Note 1)</i>	
Anglang	7,221,290,321	34.0
	<i>(Note 1)</i>	
PCG(CI)	7,221,290,321	34.0
	<i>(Note 1)</i>	
PCIL	7,221,290,321	34.0
	<i>(Note 1)</i>	
PCG	7,694,708,869	36.2
	<i>(Note 2)</i>	
Mr Shigeta	7,694,708,869	36.2
	<i>(Note 3)</i>	
Li Tzar Kai, Richard	8,447,011,137	39.8
	<i>(Note 4)</i>	

Note 1: As at the Latest Practicable Date, PCRD holds 7,221,290,321 Shares. Approximately 37.9% and approximately 37.6% of the issued share capital of PCRD are held by Anglang and PCG(CI) respectively. The entire issued share capital of Anglang is held by PCG(CI). In turn, the entire issued share capital of PCG(CI) is held by PCIL and the entire issued share capital of PCIL is held by PCG. All the Shares referred to herein relate to the same parcel of Shares held by PCRD.

Note 2: The Shares referred to herein include the 140,892,548 Shares held by PCG, the 7,221,290,321 Shares held by PCRD and the 332,526,000 Shares held by Mr. Shigeta. As PCG and Mr Shigeta were parties to an agreement to which Section 9 of the SDI Ordinance applies, PCG is deemed to be interested in the 332,526,000 Shares held by Mr. Shigeta.

Note 3: The Shares referred to herein include 7,362,182,869 Shares deemed to be held by PCG. As Mr. Shigeta and PCG were parties to an agreement to which Section 9 of the SDI Ordinance applies, Mr. Shigeta is deemed to be interested in the 7,362,182,869 Shares held by PCG.

Note 4: Li Tzar Kai, Richard holds the entire issued share capital of PCG. PCG holds the entire issued share capital of PCIL. PCIL holds the entire issued share capital of PCG(CI). PCG(CI) holds the entire issued share capital of Anglang. Anglang and PCG(CI) hold 1,169,067,180 PCRD Shares and 1,160,991,050 PCRD Shares (an aggregate of 2,330,058,230 PCRD Shares), which constitute approximately 37.9% and approximately 37.6% of the entire issued share capital of PCRD respectively. PCRD holds 7,221,290,321 Shares which constitute approximately 34.0% of the entire issued share capital of PCCW. PCG is interested in 473,418,548 Shares (through itself and Mr Shigeta), which constitute approximately 2.2% of the entire issued share capital of PCCW. 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 752,302,268 Shares, which constitute approximately 3.5% of the entire issued share capital of PCCW. Accordingly, Li Tzar Kai, Richard is interested in an aggregate of 8,447,011,137 Shares (held by PCG (through itself and Mr Shigeta), PCRD and PCD).

MATERIAL CHANGES**(a) Strategic Alliances with Telstra**

On 13 October 2000, PCCW announced that it has entered into legally-binding definitive agreements with Telstra with respect to the implementation of the strategic alliance (the "Alliance") referred to in PCCW's announcement on 24 August 2000.

Certain terms of the Alliance as finally concluded differ from the terms that were announced by PCCW on 24 August 2000. Briefly, the Alliance involves:

- (i) the formation of an Internet Protocol backbone joint venture company ("IP Backbone Co") to which PCCW and Telstra will respectively contribute their global wholesale assets, with each party taking a 50% interest. If IP Backbone Co is able to borrow US\$2 billion (approximately HK\$15.6 billion), US\$1.125 billion (approximately HK\$8.77 billion) will be paid to PCCW and US\$375 million (approximately HK\$2.9 billion) will be paid to Telstra;
- (ii) the purchase by Telstra of a 60% stake in a newly formed company that will own PCCW's Hong Kong wireless communications business ("Regional Wireless Co") for US\$1.68 billion (approximately HK\$13.1 billion);
- (iii) a 50:50 Internet data centre joint venture ("IDC Co") to be formed that will own and operate a network of Internet data centres throughout the Asia-Pacific Region;
- (iv) a broadband distribution and production arrangement for the Group's NOW broadband channel and Internet offerings in Australia; and
- (v) the issue to Telstra by PCCW of the *Telstra Convertible Bonds*.

The definitive agreements signed include: Shareholders Agreements; Asset Transfer and Share Sale Agreements; Connectivity Agreements; Shared Services Agreements and a Purchase Agreement for the purchase of the *Telstra Convertible Bonds*. These agreements deal with the relationships between PCCW, Telstra and the various joint ventures companies and the issue and purchase of the subordinated convertible bond.

Completion of the implementation of the Alliance is subject to the obtaining of all necessary regulatory consents.

PCCW will seek Shareholders' approval for the issuance of the Shares issuable upon the conversion of the *Telstra Convertible Bonds*.

The transaction relating to IP Backbone Co will require the approval of the Shareholders.

The transaction relating to the sale of a 60% stake in Regional Wireless Co will require the approval of the Shareholders.

(b) Repayment of Facility Agreements

PCCW entered into the Facilities Agreement on 29 February 2000 for the purpose of financing the cash element of the consideration payable for PCCW's merger with HKT and for general working capital purposes. On 17 August 2000, US\$11.32 billion (equivalent to approximately HK\$88.30 billion) was drawn to finance the cash element of the consideration payable for PCCW's merger with HKT. A further US\$680 million (equivalent to approximately HK\$5,304 million) of the facility was drawn down on 22 August 2000 for working capital purposes.

On 11 September 2000, PCCW repaid the entire Tranche A in the principal aggregate amount of US\$3 billion (equivalent to approximately HK\$23.4 billion). The entire Tranche B in the principal aggregate amount of US\$9 billion (equivalent to approximately HK\$70.2 billion) remains outstanding.

(c) Acquisition of Jaleco Limited in Japan

On 7 November 2000, PCCW completed the acquisition of approximately 82.84% of the issued shares in Jaleco Limited ("Jaleco") a publicly traded company in Japan, for Japanese Yen 27 billion (equivalent to approximately HK\$1,950 million). The acquisition was achieved through the purchase of shares from the original major shareholders of Jaleco and the subscription for new shares issued by Jaleco.

Jaleco is a company incorporated under the laws of Japan and whose shares are registered on the OTC and is involved in the business of planning, development, manufacturing and distribution of computer game software, amusement game software and machines, aquarium goods, automatic food vending machines and management of amusement centres.

PCCW believes Jaleco has the business infrastructure necessary for PCCW to launch its broadband Internet business successfully in Japan, including extensive business experience in the Japanese entertainment industry and long-standing established business relationships with Japanese companies in the game and media industries. In addition, PCCW believes it will be able to obtain high quality game content for its broadband Internet business by strengthening the Jaleco's game software development capabilities.

(d) Scheme of Arrangement

The Scheme of Arrangement became effective on 17 August 2000. In this connection, approximately HK\$88,141 million was paid to the original shareholders of HKT in August 2000 and expenses of approximately HK\$1 billion were incurred.

(e) Conversion of PCRD Convertible Bonds

In April 2000, 645,161,290 new Shares were issued as a result of the conversion of convertible bonds in the principal amount of HK\$200,000,000. In addition, on 1 August 2000, on obtaining court approval for the Company's merger with of HKT, PCRD fully converted the remaining outstanding amount of the convertible bond (i.e. HK\$517,599,940) issued by PCCW at the time of the reverse takeover of Tricom Holdings Limited into new Shares. As a result of the conversion of the convertible bond, PCCW issued 1,669,677,225 new Shares to PCRD.

(f) Investments

It is the Group's policy that other investments are carried at fair market value in each balance sheet. The change in fair market value of the Group's portfolio of other investments during the six months ended 30 June 2000 was reflected in the Group's unaudited consolidated income statement for the same period. Subsequent to 30 June 2000 and up to the Latest Practicable Date, the market value of the Group's portfolio of other investments decreased by approximately HK\$652 million. Any change in the market value of other investments subsequent to 30 June 2000 will be reflected in future income statements. Depending on the changes in the market value of other investments which may occur subsequent to the Latest Practicable Date, the amount of gain/loss resulting from changes in the market value of other investments recorded in the annual financial statements as at and for the year ending 31 December 2000 could be different from HK\$652 million.

(g) Rights Issue

On 23 October 2000, PCCW announced the Rights Issue. Please refer to the document relating to the Rights Issue to be despatched by PCCW to the Shareholders on 13 November 2000 for more details.

(h) Convertible Bonds

On 23 October 2000, PCCW also announced that the Bonds Issuer had entered into the US\$500 million Bonds Subscription Agreement and the US\$600 million Bonds Subscription Agreement for the issue of the Convertible Bonds with an aggregate principal amount of US\$1,100 million, or upon the exercise of the Over-allotment Option in full, US\$1,300 million. Such Optional Convertible Bonds will be issued on the same terms and conditions as the Convertible Bonds. Subject to the terms thereof, the US\$500 million Bonds Subscription Agreement and the US\$600 million Bonds Subscription Agreement are expected to become unconditional, and the US\$500 million Convertible Bonds and the US\$600 million Convertible Bonds are expected to be issued on or about 5 December 2000. Please refer to the section headed "Convertible Bonds Placing" in the "Letter from the Board" in this document for more details.

Save as disclosed herein, there has been no material adverse change in the Group's financial or trading position since 31 March 2000, being the date to which the Group's and the HKT Group's latest audited accounts were made up.

EXPERT

The following is the qualification of each of the experts who has given opinion or advice which is contained in this Circular:

Name	Qualification
Vickers Ballas	an investment adviser registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong)
Anglo Chinese	an investment adviser registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong)

As at the Latest Practicable Date, Vickers Ballas (save for 301,267 Shares held by a fellow subsidiary of Vickers Ballas in its normal course of business), and Anglo Chinese were not beneficially interested in the share capital of any member of the Group nor did they have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group nor did they have any interest, either direct or indirect, in any assets which have been, since the date to which the latest published audited financial statements of the Group were made up, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

CONSENT

Each of Vickers Ballas and Anglo Chinese has given and has not withdrawn its written consent to the issue of this Circular with the inclusion herein of its letter and references to its name, in the form and context in which they respectively appear.

SERVICE CONTRACTS

CHEUNG Wing Lam, Linus is employed pursuant to a service contract entered into on 8 August 2000. During the first 2 years of service, the contract is terminable by PCCW on 36 months' notice. After the expiry of this 2-year period the service contract is terminable by PCCW on 12 months' notice. CHEUNG Wing Lam, Linus's service contract provides for a single lump sum compensation payment by PCCW if the contract is terminated by PCCW during the first 3 years of the contract.

David Norman PRINCE is employed pursuant to a service contract entered into on 27 July 2000. During the first 3 years of service, this contract is terminable by PCCW on 24 months' notice. After the expiry of this 3-year period, the service contract is terminable by PCCW on 12 months' notice. David Norman PRINCE's service contract provides for a single lump sum compensation payment by PCCW if the contract is terminated by PCCW during the first 3 years of the contract.

Mr. Miller, a non-executive Director, entered into the Consulting Agreement with PCCW, the details of which are set out in the sub-section headed "The Consulting Agreement and the proposed grant of the Miller Options" in the section headed "Letter from the Board" of this Circular.

CHEUNG Wing Lam, Linus and David Norman PRINCE were both HKT Directors for the year ended 31 March, 2000. Further details of the remuneration of the HKT Directors for the year ended 31 March, 2000 are set out in the section headed "HKT Directors' Remuneration" below. Save as disclosed herein, none of the Directors has any service contract with any member of the Group other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation.

The following is an extract from the notes to the financial statements in Appendix I to the document of the Rights Issue despatched on 13 November, 2000.

HKT DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION

(a) HKT Directors' remuneration

HKT Directors' remuneration disclosed in accordance with Section 161 of the Hong Kong Companies Ordinance is as follows:

	Years ended 31 March		
	2000 HK\$M	1999 HK\$M	1998 HK\$M
Directors' fees	2	2	2
Basic salaries and other emoluments	32	28	29
Discretionary bonuses	5	7	5
Pension contributions	2	2	1
	<u>41</u>	<u>39</u>	<u>37</u>

Housing costs accounted for 30% of remuneration for the year ended 31 March 2000 (1999: 30%; 1998: 35%).

Discretionary bonuses for the year ended 31 March 2000 include shares in Cable & Wireless plc awarded to the HKT Directors on 12 May 1999 in respect of the year ended 31 March 1999 under the Long Term Incentive Plan. Based on the market price of the shares on 12 May 1999, the total value of the shares awarded was HK\$4 million (1999: HK\$4 million in respect of the year ended 31 March 1998; 1998: Nil).

The number of HKT Directors whose remuneration fell within the bands set out below is as follows:

	Number of HKT Directors Years ended 31 March		
	2000	1999	1998
Nil — HK\$1,000,000	10	11	11
HK\$1,000,001 — HK\$1,500,000	1	—	—
HK\$3,000,001 — HK\$3,500,000	1	—	—
HK\$3,500,001 — HK\$4,000,000	—	—	1
HK\$5,000,001 — HK\$5,500,000	1	—	—
HK\$5,500,001 — HK\$6,000,000	1	1	—
HK\$6,500,001 — HK\$7,000,000	2	2	1
HK\$7,000,001 — HK\$7,500,000	—	—	2
HK\$7,500,001 — HK\$8,000,000	—	1	—
HK\$9,000,001 — HK\$9,500,000	—	1	—
HK\$9,500,001 — HK\$10,000,000	1	—	1

No HKT Directors waived the right to receive emoluments during any of the above years.

The HKT Directors' fees above include HK\$1 million for the year ended 31 March 2000 (1999 and 1998: HK\$1 million) paid to the independent non-executive HKT Directors. They received no other emoluments from the HKT Group.

(b) HKT Directors' share options

In addition to the above emoluments, certain HKT Directors were granted options at nil consideration to acquire ordinary shares in Cable & Wireless plc and HKT. The details of share options granted to the HKT Directors since 1 April 1997 are as follows:

Cable & Wireless plc Senior Employees' Share Option Scheme:

Date of Grant	Option price £	Number of share options	Exercisable	
			from	to
13 June 1997	5.533	430,000	13 June 2000	12 June 2004
8 June 1998	7.046	153,000	8 June 2001	7 June 2005
25 February 1999	8.488	182,597	25 February 2002	24 February 2006
19 May 1999	8.107	254,500	19 May 2002	18 May 2006
22 December 1999	9.820	72,510	22 December 2002	21 December 2006

HKT Share Option Scheme:

Date of Grant	Option price HK\$	Number of share options	Exercisable from to	
1 February 1999	1.00	126,455	3 December 2001	31 December 2001

In the absence of a ready market for the above options, the HKT Directors are unable to arrive at an accurate assessment of the value of the options granted to the respective HKT Directors.

(c) **Senior management's remuneration**

For the year ended 31 March 2000, the five (1999: five) highest paid individuals in the HKT Group are HKT Directors whose total emoluments are included above.

For the year ended 31 March 1998, the five highest paid individuals in the HKT Group included four HKT Directors whose total emoluments are included above. The emoluments of the other individual consisted of basic salaries and other emoluments of HK\$3.5 million; discretionary bonuses of HK\$0.5 million, and pension contributions of HK\$0.3 million.

LITIGATION

Neither PCCW nor any of its subsidiaries is a defendant in any material litigation or arbitration of material importance and no material litigation or claim is known to the Directors to be pending or threatened against PCCW or any of its subsidiaries.

Members of the Group have instituted legal proceedings against certain operators of telecommunications networks to recover lost revenue resulting from the activities of those operators who PCCW believes were involved in diversion of international telecommunications traffic in breach of its legal rights. The aggregate amount claimed by members of the Group in these proceedings is in excess of HK\$550 million.

The legal proceedings instituted by the Group involve numerous actions against numerous defendants, in which the Group is claiming amounts which, in most cases, are not material individually. Judgement in favour of the Group has already been obtained in 5

cases and damages are being assessed in preparation for enforcement action. Of the various actions that are pending, the following are material:

Plaintiff	Defendant	Date commenced	Court	Description of Proceedings	Relief Sought
Cable & Wireless HKT International Limited	New World Telephone Limited	3 February 1999	High Court	Improper diversion of delivery fees on inbound international traffic	HK\$375 million
Cable & Wireless HKT International Limited	New T&T Hong Kong Limited	3 February 1999	High Court	Improper diversion of delivery fees on inbound international traffic	HK\$157 million

All or any of the Group's actions may be successful or unsuccessful and no assurance can be given that any recovery will be possible.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours up to and including 7 December, 2000 at the office of Simmons & Simmons at 35th Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong:

- the memorandum and articles of association of PCCW;
- the rules of the iLink.net Scheme;
- the US\$500 million Bonds Subscription Agreement;
- the letter from Vickers Ballas set out in Appendix I to this Circular;
- the letter from Anglo Chinese set out in Appendix II to this Circular;
- the written consent from each of Vickers Ballas and Anglo Chinese referred to in the section headed "Consent" in this Appendix VI;
- the service contracts referred to in the section headed "Service Contracts" in this Appendix VI; and
- the Consulting Agreement.

GENERAL

The English text of this Circular shall prevail over the Chinese text for the purpose of interpretation.

PACIFIC CENTURY CYBERWORKS LIMITED

(盈科數碼動力有限公司)

(incorporated in Hong Kong with limited liability)

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of Pacific Century CyberWorks Limited (the "Company") will be held on 5 December, 2000 at 11:00 a.m. in the Conference Room, 14th Floor, Hongkong Telecom Tower, TaiKoo Place, 979 King's Road, Quarry Bay, Hong Kong for the purpose of considering and, if thought fit, passing the following resolutions as Special and Ordinary Resolutions of the Company as specified below:—

SPECIAL RESOLUTION

1. **"THAT**, subject to the approval of the Registrar of Companies in Hong Kong, the name of the Company be changed to "Pacific Century CyberWorks Limited 電訊盈科有限公司" with effect from the date of issue of the relevant certificate of incorporation on change of name."

ORDINARY RESOLUTIONS

1. **"THAT** the proposal that in the event of any initial public offering of shares in the capital of iLink.net Holdings Limited (the "IPO Shares"), the shareholders of the Company will not be provided with any assured entitlement to the IPO Shares as provided in Practice Note 15 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited be and is hereby approved AND THAT any and all rights of the shareholders of the Company to such assured entitlement be and are hereby unconditionally and irrevocably waived."
2. **"THAT** subject to and conditional upon the approval by The Stock Exchange of Hong Kong Limited and the shareholders of iLink.net Holdings Limited of the *proposed employees' share option scheme to be adopted and implemented by iLink.net Holdings Limited (the "iLink.net Scheme", the rules of which are contained in the document marked "A" provided to this meeting and for the purpose of identification signed by the Chairman)*, the iLink.net Scheme be and is hereby approved and the Board of Directors of the Company be and is hereby authorized to do all such acts and to enter into all such transactions, arrangements and agreements as may be necessary or expedient in order to give full effect to the iLink.net Scheme."
3. **"THAT** the placing and issue of the U.S. dollar-denominated convertible bonds with an aggregate principal amount of US\$500 million (equivalent to approximately HK\$3,900 million) to be issued by PCCW Capital Limited (formerly Tolworth Finance Limited), a wholly-owned subsidiary of the Company, convertible into shares of the Company to Pacific Century Group Holdings Limited, a company incorporated under the laws of the British Virgin Islands and beneficially wholly owned by Mr Li Tzar Kai, Richard, on the terms and subject to the conditions of the subscription agreement dated 23 October, 2000 and entered into by PCCW Capital Limited, the Company and Pacific Century Group Holdings

NOTICE OF EXTRAORDINARY GENERAL MEETING

Limited (as amended from time to time), relating to the subscription for such convertible bonds, a copy of which has been produced to this meeting marked "B" and signed by the Chairman for the purposes of identification, and all actions of the Company necessary or desirable to give effect thereto including without limitation the issue and allotment of such shares in the capital of the Company as may fall to be issued upon conversion of the convertible bonds, be and is hereby approved and THAT the Directors of the Company be and are hereby authorised to implement all the transactions referred to in this paragraph and do all such acts and things as may be necessary for and on behalf of the Company to give effect thereto."

4. **"THAT**

- (a) Subject to paragraphs (b) and (c) the Directors be and are hereby granted an unconditional general mandate to allot, issue and deal with additional shares in the capital of the Company and to allot, issue or grant securities convertible into such shares, options, warrants or similar rights to subscribe for any shares in the Company or such convertible securities and to make or grant offers, agreements and options in respect thereof;
- (b) such mandate shall not extend beyond the Relevant Period save that the Directors may during the Relevant Period make or grant offers, agreements and options which might require the exercise of such power after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors pursuant to paragraph (a) above, otherwise than pursuant to:
 - (i) a rights issue;
 - (ii) the exercise of rights of subscription or conversion under the terms of any warrants issued by the Company or any securities which are convertible into shares of the Company;
 - (iii) the exercise of the subscription rights under any option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company; or
 - (iv) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the articles of association of the Company;

shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this Resolution;

NOTICE OF EXTRAORDINARY GENERAL MEETING

(d) for the purpose of this Resolution:

“Relevant Period” means the period from the passing of this Resolution up to:

- (i) the conclusion of the next Annual General Meeting of the Company;
- (ii) the expiration of the period within which the next Annual General Meeting of the Company is required by any applicable law or the articles of association of the Company to be held; and
- (iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in general meeting,

whichever is the earliest; and

“rights issue” means an offer of shares open for a period fixed by the Directors to holders of shares on the register on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory outside Hong Kong); and

- (e) the general mandate granted to the Directors to exercise the powers of the Company to allot, issue and otherwise deal with additional shares and other securities of the Company pursuant to the ordinary resolution passed by the shareholders of the Company at the Annual General Meeting held on 22 June, 2000 be and is hereby revoked.”

5. **“THAT:**

- (a) Subject to paragraphs (b) and (c), the Directors be and are hereby granted an unconditional general mandate to repurchase on The Stock Exchange of Hong Kong Limited (“Stock Exchange”), or any other stock exchange on which the securities of the Company are or may be listed and recognised by the Securities and Futures Commission of Hong Kong and the Stock Exchange for this purpose, shares in the Company including any form of depositary receipt representing the right to receive such shares and warrants issued by the Company and that the exercise by the Directors of all powers of the Company to repurchase such securities, subject to and in accordance with all applicable laws and the requirements of the Listing Rules or of any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved;

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (b) the aggregate nominal amount of shares of the Company which may be repurchased by the Company pursuant to the approval in paragraph (a) above during the Relevant Period shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this Resolution;
- (c) the aggregate amount of subscription rights attaching to the warrants which are authorised to be repurchased by the Company pursuant to the approval in paragraph (a) shall not exceed 10% of the aggregate amount of subscription rights attaching to the warrants of the Company outstanding as at the date of passing this resolution;
- (d) for the purpose of this Resolution:

"Relevant Period" means the period from the passing of this Resolution up to:

- (i) the conclusion of the next Annual General Meeting of the Company;
- (ii) the expiration of the period within which the next Annual General Meeting of the Company is required by any applicable law or the articles of association of the Company to be held; and
- (iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in general meeting,

whichever is the earliest; and

- (e) the general mandate granted to the Directors to exercise the powers of the Company to repurchase securities of the Company pursuant to the ordinary resolution passed by the shareholders of the Company at the Annual General Meeting held on 22 June, 2000 be and is hereby revoked."

6. "**THAT** subject to the passing of Ordinary Resolution No. 5 set out in the notice convening the Extraordinary General Meeting at which this Resolution is proposed, the aggregate nominal amount of share capital of the Company that may be allotted or agreed conditionally or unconditionally to be allotted by the Directors pursuant to and in accordance with the mandate granted under Ordinary Resolution No. 4 set out in the notice convening the Extraordinary General Meeting at which this Resolution is proposed be and is hereby increased and extended by the addition of the aggregate nominal amount of the shares in the capital of the Company and the aggregate amount of subscription rights attaching to the warrants of the Company outstanding which may be repurchased by the Company pursuant to and in accordance with the mandate granted under Ordinary Resolution No. 5 set out in the notice convening the Extraordinary General Meeting at which this Resolution is proposed, provided that such amount shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue and 10% of the aggregate amount of subscription rights attaching to the warrants of the Company outstanding at the date of the passing of this Resolution."

NOTICE OF EXTRAORDINARY GENERAL MEETING

7. **“THAT** the grant of the options to subscribe for 63,201,097 shares with a par value of HK\$0.05 each in the share capital of the Company at an exercise price of HK\$2.356 per share to Mr. Avram Miller pursuant to the terms and conditions of a consulting agreement dated 17 August 1999 entered into between the Company and Mr. Avram Miller (the “Consulting Agreement”) and the terms of the Consulting Agreement be and are hereby approved.”

By Order of the Board
Donald J Hess
Company Secretary

Dated this 13 day of November, 2000

NOTES:

1. A member of the Company entitled to attend and vote at the Extraordinary General Meeting is entitled to appoint one or more proxies to attend and vote in his stead in accordance with the articles of association of the Company. A proxy need not be a member of the Company.
2. A form of proxy for use at the Extraordinary General Meeting is enclosed.
3. To be valid, the form of proxy, together with the power of attorney or other authority if any, under which it is signed or a notarially certified copy of that power of attorney or authority must be deposited at the share registrar of the Company, Central Registration Hong Kong Limited, at Rooms 1901-5, 19th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong not less than 48 hours before the time for holding the Extraordinary General Meeting (or any adjourned meeting thereof) and in default the form of proxy shall not be treated as valid. Completion and return of the form of proxy will not preclude members of the Company from attending and voting in person at the meeting (or any adjourned meeting thereof) should they so wish.
4. Where there are joint registered holders of a Share, any one of such persons may vote at the meeting, either personally or by proxy, in respect of such Share as if he were solely entitled thereto, but if more than one of such joint holders shall be present at the meeting personally or by proxy, that one of the holders so present whose name stands first on the register of members of the Company in respect of such Share shall alone be entitled to vote in respect thereof.