



**PCCW**

# **FY2001 Interim Results Review**

**For the period ended June 30, 2001**



## Forward looking statements

**This presentation contains forward-looking statements. These forward-looking statements are not historical facts. Rather, the forward-looking statements are based on the current beliefs, assumptions, expectations, estimates and projections of the Directors and management of Pacific Century CyberWorks Limited (“the Company”) about the industry and markets in which it operates. These statements are not guarantees of future performance and are subject to risks, uncertainties and other factors, some of which are beyond the Company’s control and are difficult to predict. Consequently, actual results could differ materially from those expressed or forecast in the forward-looking statements. Factors that could cause actual results to differ materially from those reflected in the forward-looking statements include: (a) the Company’s financing needs and its expected future expenditures for capital projects; (b) the pace of development of Internet and telecommunications markets in Asia, the growth in demand for services in those markets, and the Company’s ability to successfully develop, and sustain demand for, services that respond to those demands in the face of strong competition; (c) the Company’s ability to generate revenues and profits from its Internet operations; (d) changes in the market price and valuation of the Company’s investments in publicly-traded and non-publicly traded securities and its investments in joint ventures and associated companies; (e) the continuing effects of deregulation of the Hong Kong telecommunications markets and the Company’s ability to deal with those effects; (f) changes in the political, social, economic and regulatory environment in the countries in which the Company operates or intends to operate; and (g) the Risk Factors set out in the “Risk Factors” section of the Company’s 2000 Annual Report on Form 20-F, as filed with the U.S. Securities and Exchange Commission on July 2, 2001 and published on the Company’s website.**



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## **Chairman's Overview**



## **PCCW's Interim Earnings**

- **Revenue up 12% to US\$1.45 billion**
- **EBITDA up 15% to US\$501 million**
- **Net profit of US\$120 million**
- **Our high growth new businesses like Business eSolutions, consumer broadband and IDC growing, are building critical mass -- key to new telecom sales**
  - **Result: driving our overall group's growth**
- **Potential EBITDA improvement based on cap to Internet Services to cumulative US\$100 million over next two years (2001 kept to US\$190 million)**
- **Capex, opex efficiency reviewed, EBITDA margin improved slightly, more work needed**



# Business Unit Summary

US\$ million	1H00 Proforma		1H01 Proforma		Y-O-Y Change	
	Revenue	EBITDA	Revenue	EBITDA	Revenue	EBITDA
<b>TSS</b>	<b>1,245</b>	<b>598</b>	<b>1,280</b>	<b>651</b>	<b>3%</b>	<b>9%</b>
<b>Business eSolutions</b>	<b>68</b>	<b>(7)</b>	<b>118</b>	<b>12</b>	<b>73%</b>	<b>n/a</b>
<b>IDC</b>	<b>4</b>	<b>-</b>	<b>8</b>	<b>(5)</b>	<b>88%</b>	<b>n/a</b>
<b>Internet Services</b>	<b>65</b>	<b>(110)</b>	<b>83</b>	<b>(98)</b>	<b>27%</b>	<b>n/a</b>
<b>Infrastructure</b>	<b>16</b>	<b>(2)</b>	<b>92</b>	<b>40</b>	<b>495%</b>	<b>n/a</b>
<b>Others, Eliminations</b>	<b>(100)</b>	<b>(43)</b>	<b>(131)</b>	<b>(99)</b>	<b>31%</b>	<b>n/a</b>
<b>Total</b>	<b>1,298</b>	<b>436</b>	<b>1,450</b>	<b>501</b>	<b>12%</b>	<b>15%</b>
<b>Depreciation</b>		<b>139</b>		<b>168</b>	<b>21%</b>	
<b>Operating Profit</b>		<b>296</b>		<b>336</b>	<b>14%</b>	



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## **Review of Financials**



## Key Financial Highlights

- **Strong growth driven by data, broadband services**
- **Improving our revenue mix**
  - Data and Internet growth more than offsets consumer IDD revenue decline
  - Broadband network customers up 60% to 305,000
- **Initial cost savings achieved in core telco business**
  - Staff cost lowered 3.2%
  - Lower outpayments on international services
- **Focused to optimize capital expenditure program**
- **Medium/Long term financing achieved**
- **Investment grade credit rating on telco achieved**
  - S&P BBB
  - Moody's Baa1
- **Reach, CSL -- no gain/loss arising upon completion of JVs; investment in JVs consistent with values mostly recently attributed to JVs with Telstra**



# Financial Highlights

	June30, 2000	June 30, 2001
US\$ million except for Earnings per share (HK cents)		
<b>Turnover</b>	<u>13</u>	<u>1,450</u>
<b>Operating profit/(loss) before net gain on investments</b>	<u>(34)</u>	<u>336</u>
<b>Gains on investments, net</b>	<u>28</u>	<u>32</u>
<b>Profit/(loss) from operations</b>	(6)	368
<b>Finance (costs) / income, net</b>	10	(227)
<b>Share of results of jointly controlled companies</b>	(2)	37
<b>Share of results of associates</b>	(6)	12
<b>Share of results of unconsolidated subsidiaries</b>	-	19
<b>Profit / (Loss) before taxation</b>	<u>(4)</u>	<u>209</u>
<b>Taxation</b>	<u>(1)</u>	<u>(96)</u>
<b>Profit / (Loss) after taxation</b>	<u>(5)</u>	<u>113</u>
<b>Minority interests</b>	<u>1</u>	<u>7</u>
<b>Profit / (Loss) for the period attributable to shareholders</b>	<u>(4)</u>	<u>120</u>
<b>Earnings / (Loss) per share (HK cents)</b>		
- basic	(0.34)	4.22
- diluted	N/A	4.05
<b>EBITDA</b>	<u>(31)</u>	<u>501</u>



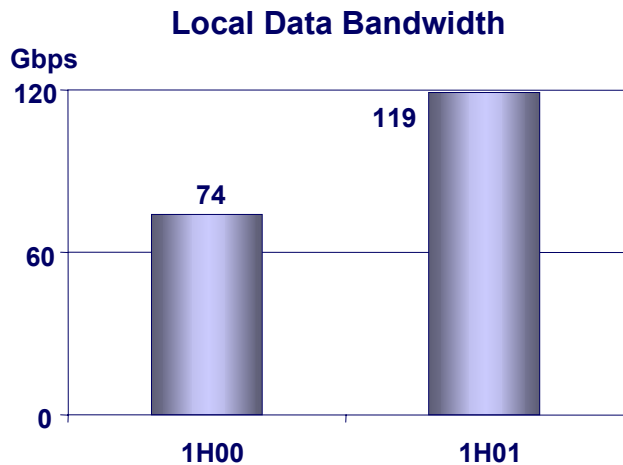
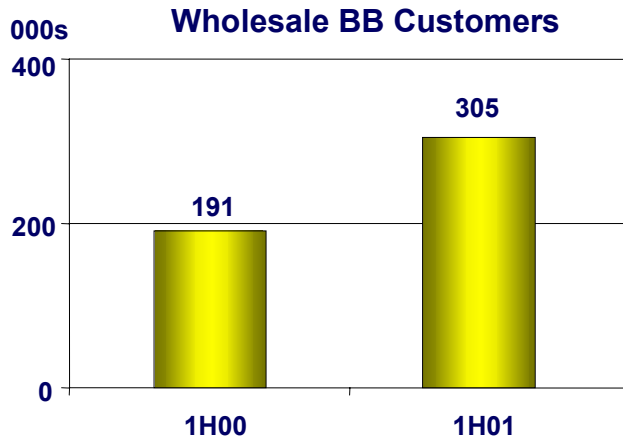


# Business Unit Summary

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# Data Driving Revenue Growth



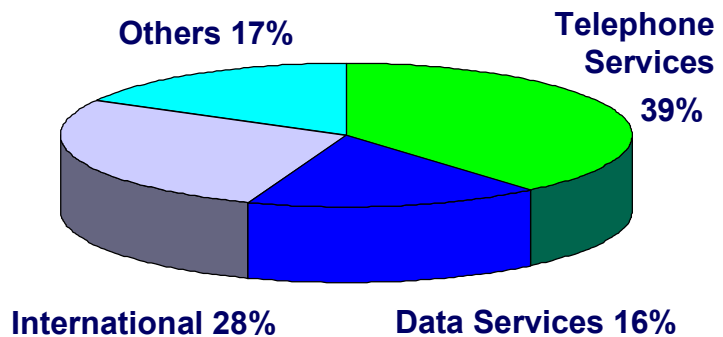
- **TSS**
  - Data revenue increased 17%
    - Rising broadband penetration
    - Increasing connectivity requirements of corporates, service providers
  - Local telephone services rose 5%
    - Tariff increase in January 2001
- **Business eSolutions**
  - 75% growth in broadband access revenue for SMEs
  - Core systems integration revenue increased 43%
- **Internet Services**
  - Access revenue rose 69% driven by Broadband
- **Infrastructure**
  - One-time sale of ~ 8,000 sq. m of non-core property assets nets \$27 million



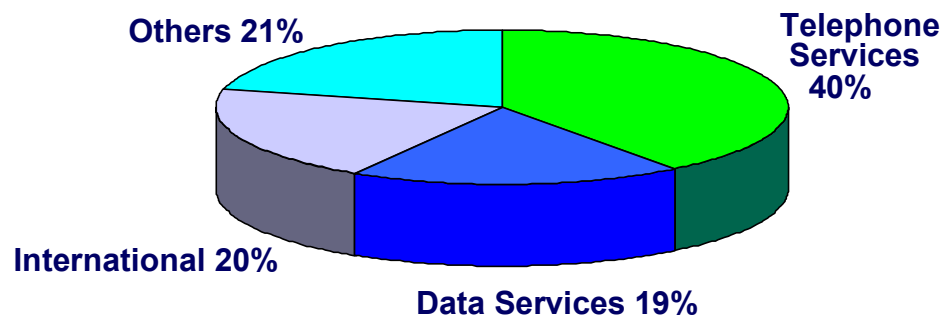
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# TSS Revenue Mix

**1H00**



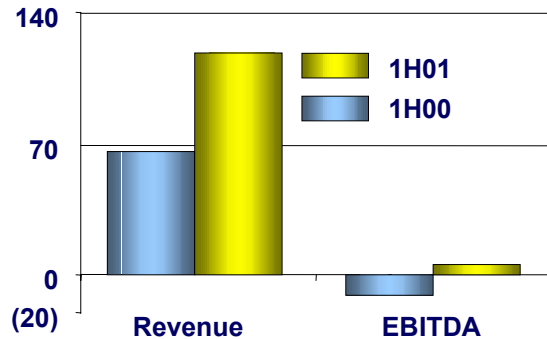
**1H01**





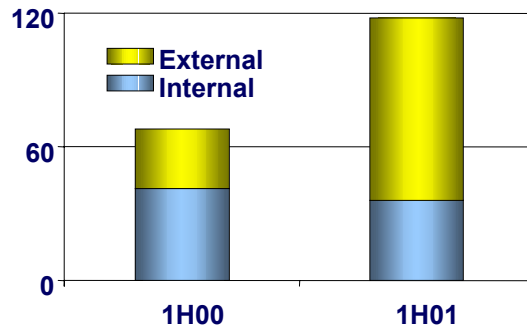
# Business eSolutions

US\$ million



US\$ million

Revenue Mix



- **External contracts driving growth**

- Housing Authority (HR system); Airport Authority (flight data display system); ISP network platform for So-Net
- eMPF system for major financial institution; Infrastructure and IP solutions for HK Clearing; System integration and design for CCASS

- **23,400 BBI customers**

- Focused on high end of market

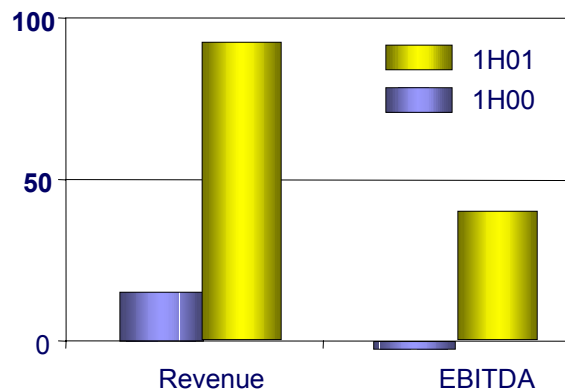
- **China focus**

- Operating license to provide turnkey eCommerce, Network solutions
- New office in Guangzhou Economic and Technological Development District
- Sector focus on telecom, finance, hi-tech manufacturing, travel, government
- Strategic alliances with Digital China to jointly develop SI market in telco industry

# Others

## Infrastructure

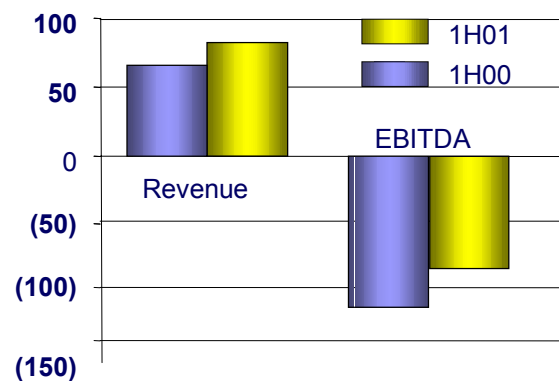
US\$ million



US\$ millions	1H00	1H01
Revenue	16	92
EBITDA	(2)	40

## B2C (Internet Services)

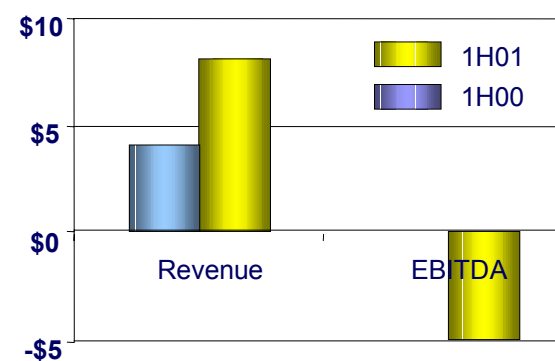
US\$ million



US\$ millions	1H00	1H01
Revenue	65	83
EBITDA	(110)	(98)

## IDC

US\$ million



US\$ millions	1H00	1H01
Revenue	4	8
EBITDA	-	(5)



## Early Efficiency Gains

### TSS

- Revenue per employee in TSS rose 6% year on year
- Staff cost reduced by 3.2%
- Reduced international services outpayments by 45% while revenues declined by 25%

### Development costs

- Growth businesses incurring start-up costs
  - Business eSolutions EBITDA positive since 2Q01
  - Internet Services EBITDA capped at US\$190 m for FY01
    - Cumulative EBITDA capped at US\$100 m over FY02-03
- Focused to optimize capital expenditure program

### Increasing focus on achieving greater efficiencies

- More to come



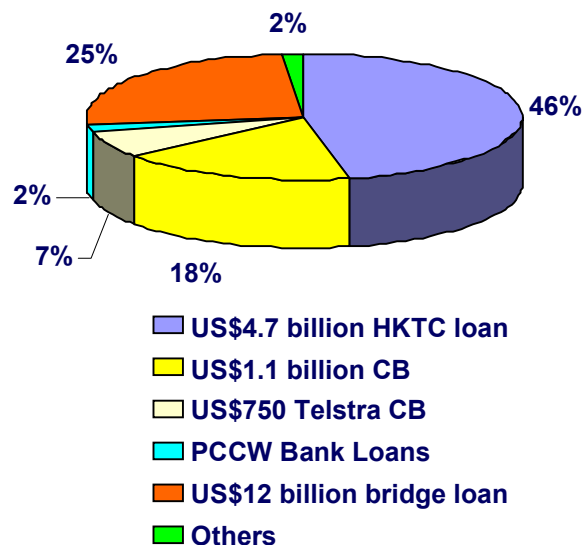
# Management of Asset Portfolio

US\$ million	1H00	1H01
Gains from Investments	28	32

- **Emphasis on leveraging portfolio of assets to enhance overall performance**
- **One-off dividend income from CSL -- US\$16 million**
- **IPO of portfolio companies**
- **Mark to market value on listed assets**
  - **Conservative approach to un-listed assets**

# Financing

Financing Charges



## Long term debt secured

- **Benefited from low interest rate environment**
- **Investment grade credit rating achieved for PCCW (HKTC)**
  - S&P BBB; Moody's Baa1
  - Policy is to extend maturity and reduce overall financing charges
- **Total interest charge in 1H01 was US\$238 million**
  - One-off US\$60 million driven by one-month interest payment on bridge loan
- **CyberPort financing -- US\$300 million, seeking project financing**





# Reach, RWC (CSL) Financials

## Contribution from PCCW-Telstra JVs to P&L

US\$ million

Share of jointly controlled companies

37

Reach (5 months)

EBITDA 97

PBT 52

Share of results of Associates

12

CSL(5 months)

PBT 14

Share of results of unconsolidated subsidiaries

19

One-Off PBT

Reach (IPBC) 19

Mobile 40%

## HKSA Rule Changes

- HK Society of Accountants introduced new SSAP rules this year for “Impairment of Assets”
- Transition period of first adoption of new SSAP rules permits prior-year adjustment
- Treatment of Goodwill on HKT acquisition
  - No net effect on FY2000 shareholders’ deficit
- Treatment of unavoidable costs

**No impact from rule changes on cash flow or operations**



# Impact of PYA - Goodwill

## December 31, 2000 Balance Sheet and P&L

US\$ million	Before	PYA	After
<b>Assets and Liabilities</b>			
Total Assets	8,887		8,887
Total Liabilities	(10,699)		(10,699)
<b>Net Assets/(Liabilities)</b>	<b>(1,812)</b>		<b>(1,812)</b>
<b>Representing:</b>			
Share capital	140		140
Reserves/(Deficit):			
Opening Balance	1,397		1,397
2000 Profit and Loss	(886)	(15,691)	(16,577)
Share issuance and others	19,567		19,567
GW charge - Impaired in 00	(15,691)	15,691	-
Remaining	(6,432)		(6,432)
Closing Balance	(2,045)		(2,045)
Minority interests	93		93
<b>Shareholders' equity/(deficit)</b>	<b>(1,812)</b>		<b>(1,812)</b>



## Provision for Unavoidable Costs

- SSAP 28 issued in Jan. 2001 -- Relevant section -- Provisions
- Adoption of SSAP 28 requires us to recognize the contingent loss which will become realized on assured exercise of certain options
- Conservative approach to provision for potential loss at US\$415 million
- Full amount adjusted to balance of accumulated deficit for Jan. 1, 2001 as per transitional provisions of SSAP 28

**No impact from rule changes on cash flow or operations**



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**For the period ended June 30, 2001**