



**UNAUDITED PRO FORMA FINANCIAL DATA  
AND OPERATING PERFORMANCE**

In order to allow a meaningful assessment of the PCCW Group's underlying financial performance and operating trends, the following unaudited pro forma financial data for the year ended December 31, 2000 has been prepared as if the acquisition of HKT by the Company had occurred on January 1, 1999. The PCCW Group's unaudited pro forma financial data were prepared based on the historical combined results of the Company and the HKT Group excluding the HKT Group's wholesale IP Backbone business and wireless communications business for the years ended December 31, 2000 and 1999 under Generally Accepted Accounting Principles in Hong Kong.

This presentation of business units' performance serves as a means for day-to-day managerial and budgetary control purposes. Transactions between different business units are recorded at arms' length and in accordance with applicable regulatory requirements. The Company does not represent that this unaudited pro forma financial data reflect what the results of the Company would actually have been or would be if the merger between the Company and HKT had, in fact, occurred on January 1, 1999.

• **PCCW Group's unaudited pro forma financial data (before Global Communications Services)**

Year ended December 31	<u>2000</u>	<u>1999</u>	<u>Increase/ (Decrease)</u>	<u>2000</u>	<u>1999</u>
	<i>HK\$ million</i>			<i>US\$ million</i>	
<b>Revenues:</b>					
Telecommunications Services	<b>20,225</b>	21,668	(7%)	2,593	2,778
Business eSolutions	<b>1,201</b>	959	25%	154	123
Internet Data Centers	<b>121</b>	55	120%	16	7
Business-to-Consumer Services	<b>1,115</b>	835	34%	143	107
Infrastructure Services	<b>725</b>	390	86%	93	50
Others & Eliminations	<b>(2,701)</b>	(3,502)	23%	(347)	(449)
<b>Unaudited Pro forma Revenues</b>	<b><u>20,686</u></b>	<u>20,405</u>	<b><u>1%</u></b>	<u>2,652</u>	<u>2,616</u>
<b>Unaudited Pro Forma EBITDA</b> (Note I)	<b>6,162</b>	(Note II)	(Note II)	790	(Note II)

**Notes:**

I. *Earnings before interest, taxation, depreciation, amortisation, gains/losses on investments, provisions for impairment losses and results from associates, joint ventures and unconsolidated subsidiaries.*

II. *There are no comparable EBITDA figures for 1999. Due to changes in the Company's business structure it is not possible to reconstruct meaningful EBITDA figures for 1999.*

▪ **Unaudited Pro forma Financial Data for Global Communications Services (for illustrative purposes only)**

The following unaudited pro forma financial data relates to the businesses to be injected by the PCCW Group into the joint ventures established under the Telstra Alliance.

	Year ended 31 December 2000	
	<i>HK\$ million</i>	<i>US\$ million</i>
PCCW Group's IP Backbone business:		
Unaudited pro forma revenues (100 percent)	7,340	941
Unaudited pro forma EBITDA (100 percent)	2,785	357
PCCW Group's Hong Kong wireless communications business:		
Unaudited pro forma revenues (100 percent)	5,171	663
Unaudited pro forma EBITDA (100 percent)	1,186	152

• **Telecommunications Services**

Unaudited pro forma telecommunications services revenues were HK\$20,225 million for the year ended December 31, 2000, down 7 percent year-on-year. Operating margins were maintained through achieving substantial reductions in the costs of services, particularly for international services.

The mix of telecommunication services revenues is changing, particularly as data services grow and become a greater portion of the portfolio. For example, the proportion of total telecommunications revenues from retail international voice (IDD) services fell from 17 percent in December 1999 to 13 percent in December 2000, while revenues from local exchange lines, interconnection, data services and equipment sales increased from 83 percent to 86 percent for the respective periods.

The Company stabilized its retail market share of the major IDD routes during the year. IDD revenues fell 34 percent as average prices declined 42 percent in the period. It is expected that competition in this market will continue to be intense although the recent granting by the industry regulator in Hong Kong of non-dominant status for mainland China routes should enhance the Company's competitive position in the mainland China market.

Unaudited pro forma local telephone services revenues increased 8 percent year-on-year to HK\$7,561 million. This reflected a full year impact of the residential exchange line tariff increase from HK\$68.90 to HK\$90.00 per month implemented in September 1999 in line with the 1998 Framework Agreement with the Hong Kong SAR Government. The Framework Agreement provided for the early termination of the HKT Group's exclusive international licence as at March 31, 1998 and the introduction of competition in international services commencing from January 1, 1999 in return for a package of compensation measures, including the right to increase local exchange line tariffs in agreed phases. In January 2001, the Company implemented a further increase to the residential exchange line tariff from HK\$90 to HK\$110 per month in accordance with the Framework Agreement and increased the business exchange line tariff from HK\$108.80 to HK\$128.80. The effect of these increases will be reflected in the Company's financial results for the year ending December 31, 2001. The total number of narrowband exchange lines in service remained stable year-on-year at approximately 3.7 million, with an increase in business lines offsetting a marginal decline in the number of residential lines.

**As a result of the foregoing, the Company has made substantial progress in rebalancing its revenues from IDD services to local telecommunications services, as envisaged in the Framework Agreement.**

The Company has also built a strong position in providing wholesale fixed network interconnection services to other local carriers and service providers for voice and bandwidth services. The Board believes that the Company's leading position in both the local retail and wholesale telecommunications markets is underpinned by the significant investments made in advanced broadband network technology, its strong operational expertise, a broad range of products and services, and an established reputation for delivering high quality of service. Network availability was maintained at 99.999 percent for the year.

Unaudited pro forma local data services revenues of HK\$3,377 million were driven by a 196 percent increase in broadband access lines in service to 282,000 at December 31, 2000. Revenues from the provision of broadband lines for interactive television services declined due to lower tariffs and a decline in the number of iTV customers in the year. The Company met strong demand for other local data and network solutions with local bandwidth sold increasing 27 percent year-on-year to 86 Gigabits per second ("Gbps").

International facilities-based competition was introduced from January 2000 and prices for international private leased circuits fell significantly during the year. However, the Company has met strong growth in demand for international bandwidth, with a total of 1.4 Gbps of international circuit capacity leased as at December 31, 2000, up 63 percent year-on-year.

The Company has continued to provide integrated solutions of network equipment and connectivity products to enterprise customers. Overall unaudited pro forma equipment sales for the year were HK\$2,624 million.

- **Business eSolutions**

Unaudited pro forma revenues from Business eSolutions increased 25 percent year-on-year to HK\$1,201 million, driven by contracts for major system integration solutions and strong growth in the provision of premium broadband access lines to enterprise customers. This business unit provides services to other companies in the PCCW Group but over the year has increasingly focused on developing and expanding its services to third party customers in Hong Kong, Greater China and other markets in the Asia region. By December 2000, revenues from external sources exceeded 51 percent of total Business eSolutions revenues. Significant contracts were completed during the period for leading Hong Kong institutions, predominantly in the financial and banking sectors, as well as for public sector clients. This business unit also supports the Group's internal information systems requirements.

The Company made important steps in expanding Business eSolutions to China during the year. The Company established an e-commerce software development center in Shenzhen, secured new systems integration business with Ping An Insurance Company (mainland China's largest non-state owned insurance company), and has expanded its Hong Kong Yellow Pages directory business through the acquisition of 37.65 percent of China BiG (mainland China's largest telecom directory business) in November 2000.

Unaudited pro forma revenues from business broadband Internet access services increased 190% to HK\$219 million with customers for the Company's high speed "@work" and "Always On" services expanding from 1,400 as at December 31, 1999 to 19,400 at December 31, 2000. The number of customers using leased line access services increased to 3,900.

- **Internet Data Centers**

Unaudited pro forma Internet data center revenues increased 120 percent year-on-year to HK\$121 million following the launch of premium services under the Powerb@se brand in June 2000.

Unaudited pro forma revenues from new Internet data center services and projects were HK\$51 million. This business has already established a base of more than 200 customers including major corporate and public sector institutions requiring mission critical solutions. A state-of-the-art, purpose built 40,000 square foot data center in Quarry Bay, Hong Kong was expanded to 80,000 square feet by November 2000 to meet growing demand from customers.

Responding to rapid growth in Internet use in China, the Company established a joint venture in which the Company has a 42.5 percent interest with Beijing Centergate Technologies, and opened a 15,000 square foot data center in Beijing in November 2000. The Company also has a 45 percent interest in a facilities management joint venture in Shanghai with Shanghai P&T Development General Corporation.

Unaudited pro forma revenues from the provision of facilities management services, predominantly relating to the operation of data network equipment for communications services providers operating in Hong Kong, increased 27 percent year-on-year to HK\$70 million.

- **Business-to-Consumer Services**

Unaudited pro forma Business-to-Consumer revenues increased 34 percent year-on-year to HK\$1,115 million driven by accelerating take-up in broadband Internet access services in Hong Kong.

The Company operates the leading Internet access service in Hong Kong. Broadband Internet take-up was very strong during 2000 with year-on-year customer growth of 506% to 194,000 for the Company's 1.5 Mbps Ultraline service, representing more than 70 percent of the retail broadband market in Hong Kong. The Company's total Hong Kong Internet access customer base grew 29 percent year-on-year to 626,000 at December 31, 2000, including a total of 432,000 narrowband customers. Aggregate registered users for Netvigator Internet portals increased 63 percent to 824,000. The Company had 67,000 Interactive television (iTV) customers at the year end.

The Company soft launched its Network of the World ("NOW") Internet content services for trial purposes in June 2000. During the trial period the English language service has received more than 5 million page views per month with an average visitor session length of 20 minutes.

In September 2000, the Company's 49 percent-owned joint venture, Data Access (India) Limited, launched NOW bundled Internet access and content services in Delhi and Mumbai and had gained 30,000 customers by December 31, 2000. NOW Internet access services were subsequently launched in Chennai in March 2001.

- **Infrastructure Services**

Unaudited pro forma revenues from Infrastructure Services were HK\$725 million for the year ended December 31, 2000. Revenues from external property projects and rental from investment properties leased to third parties represented approximately 72 percent of Infrastructure Services revenues for the year ended December 31, 2000, compared with 70 percent in the previous year. This includes revenues from space leased at Pacific Century Place in Beijing and the Company's headquarters building at Hongkong Telecom Tower in Hong Kong. The balance of revenues represented management fees and property charges to other PCCW Group businesses, including management fees related to the Cyberport project.

Foundation works for the Cyberport commenced in June 2000. The first phases of the Cyberport, which consists of building about 35,000 square meters for office and commercial uses, is targeted for completion by early 2002.

- **Global Communications Services**

The HKT Group's IP Backbone business generated unaudited pro forma revenues of HK\$7,340 million. Overall international gateway voice traffic increased 3 percent. Data growth accelerated year-on-year with international leased circuit bandwidth up 142 percent to 4.2 Gbps and Internet bandwidth up 209 percent to 0.9 Gbps.

The HKT Group's Hong Kong wireless communications business generated unaudited pro forma revenues of HK\$5,171 million. Average revenues per customer increased more than 3 percent to HK\$454 per month for the year to December 31, 2000 and customer churn was contained at a monthly average of 3.4 percent for the year, well below the market average. The current customer base is in excess of 1 million.