

## PCCW Internet Services FAQ

### Q1. Describe the fundamental approach of your Internet Services strategy?

- Our Internet Services strategy supports our core telecommunications **business strategy** to maintain margins and grow group EBITDA. Our Internet Services strategy is designed to provide value added services for broadband, which is a key source of growth in the telecom business.
- We are pursuing this important growth opportunity with financial discipline, decisiveness and prudence with the aim to create shareholder value immediately.
- Content is key to differentiating Broadband services
- We will leverage existing assets.
- All of our Internet activities to be cash flow positive at year end 2003.
- The strategy lowers fixed costs.

### Q2. You have called this your Internet Services strategy. Why don't you call this B2C anymore?

- The commonly used term B2C is vague, overused and no longer accurately describes our Internet-based services.
- Hence, we feel the term "Internet Services" more accurately describes our business.

### Q3. If your Internet Services is a small contributor to your overall performance, why are you making a formal announcement on this strategy?

- An important component of our core operations is our high-margin broadband services. This is a **key growth driver for us in Hong Kong**.
- Customer demand for broadband services is real and growing rapidly in Hong Kong. In the year 2000 for example we saw a 500% year on year customer growth in our Ultraline service. Our Internet Services is a **differentiator** to strengthen and ensure the continued growth of our broadband connectivity business.

### Q4. What is the projected percentage of Internet Services as a part of the overall company within 2 years? Within 5 years?

- The Internet Services will complement our core telecom business. It is premature to project out at this time. However, we will be EBITDA positive by year end 2003.
- The projected percentage of our Internet Services is relatively small today (today, 4 percent of our revenue, but growing), but it will have a far greater and more positive impact on our overall business revenue mix. It will help us to maintain and strengthen the relationship with our customers.
- For example, our Internet Services will drive the growth of our access line services -- which is the heart of our business today.

**Q5. Is this a convergence strategy?**

- It is a strategy based on service integration from a telecommunications provider. Telecommunications companies can deliver content via the PC and TV, thus we have addressed both.
- We have a digital network that allows high quality streaming content to be delivered to both the PC and TV, in order to meet different customers' requirements. Some customers want to do more on their computers. Others want more from their TV.

**Q6. Is the planned investment of US\$200m EBITDA in 2001 for all your broadband services investment in NOW (ESD), iTV, now.com.hk, and Netvigator IMS?**

- First, the reductions that come out of this plan will allow us to cut investment to an expected US\$190 million EBITDA this year – that is below the US\$200 million that we had promised earlier.
- We will cap our investments in narrowband activities within the SAR and activities outside of Hong Kong at US\$100 million EBITDA for the 24-month period in 2002 AND 2003 – that amounts to less than 10 percent of our historical Group Annual EBITDA level.

**Q7. Can you explain more clearly where your revenue streams are coming from?**

- Revenue will initially come from subscriptions to both now.com.hk and iTV. Both services will attract pay-per-view revenue. Outside of Hong Kong our TV content will generate traditional TV advertising revenue, and to the degree possible, we will seek incremental revenue for web advertising. In India we will generate revenue from access with packaged content. We will look to add other value-added services over time, such as video messaging in Hong Kong.

**Q8. What is your expected additional average broadband access usage time per subscriber?**

- A recent study by the consultancy group McKinsey shows that on average the time spent increases from 16 hours per week to 21 hours per week when a narrowband customer upgrades to broadband.
- A vast percentage of this increase comes from viewing more entertainment and information channels, which were found to triple when a customer upgrades from narrowband to broadband.

**Q9. What will be the installation costs per subscriber to PCCW for broadband installation? How much if anything will subscribers pay for installation?**

- Actual installation cost per subscriber varies considerably depending for example on the location of the subscriber among many other factors.
- As we begin to market service with content, we will offer packages in those promotions, as industry standards suggest that waiving installation cost or providing rebates and discounts to customers in return for the contract commitment period is an economically positive approach.
- For example, we are offering for the first time in Hong Kong discounts on computers carrying INTEL's P4 high performance microprocessors and internal broadband modems where the customer commits to 18 months broadband access services.

**Q10. You have announced that 340 PCCW employees will be made redundant on August 20. Which department and job functions are affected?**

- Our employees in the Internet Services business are affected.
- The functions are as follows: general management, technology management, content production, application development, hosting operations, finance, legal, development, human resources and access marketing.

**Q11. Have you already informed all affected staff who are going to be made redundant? When will most of them officially leave the company?**

- Yes, we have informed them. The official last date of employment for these employees is 20 August 2001.

**Q12. Will NETVIGATOR email be cancelled as a result of this restructure?**

- Notwithstanding the internal reorganization, PCCW will continue to provide NETVIGATOR customers with a seamless email and Internet access service.

**Q13. Why does PCCW think that PCTV is a viable concept when it has proven unsuccessful in other markets? Do people really want to watch movies on their PC?**

- There is considerable evidence that consumers want an increasing amount of choice in how they get their video content, how they watch content and how they pay for the opportunity to do so.
- We are also actively looking at the types of content we will provide – it will include movies but also other items such as short films and trailers.

**Q14. Is now.com.hk a portal?**

- Now.com.hk is simply an entertainment channel over the PC. It is not -- by popular definition -- a portal.

**Q15. Is this strategy based on a content-driven approach?**

- Our Internet Services strategy is based on the delivery of value-added services to existing broadband customers. We know from our success and experience in the mobile market that consumers will pay for value-added services beyond a basic package. In addition to streaming video content, we are looking at future applications such as video messaging.
- We have pursued an approach that **integrates Internet-based services with our core telecommunications products.**
- Only with an integrated approach, combining content with connectivity and applications can we maintain margins and provide service packages that cater to the needs of the customer.

**Q16. Why is PCCW deploying a satellite TV channel in China?**

- China is at an early adopter stage when it comes to the Internet. It is a unique market and offers ample business opportunities. It is a good launching pad for other services.
- And at this stage of development the easiest way to build a customer relationship with a large addressable customer base is through satellite TV.

**Q17. What types of Internet Services activities are being undertaken in India?**

- India is a template of the approach that we will be using to scale our Internet offerings based on geographic market dynamics.
- India in the near term will predominantly be a narrowband play.
- With our partner, PCCW is providing narrowband Internet services with local content via the narrowband portal (now.india.com).
- Today, we have more than 120,000 subscribers.

**Q18. Why are you keeping the NOW brand?**

- The NOW brand is a powerful word relevant to our services.
- NOW has been positioned as a pioneering brand and there are countless examples of such brands that moved through the early, often rocky, adoption phase and later generated huge brand equity – AOL is an excellent example. Apple is another successful pioneering brand.
- We will continue to build NOW brand equity as a principal element of our content and access strategy across all our geographies.

**Q19. Can you provide us some external research to show what consumers actually want and are prepared to pay for?**

- The market, for interactive TV is coming into its own. According to one study by the research company, Yankee Group, there will be more than 45 million ITV users in the United States by 2005. The research firm also believes that movies-on-demand over the PC will incur revenues of US\$1.98 billion by 2005.
- Meanwhile, another research firm, Jupiter Media Metrix forecast that the online market for archived content, which includes films and classic TV shows, will be worth over US\$2.2 billion in 2001. Established content providers including Sony Pictures believe that PCs are destined to play an increasingly large role in the distribution of movies to consumers.

**Q20. How are you planning to provide richer streaming media content? How will you address this problem?**

- By providing an Intranet based service over our proprietary ADSL network, whereby people will have direct broadband access to content over our network. As it is our own network, we can guarantee quality of service.
- This product offering, whilst utilizing Internet protocol, is not part of the public Internet, which traditionally suffers bottlenecks when many people attempt to access it simultaneously.

**Q21. Does your ADSL network reach all of Hong Kong and if not, how will you be able to grow market share/subscriber numbers sufficiently?**

- Our broadband network currently covers 95% of Hong Kong and 100% of the business districts. We use two types of technology, fiber optics and ADSL. In the main districts we can provide a broadband line to a home within seven business days. We currently have approximately 82% share of broadband access lines.
- We are confident that our geographic coverage will be sufficient to serve all our customers satisfactorily.
- One major advantage of the ADSL technology is a dedicated connection that won't degrade as more users in a particular area sign on (relative to the impact of increasing users with cable technology).

**Q22. Can you explain more about the intranet-based streaming, the benefits to consumers and why this is something PCCW can provide while other broadband providers cannot?**

- Intranet-based streaming is a platform that runs exclusively over our proprietary ADSL network infrastructure.
- We have full control of traffic and server load balancing.
- We, therefore, are able to provide a high level of service with high speed and high resolution content to our customers.
- Currently other broadband Internet service providers cannot provide this level of quality, as they are dependent on their service being carried by public networks.

End.