INTERIM RESULTS

For the six months ended June 30, 2001

HIGHLIGHTS OF INTERIM RESULTS

Overview

The consolidated turnover of Pacific Century CyberWorks Limited (the "Company" or "PCCW") and its subsidiaries (collectively with PCCW, the "Group") for the six months ended June 30, 2001 was HK$11,312 million and profit attributable to shareholders was HK$935 million, compared to turnover of HK$104 million and a loss attributable to shareholders of HK$35 million, respectively, for the six months ended June 30, 2000. The substantial year-on-year increases in turnover and profitability in this interim period reflect the substantial change in the Group's business following its acquisition of PCCW-HKT Limited (formerly called Cable & Wireless HKT Limited) ("HKT") on August 17, 2000.

The management has focused on establishing a solid operational and financial platform for future growth and restructured the Group's operations into the following major lines of business: Telecommunications (including Business eSolutions and Internet Data Centers), Internet Services, Infrastructure and Others (including PCCW Japan and CyberWorks Ventures). Key to the new structure was the completion in February 2001 of the formation of a strategic alliance with Telstra Corporation Limited (the "Telstra Alliance"), creating a scalable platform for the Company's international and mobile assets. During the period under review the Group has also successfully completed refinancing arrangements to replace the balance of the outstanding bridge loan drawn in August 2000 to finance the cash consideration for the acquisition of HKT.

The Group's restructured business was underpinned by strong cash flow generation and a solid EBITDA margin of approximately 35 percent for the six months ended June 30, 2001. The major contributor of revenue and EBITDA was the core telecommunications business. At the same time Business eSolutions and Internet Data Center revenues have grown steadily, enhancing the Group's proportion of revenues coming from value added services, and management have contained investment in Internet Services. In addition to its telecommunications and Internet services lines of business, the Group continues to be involved in selected property developments in Hong Kong and mainland China which have now been fully integrated with the property portfolio acquired upon the acquisition of HKT.

Mergers and Acquisitions

In February 2001 the Group completed the formation of the Telstra Alliance. The performance of the principal ventures under the Telstra Alliance is described below.

In March 2001 the Group completed the acquisition of 100 percent of Telecommunications Technology Investments Limited (formerly called Hutchison Telecommunications Technology Investments Limited) ("TTIL") together with a shareholders' loan of approximately HK$546 million for an aggregate consideration of approximately HK$803 million. The consideration was satisfied by the issue of 183,634,285 ordinary shares of the Company at a price of HK$4.375 per share. Also in March 2001, the Group acquired the remaining 49 percent interest in Telecom Directories Limited that it did not already own for a cash consideration of approximately HK$311 million. In April 2001, the Company's publicly listed Japanese subsidiary, PCCW Japan, acquired the VR-1 Entertainment division from Circadence Corporation in an all-stock transaction valued at approximately HK$296 million.

During the period under review, the 40 percent minority shareholder of PCC Holdings Ltd. ("PCCH"), a subsidiary of the Company, converted part of its interest in PCCH into ordinary shares of the Company in accordance with an option granted in September 1999. The Company issued a total of 486,390,000 ordinary shares to the minority shareholder, of which 77,800,000 ordinary shares were issued subsequent to the period end.

Net Gains on Investments

Net gains on investments for the period under review of HK$247 million include: (a) net unrealized losses on investments of HK$149 million (2000: net gain of HK$122 million); (b) net realized gains from disposal of investments in subsidiaries, jointly controlled companies and associates and other investments of HK$334 million (2000: net gain of HK$88 million); (c) provision for other than temporary decline in value of investment securities of HK$173 million (2000: nil); and (d) one-off dividend income of HK$125 million, representing 60 percent share of profit of the Group's wireless communications business before February 1, 2001, when the Telstra ventures were formed.

Net Finance Costs

Net finance costs for the six months ended June 30, 2001 of HK$1,769 million (2000: net finance income of HK$82 million) include interest expenses on the outstanding portion of a bridge loan drawn to fund the acquisition of HKT in August 2000. This facility had been repaid in full and refinanced by February 2001. The balance also includes interest expenses on the US$4,700 million syndicated loan and on a total of US$1,850 million convertible bonds. Financing costs related to the US$4,700 million syndicated loan are amortized over the loan term (see also "Liquidity and Capital Resources" below). The Group has benefited from the low interest rate environment during the period.

Share of Results of Jointly Controlled Companies

Share of results of jointly controlled companies for the period under review of HK$290 million comprises the Group's 50 percent share of profit from Reach, the Internet Protocol Backbone venture with Telstra, for the 5-month period from February 1, 2001 to June 30, 2001 of HK$402 million, net of the Group's share of losses of other jointly controlled companies for the six months ended June 30, 2001.

Share of Results of Associates

Share of results of associates for the period under review of HK$91 million comprises the Group's 40 percent share of profit from Regional Wireless Company, the mobile venture with Telstra, for the 5-month period from February 1, 2001 to June 30, 2001 of HK$134 million, net of the Group's share of losses of other associates for the six months ended June 30, 2001.

Share of Results of Unconsolidated Subsidiaries

Share of results of unconsolidated subsidiaries for the period under review of HK$152 million includes the Group's 40 percent share of profit from the CSL wireless communications business of HK$28 million and our 100 percent share of profit from the Group's Internet Protocol Backbone business for the month of January 2001 of HK$124 million, prior to the formation of the Telstra ventures.

INTERIM DIVIDEND

The directors do not recommend the payment of an interim dividend for the six months ended June 30, 2001 (2000: Nil).

OPERATIONS

The consolidated turnover of the Group for the six months ended June 30, 2001 was HK$11,312 million, compared to HK$104 million for the six months ended June 30, 2000.

Telecommunications turnover of HK$10,969 million (2000: HK$68 million) for the six months ended June 30, 2001 comprises revenues from the Company's core telecommunications services, Business eSolutions and Internet Data Center services units. This was the Group's most profitable business unit with EBITDA of HK$5,136 million for the six months ended June 30, 2001.

Core telecommunications services turnover for the six months ended June 30, 2001 was HK$9,982 million, comprising local telephone services revenue of HK$3,978 million, local data services revenue of HK$1,865 million, retail international services revenue of HK$2,010 million, and equipment sales and rental, call center services, and technical services revenue of HK$2,129 million.

The mix of telecommunication services revenues continued to change due to tariff increases and as a result of continued growth in data-related products and services. Revenue from retail international voice services represented only 12 percent of core telecommunications services revenues for the period, highlighting the successful rebalancing of telecommunications services revenues from the previous reliance on international voice services.

Business eSolutions revenue for the six months ended June 30, 2001 was HK$922 million. The Company continued the expansion of its Business eSolutions client portfolio, particularly in the public and finance sectors, with external customers contributing 69 percent of turnover for the period ended June 30, 2001. Business eSolutions performs a critical role in the Group's value proposition by offering total information technology ("IT") solutions to enterprise customers, leveraging on the convergence of telecommunications connectivity and IT. This business unit focuses on providing integrated solutions for companies undergoing total IT system transformation. It has firmly established its foothold to supply systems integration, applications management and eCommerce solutions.

Internet Data Centers revenue for the six months ended June 30, 2001 was HK$65 million, with an increasing proportion derived from its complex hosting services. Branded as PowerB@se in Hong Kong, this unit delivers a key component of the Company's total enterprise solutions comprising connectivity, systems integration and hosting services.

Internet Services revenue was HK$649 million for the six months ended June 30, 2001. The Company maintains its leading market position in the consumer broadband access market in Hong Kong with 249,000 customers.

Infrastructure Services revenue was HK$721 million for the six months ended June 30, 2001 (2000: HK$33 million), derived from the Group's investment properties in Hong Kong and mainland China and Cyberport project fees.

Others and Eliminations

Other turnover of HK$263 million includes revenues from PCCW Japan, CyberWorks Ventures and the Group's greater China businesses, net of the costs associated with corporate functions. Eliminations of HK$(1,290) million (2000: HK$(6) million) predominantly relate to internal charges for wholesale communications, computer and customer support services between the Group's business units.

Telstra Ventures

The Group is pleased with the performance of its ventures with Telstra. Revenue from these businesses is not consolidated in the Group's turnover. Reach generated HK$4,823 million in revenues and HK$1,514 million in EBITDA for the five months ended June 30, 2001, following its formation in February 2001. Regional Wireless Company generated revenues of HK$1,973 million and EBITDA of HK$553 million for the same period. The Group holds a 50 percent interest in Reach and a 40 percent interest in Regional Wireless Company, with Telstra holding the respective remaining interests. In relation to the Group's investments in Reach and Regional Wireless Company, the carrying values in the Company's accounts are consistent with those most recently attributed by Telstra.

LIQUIDITY AND CAPITAL RESOURCES

The Group has now achieved a stable and comfortable financial position to underpin its operations. At June 30, 2001, the Group had cash balances of HK$12,049 million. The Company issued US$1,100 million (approximately HK$8,580 million) convertible bonds in December 2000 and US$750 million (approximately HK$5,850 million) convertible bonds to Telstra in February 2001. In February 2001, the Group arranged a syndicated bank loan of US$4,700 million (approximately HK$36,700 million) to repay the outstanding portion of the bridge loan drawn in August 2000 to finance the cash consideration for the acquisition of HKT. The syndicated loan consists of three tranches that are repayable in three to seven years.

In July 2001, the Company's wholly-owned subsidiary, PCCW-HKT Telephone Limited, received investment grade credit ratings of Baa1/BBB (stable outlook) from Moody's Investors Service and Standard & Poor's Ratings Service, respectively.

Capital expenditure for the six months ended June 30, 2001 was HK$1,120 million.

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

CHARGE ON ASSETS

As at June 30, 2001, certain assets of the Group with an aggregate carrying value of HK$2,746 million (December 31, 2000: HK$46,529 million) were pledged to secure loan facilities utilized by the Company's subsidiaries. Following the repayment of the outstanding portion of the bridge loan in February 2001, most of the assets pledged as at December 31, 2000 have been subsequently released which led to a significant reduction in the balance of assets pledged.

CONTINGENT LIABILITIES

As at June 30, 2001, the Group's contingent liabilities amounted to HK$1,554 million as compared to HK$807 million at December 31, 2000. Details of these contingent liabilities are set out in Note 14 to the Unaudited Condensed Financial Statements. The increase of HK$747 million is mainly related to the Group's property development projects.

EMPLOYEES

As of June 30, 2001 the Group had approximately 15,000 employees. The majority of these employees work in Hong Kong. The Company has established incentive bonus schemes which are designed to motivate and reward employees at all levels to achieve the Company's business performance targets. Payment of bonuses is based on achievement of revenue and EBITDA targets for our businesses. The Company has also established a discretionary employee share option scheme.

HEDGING

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

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

OUTLOOK

The first half of this year has been characterized by stability in the Company's core telecommunications business, strong cash flow generation and stable margins overall. However, the global macro economic climate has been deteriorating and Hong Kong's economic growth has slowed. The Company has seen some softening of demand for its basic exchange line services as well as slight erosion of its fixed line market share. Hong Kong is one of the world's most competitive telecommunications markets and the Company continues to experience intense competition from both local and global operators. However, even within this challenging environment, the Company is strongly positioned to benefit from continued growth in demand across the Asia region for data communications and related services, in terms of both connectivity and systems solutions.

The Company's Business eSolutions unit has been highly successful in capturing new systems integration and applications development business in the Hong Kong and mainland China markets. This unit is positioning for a continued expansion in the greater China region, ahead of China's imminent entry into the World Trade Organization. On August 28, 2001, the Company announced a 10-year teaming agreement with IBM China/Hong Kong Ltd. to provide a wide range of IT services to enterprises and organizations across a number of industry sectors.

In July 2001, the Company announced its strategy for its Internet Services business unit, which is focused on providing Hong Kong customers with differentiated content services, stimulating growth in broadband subscriber numbers, and increasing utilization of its digital network. At the same time, the Company expects to reduce costs through consolidation of related business activities. The Company committed to cap Internet Services investment to HK$780 million in EBITDA for the 24-month period through 2003, following initiatives to minimize costs and a re-evaluation of content from its London production facility.

In August 2001, the Company sharpened its focus on its telecommunications customers through a reorganization of its core telecommunications business into two groups based on two basic market segments, Commercial and Consumer. This is expected to enhance service quality, strengthen customer relationships and generally improve the effectiveness of the Company's marketing initiatives for telecommunications and IT services.

The Company's priorities for 2001 are to continue to deliver stable, improving results from its core telecommunications businesses, strengthen its balance sheet and reduce debt, build growth businesses and develop regional opportunities, especially in greater China. The Company's future prospects are underpinned by strong recurrent cash flows from its stable base of operations in Hong Kong. The Company has exceptional depth and breadth in its capabilities, from international network connectivity, to broadband multimedia and complex systems solutions, backed by a highly customer-oriented organization. Despite the softening economic outlook in Hong Kong, the Company is strongly positioned to continue its transformation to meet the increasingly complex communications and IT solutions needs of its customers in the Asia region. Accordingly, the Board is cautiously optimistic for the Company's outlook for the rest of the current financial year.