Interim Results

For the six months ended June 30, 2002

CHANGE OF COMPANY NAME

The English name of Pacific Century CyberWorks Limited was changed to PCCW Limited ("PCCW" or the "Company") on August 9, 2002 in order to align the legal name of the Company with the Company's logo and brand.

HIGHLIGHTS OF INTERIM RESULTS

Overview

The consolidated turnover of PCCW and its subsidiaries (collectively with PCCW, the "Group") for the six months ended June 30, 2002 was HK$10,203 million and the loss attributable to shareholders was HK$713 million, compared to turnover of HK$11,312 million and a profit attributable to shareholders of HK$935 million, respectively, for the six months ended June 30, 2001. The decrease in turnover is primarily due to the absence of property sales in the current period and a reduction in certain traditional telecommunications services. The loss for the period ended June 30, 2002 is due to the accounting loss on disposal of the Group's 40 percent interest in Joint Venture (Bermuda) No. 2 Limited* ("Regional Wireless Company" or "RWC") resulting from the restatement of goodwill previously written-off against reserves as a cost of disposal. The accounting treatment for the sale of RWC is not reflective of the Group's operations or cash flows. Profit for the period attributable to shareholders before the loss on disposal of RWC for the six months ended June 30, 2002 was HK$1,096 million.

The Group's business was underpinned by strong cash flow generation and EBITDA growth. Group EBITDA for the six months ended June 30, 2002 was HK$4,131 million, approximately 6 percent higher than a year ago and 19 percent higher than the second half of last year. Group EBITDA margin expanded to approximately 40 percent for the six months from 35 percent a year ago. The significant increase in EBITDA margin was a result of cost reductions and a more efficient operating structure created from restructuring the Group's business units. The major contributor of revenue and EBITDA for the period was Telecommunications Services ("TSS"), which provides leading telecommunications services in Hong Kong. Against the backdrop of a softening economy and a challenging operating environment, TSS improved its EBITDA margin to 49 percent for the six months ended June 30, 2002 from 47 percent for the same period last year through various cost efficiency initiatives. Revenue contributed by Business eSolutions and Internet Data Center operations for the six months ended June 30, 2002 grew to a significant level of 11 percent of Group revenue, or HK$1,142 million, from 9 percent a year ago, while EBITDA grew 81 percent year-on-year to HK$125 million. Revenue contributed by Infrastructure and property management reduced significantly from a year ago on lower once-off revenue such as Cyberport entrustment fees and property sales. The operating results of the Group's primary business units are discussed in greater detail below.

Shareholders' deficit of the Group has been reduced from HK$7,641 million as of December 31, 2001 to HK$4,486 million as of June 30, 2002.

* *Please refer to the Company's circular to shareholders dated July 22, 2002 providing information on the disposal of the Company's 40 percent equity interest in RWC for details.*

Net Losses/Gains on Investments

Net losses on investments of HK$124 million (2001: net gains of HK$247 million) include (a) net unrealized losses on investments of HK$132 million (2001: HK$282 million); (b) net realized losses from disposal of investments in subsidiaries, jointly controlled companies and associates and other investments of HK$8 million (2001: net gains of HK$334 million); (c) provision for other than temporary decline in value of investment securities of HK$217 million (2001: HK$40 million); (d) amortization of premium received from equity options into income of HK$16 million (2001: HK$110 million); (e) release of provision for an onerous contract of HK$214 million (2001: Nil); and (f) other investment income of HK$3 million (2001: Nil). Included in the 2001 figure was a 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 ventures with Telstra Corporation Limited ("Telstra") were formed.

Net Finance Costs

Net finance costs for the six months ended June 30, 2002 were HK$1,074 million (2001: HK$1,769 million). The decrease resulted from the Group's debt restructuring and prepayment efforts. The Group has also benefited from the decline in interest rates during the period.

Share of Results of Jointly Controlled Companies

Share of results of jointly controlled companies for the current period of HK$292 million (2001: HK$290 million) comprises the Group's 50 percent share of profit before tax from Reach Ltd. ("Reach"), the 50:50 venture with Telstra, of HK$385 million (2001: HK$402 million for the 5-month period from February 1, 2001 to June 30, 2001), net of the Group's share of losses of other jointly controlled companies for the six months ended June 30, 2002.

Share of Results of Associates

Share of results of associates for the current period of HK$63 million (2001: HK$91 million) comprises the Group's 40 percent share of profit before tax from RWC of HK$137 million from January 1, 2002 to the date of disposal of June 28, 2002 (2001: HK$134 million for the 5-month period from February 1, 2001 to June 30, 2001), net of the Group's share of losses of other associates for the six months ended June 30, 2002.

Share of Results of Unconsolidated Subsidiaries

The Group has no unconsolidated subsidiaries for the current period. Share of results of unconsolidated subsidiaries for the six months ended June 30, 2001 includes the Group's 40 percent share of profit before tax from the CSL wireless communications business and the Group's 100 percent share of profit before tax from the Group's Internet Protocol Backbone business for the month of January 2001, prior to the formation of the Telstra ventures.

Loss on Disposal of the Interest in RWC

On disposal of the Group's 40 percent interest in RWC in June 2002, the Group recorded an accounting loss of HK$1,809 million. Please refer to Note 4 to the unaudited condensed consolidated financial statements for details of this transaction.

INTERIM DIVIDEND

The directors do not recommend the payment of an interim dividend for the six months ended June 30, 2002 (2001: Nil).

OPERATIONS

Financial Highlights of Business Units

	Six months ended June 30, 2002 (Unaudited) HK$'million	2001# (Unaudited) HK$'million	Increase/ (Decrease)
Revenue			
TSS[1]	**9,105**	9,983	(9%)
Business eSolutions[3]	**1,142**	986	16%
Infrastructure	**311**	721	(57%)
Others[2]	**362**	263	38%
Eliminations	**(717)**	(641)	(12%)
Total Revenue	**10,203**	11,312	(10%)
EBITDA			
TSS	**4,487**	4,737	(5%)
Business eSolutions	**125**	69	81%
Infrastructure	**279**	310	(10%)
Others	**(760)**	(1,205)	37%
Total EBITDA	**4,131**	3,911	6%
EBITDA Margin	**40%**	35%	

Notes:

\# *Comparative figures were restated to conform with the current period's classification as follows:*

1. *Retail consumer broadband and narrowband Internet access services and related multimedia services were transferred to TSS from Internet Services in 2002.*

2. *The remainder of Internet Services, which primarily comprises costs associated with the production of English and Chinese Internet and broadband content, is included under Others in 2002.*

3. *The operations of Internet Data Center were merged into and are reported under Business eSolutions in 2002.*

TSS revenue for the six months ended June 30, 2002 was HK$9,105 million (2001: HK$9,983 million), 9 percent lower than a year ago. The decrease was mainly contributed by lower revenue from international and local telephony services and equipment sales, which were partially offset by higher revenue from broadband Internet access services. TSS' EBITDA margin improved to 49 percent for the six months ended June 30, 2002 from 47 percent a year ago as a result of cost reductions from various efficiency programs. Accordingly, EBITDA for the six months ended June 30, 2002 was HK$4,487 million (2001: HK$4,737 million), representing a decrease of 5 percent over the same period in the last year. During 2002, retail consumer broadband and narrowband Internet access and multimedia services were transferred into TSS for better alignment of the operating structure. Management believes the restructured TSS offers synergies and greater efficiency, which contributed to an improved operating margin.

TSS Revenue Analysis

	Six months ended June 30, **2002** **(Unaudited)** **HK$'million**	2001 (Unaudited) HK$'million	Increase/ (Decrease)
Local Telephony Services	**3,503**	3,877	(10%)
Local Data Services	**2,242**	2,084	8%
International Telecommunications Services	**1,893**	2,271	(17%)
Other Services	**1,467**	1,751	(16%)
Total TSS Revenue	**9,105**	9,983	(9%)

Revenue from local telephony services fell HK$374 million, or 10 percent from a year ago primarily on a decline in the number of exchange lines in service in Hong Kong and a lower interconnection fee revenue due to a rate reduction as determined by the Office of the Telecommunications Authority ("OFTA") in October 2001. The decline in the number of exchange lines in service in the period was due to a combination of factors including a contraction in the overall market, competition from fixed and mobile operators and the weak economy and property market. The Group had approximately 1,419,000 business lines and 1,935,000 residential lines in service at end of June 2002 and a total market share of approximately 87 percent as compared to 89 percent as at end of December 2001.

Local data services revenue inclusive of consumer broadband and narrowband Internet access services increased HK$158 million, or 8 percent from a year ago. Higher revenue was primarily due to a significant increase in consumer broadband Internet access revenue. The number of retail consumer broadband Internet access customers grew 67 percent from a year ago to approximately 385,000 at end of June 2002. The total number of broadband access lines (inclusive of wholesale to external parties) at end of June 2002 rose 60 percent from a year ago to 487,000.

International telecommunications services revenue dropped HK$378 million, or 17 percent from a year ago with International Direct Dial ("IDD") business contributing the bulk of the decline. Price competition remained intense in the IDD market generally and prices of international bandwidth products were lower in line with general global trends during the period. There was also a drop in delivery fee revenue, which was partly due to a rate reduction as determined by OFTA in July 2001.

Other services revenue of HK$1,467 million for the six months ended June 30, 2002 primarily consisting of revenue from equipment sales, contact center services, technical and maintenance services, and other value added services, decreased 16 percent from a year ago primarily driven by a weaker economy as corporate customers delayed investment decisions.

Business eSolutions revenue for the six months ended June 30, 2002 was HK$1,142 million, 16 percent higher than a year ago. EBITDA growth over the same period was 81 percent to HK$125 million (2001: HK$69 million). EBITDA increased significantly in the period as operations gained scale and generated higher profits. During the period, the operations of Internet Data Center were integrated into Business eSolutions. The integration enabled the division to offer seamless IT, hosting, facilities management and connectivity services and greatly enhanced the Group's competitive edge in this business sector. Revenue growth in the period under review was primarily due to higher IT solutions billing, greater revenue from Internet Data Center and strong growth in the business broadband Internet access revenue and customer base. The number of business broadband Internet access customers inclusive of leased lines grew 64 percent from a year ago to 44,200 at end of June 2002.

Infrastructure Services revenue was HK$311 million for the six months ended June 30, 2002 (2001: HK$721 million), derived from the Group's investment properties in Hong Kong and mainland China and Cyberport project fees. The decline in revenue in the current period was primarily due to the absence of property sales revenue and a reduction in the Cyberport entrustment work project as this portion of the project neared completion. The Cyberport entrustment work project was 93 percent completed at end of June 2002.

Others and Eliminations

Other revenue of HK$362 million (2001: HK$263 million) includes revenue from Pacific Century CyberWorks Japan Co. Ltd. ("PCCW Japan"), CyberWorks Ventures, the Group's greater China businesses and Internet Services. Other EBITDA is net of the costs associated with corporate functions. Internet Services[1] EBITDA loss for the six months ended June 30, 2002 was HK$29 million (2001: HK$464 million). This loss primarily reflects costs associated with the production of the Group's English and Chinese Internet and broadcast content. The operating cost of Internet Services reduced significantly from a year ago due to a new business arrangement with an overseas content partner, which became effective from the beginning of 2002. Eliminations of HK$(717) million (2001: HK$(641) million) predominantly relate to internal charges for communications services consumed, computer system network charges, customer support services and rental between the Group's business units.

Telstra Alliance

Reach, a 50:50 venture with Telstra, generated HK$4,958 million in revenue and HK$1,632 million in EBITDA for the six months ended June 30, 2002. RWC, previously 40 percent owned by the Group, generated revenue of HK$2,120 million and EBITDA of HK$698 million for the same period. On June 28, 2002, the Group sold its 40 percent interest in RWC to Telstra for a total net consideration of HK$4,792 million. The realization of the Group's investment in RWC significantly reduced the Group's shareholders' deficit position but gave rise to a HK$1,809 million disposal loss in the period. The disposal loss had no impact on cash flows and was due to the restatement of goodwill previously written-off against reserves as a cost of disposal in the current period's unaudited condensed consolidated income statement.

LIQUIDITY AND CAPITAL RESOURCES

The Group has maintained a solid financial position to underpin its operations. As at June 30, 2002, the Group had cash and cash equivalents of HK$6,987 million, and gross long-term debt of HK$43,217 million. The Group generated strong cash flows from operations for the six months ended June 30, 2002. Net cash inflow from operations for the period was HK$505 million compared to a net outflow of HK$22 million for the corresponding period a year ago.

Cash flow from operations for the six months ended June 30, 2002 was HK$254 million compared to a net outflow of HK$1,142 million for the corresponding period a year ago. The turnaround in cash flow for the current interim period was due to lower net interest paid and capital expenditure, and higher net cash inflow from operations. Cash flow before Cyberport investment and capital expenditure for the six months ended June 30, 2002 was an inflow of HK$1,241 million compared to a net outflow of HK$508 million in the corresponding period a year ago.

Note:

1 *The remainder of Internet Services which primarily comprises costs associated with the production of English and Chinese Internet and broadband content.*

Cash flow

	Six months ended June 30, 2002 (Unaudited) HK$'million	2001 (Unaudited) HK$'million
Net cash inflow/(outflow) from operating activities *(Note 1)*	**505**	(22)
Adjusted for:		
Increase in fixed deposits	**328**	–
Capital expenditure	**(579)**	(1,120)
Cash flow *(Note 2)*	**254**	(1,142)
Cash flow before Cyberport investment and after capital expenditure	**1,241**	(508)

Note 1: Cash flow from operating activities is operating cash flow after payments for tax, interest and investment in Cyberport.

Note 2: Cash flow is cash flow from operating activities before changes in fixed deposits for banking facilities for the Cyberport project but after capital expenditure.

Management has continued to de-leverage the Group by reducing gross long-term debt by approximately 17 percent from HK$52,091 million as at June 30, 2001 to HK$43,217 million as at June 30, 2002. Gross long-term debt as at June 30, 2002 was reduced by 10 percent from December 31, 2001. Through a number of refinancing exercises, the weighted average maturity of debt is now extended to currently 7 years, which better matches the underlying asset life.

In January 2002, the Group issued US$450 million 1 percent convertible bonds due 2007, which are unconditionally and irrevocably guaranteed on a joint and several basis by the Company and PCCW-HKT Telephone Limited ("HKTC"), an indirect wholly-owned subsidiary of the Company. The net proceeds were used to prepay a portion of the US$4,700 million term loan facility established in February 2001 and for working capital purposes. Subsequently in March 2002, HKTC raised HK$5,000 million through a 6-year term loan facility due for repayment in 2008. In April 2002, HKTC raised another HK$5,000 million through a 7-year term loan facility that is repayable in 2009. The proceeds of the two loans were used to further prepay a portion of the outstanding US$4,700 million term loan.

As part of the Group's sale of its entire 40 percent equity interest in RWC to Telstra in June 2002, the proceeds from the disposal and the issue of a US$190 million 5 percent mandatory convertible note due 2005 to Telstra were set off in full against the amount due by the Company to Telstra for the redemption of the US$750 million variable coupon convertible bond due 2007 plus interest accrued thereon.

On September 5, 2002, Standard & Poor's Ratings Services affirmed its BBB corporate credit rating on HKTC and revised upward its outlook on HKTC to positive from stable. HKTC maintained an investment grade credit rating from Moody's Investors Service of Baa1 (stable outlook).

Capital expenditure for the six months ended June 30, 2002 was HK$579 million. In addition, the Group had invested approximately HK$987 million in the Cyberport project for the six months ended June 30, 2002, bringing the cumulative total investment in the project to approximately HK$2,675 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, 2002, certain assets of the Group with an aggregate carrying value of HK$8,198 million (December 31, 2001: HK$7,517 million) were pledged to secure loan and borrowing facilities utilized by the Group.

CONTINGENT LIABILITIES

As at June 30, 2002, the Group's contingent liabilities amounted to HK$81 million as compared to HK$159 million at December 31, 2001. The decrease is mainly due to the expiry of a HK$104 million guarantee in respect of an investment commitment of an associate in the period.

EMPLOYEES

As of June 30, 2002, the Group had approximately 13,000 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 the Company's individual businesses and the Group as a whole. 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 Group continues to manage the market risk directly relating to its operations and financing and does not undertake any speculative derivative trading activities. The Finance Committee, a subcommittee of the Executive Committee of the board of directors determines the appropriate hedging activities undertaken with the aim of managing prudently the market risk associated with transactions undertaken in the normal course of the Group's business. All treasury risk management activities are carried out in accordance with policies and guidelines approved by the Finance Committee and the Executive Committee, which are reviewed on a regular basis.

In the normal course of business, the Group enters into forward contracts and other derivative contracts in order to limit its exposure to adverse fluctuations in foreign currency exchange rates and interest rates. These instruments are executed with creditworthy financial institutions, and all 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 Group's financial results. Costs associated with entering into such contracts are not material to the Group's financial results.

OUTLOOK

Just beyond the second anniversary of the merger of PCCW and Cable & Wireless HKT ("HKT"), the Company has concentrated on and successfully pursued three objectives:

First, the Company has responded to the poor economic environment and intense competition in its industry by driving operating efficiencies. Secondly, the Company has increased its financial flexibility, successfully reduced debt to a prudent level, extended the maturity of remaining debt and significantly reduced overall funding costs. Thirdly, the Company has brought together a world-class management team with broad industry experience and strong leadership qualities.

The Company's achievements in increased operating efficiencies and reduced funding costs are, in turn, driving strong and accelerating free cash flows which will give the Company unprecedented flexibility going forward.

Without diminishing the Company's commitment to the objectives set during the past two years and, in particular, the commitment to find greater productivity gains and to further reduce debt, the Company's management team is now concentrated on forming strategies to deliver sustained growth over the coming years. Based on the current earnings trend, the directors expect the Company to be able to attain positive retained earnings within two years and to be in a position to consider the payment of a dividend at that time. The Company is committed to its stated plan to attain a single A rating. However, given the strength of the Company's free cash flow towards 2004, the directors are of the view that it is possible to consider payment of a dividend without disrupting the Company's plan.

Since the merger with HKT, the Company has been positioned to prosper in extraordinarily difficult economic and operating conditions. The directors believe that when the economy and operating environment turns around, the Company will be able to exploit opportunities to the benefit of its shareholders, customers and employees.