

Hongkong Telecom

ADR Ticker: **HKT**
 Current Price:.....US\$18.5625
 52-Wk High:.....US\$26.5000
 52-Wk Low:.....US\$15.9375
 Share Per ADR:.....10.00
 Beta vs. SPX:.....0.98
 Avg Daily Vol: 319,216sh(1998)
 Stock Exchange.....AMEX &
Pacific Stock Exchange
 Issued Shares:..11,909.41 mln
 Mkt Cap:.....US\$22,589 million
HK\$175,068 million
 Heng Sang Index:.....7,623

Exchange Rate:

US\$1 = HK\$7.75

Ratios

EPS:.....US\$0.186 (HK1.44)
 DPS:..... US\$0.110 (HK0.85)
 PER:.....10.22X
 Dvd Yield:.....5.80%

EPS Yr Chg:.....9.46%
 BVPS Yr Chg:.....32.26%
 Retention Rate:.....20.78%

Opr Margin:.....37.46%
 ROA:.....26.54%
 ROE:.....42.63%
 Fin. Leverage:.....1.61

Current Ratio:.....1.19
 Quick Ratio:.....1.10
 Debt-to-Assets:.....10.96%
 T.Debt/Com Eqty:.....17.25%

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Strong BUY

US\$18.5625

Hong Kong Telecom (HKT) is the major provider of telecommunications services in Hong Kong. It also provides computer, engineering and telecommunications equipment rental services. HKT is the second largest stock among the Hang Seng Index constituents with market capitalization of US\$22,589 million (HK\$175,068 million). The two largest shareholders of HKT are Cable & Wireless plc [Ticker: CWP] (54%) and China Telecom [Ticker: CHL] (13%).

HKT is the result of a merger of Hongkong Telephone and Hongkong Telecom International in 1988, and became a publicly-listed company in the same year. In 1994, HKT celebrated its 3 millionth installation of a phone line in the city, a rate of one phone line for every two people.

Total turnover of HKT was US\$4,521.4 million (HK\$35,041.0 million). Approximately 48.5% of its revenues were derived from international phone services (IDD), local phone services accounted for 14.8%, other telecommunications services 27.5%, equipment sales & rental 5.6%, and computer & engineering services 3.6%.

Net income of HKT has been growing at a steady rate. Net income rose from US\$468.5 million (HK\$3630.5 million) in FY88 to US\$2,197.1 million (HK\$17,027.5 million) in FY98, growing at an annual rate of 16.71% in the last ten years.

We expect the net income of HKT in FY98 can still be grown at single-digit rate. Even though its monopoly position over the IDD services has been lost due to the deregulation of telecommunications services, HKT received US\$864.5 million (HK\$6,700 million) as compensation from the Hong Kong Government. Nevertheless, HKT can still be a powerful competitor in the IDD market after the deregulation given its expertise, infrastructure, and economies of scale in that market.

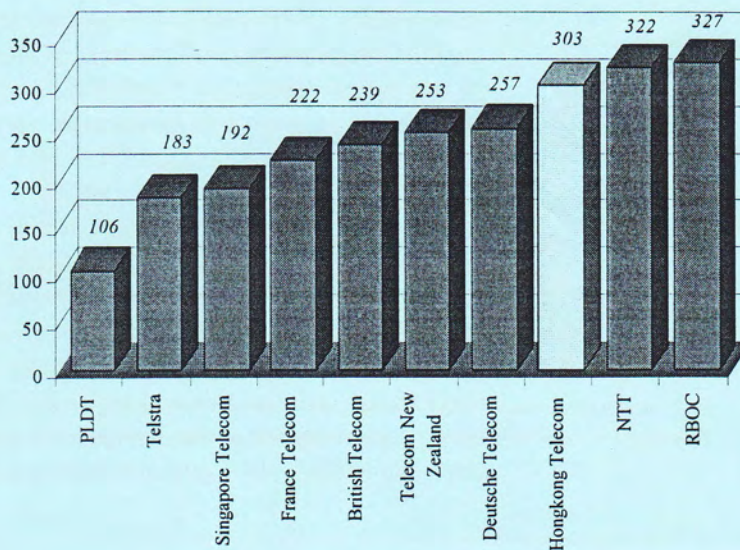
It is expected that the revenues generated from its international phone services will be maintained at below 50 percent of its total revenues in the fiscal year coming from its current level at 48.5 percent. We see the move as the rebalance of revenue composition under the changing operating environment instead of the decline in competitiveness.

The loss of IDD revenues is likely to be offset by the following factors which form the basis of our opinions:

- Under the current high interest rate environment, the huge cash holding will bring substantial interest income for the company. HKT had US\$1,872.6 million (HK\$14,513 million) term deposits and US\$26.6 million (HK\$206.4 million) cash & bank balances as of March 31, 1998.
- HKT will be permitted to raise the fees charged for the local telephone services, the segment which HKT claimed has been operated below cost. For the residential lines, fees can be increased from HK\$68 today to \$90, \$100, \$110 from the beginning of 1999, 2000 and 2001 respectively.
- The expansion into the cellular phone market such as the acquisition of Pacific Link is likely to reinforce HKT as the leading telecommunications services provider, in addition to the benefits resulting from the enlarged customer base.
- HKT is a defensive counter. In the last one year, the Hang Seng Index decreased approximately 51.9 percent while the stock price of HKT fell 21.2 percent only.
- Enhance efficiency by staff reduction. About 270 staff out of the total of 14,702 have been laid off, resulting in cost saving of HK\$100m (US\$12.9m) per annum. It will be likely to boost the EPS by less than 1%. Currently, salaries and related costs account for 18.5% of its operating costs. Amidst the changing environment, further staff reduction would be taken to enhance its efficiency. The following exhibits show the current efficient level of HKT against its peers.

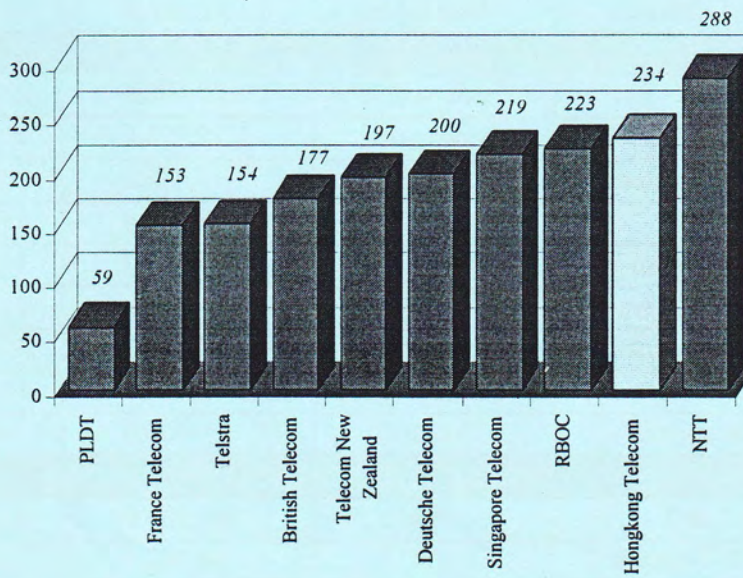
**Mobile + Fixed
Lines Per
Employee**

Source: Annual Report



**Net Revenue Per
Employee
(USD'000)**

Source: Annual Report



Strong Buy

Despite the gloomy economic outlook currently prevailing in the marketplace, information technologies and telecommunications are still the fastest growing sectors in Hong Kong. Given its strong balance sheet and promising prospects, HKT is worth considering as long-term investment, particularly when the stock price falls to the level around U\$18.500 per ADR.

At that level, valuation becomes attractive in comparison with its historic PER and its peers in the industry. Although earnings may fall short of market expectations, robust Internet revenues can offset the decline in IDD revenues resulting from the loss of its monopoly license, earnings growth of 8% will be achievable. With its defensive nature and stable dividend yield at 6%, investors having long-term horizon are strongly recommended to buy. We believe HKT will continue to outperform the market.

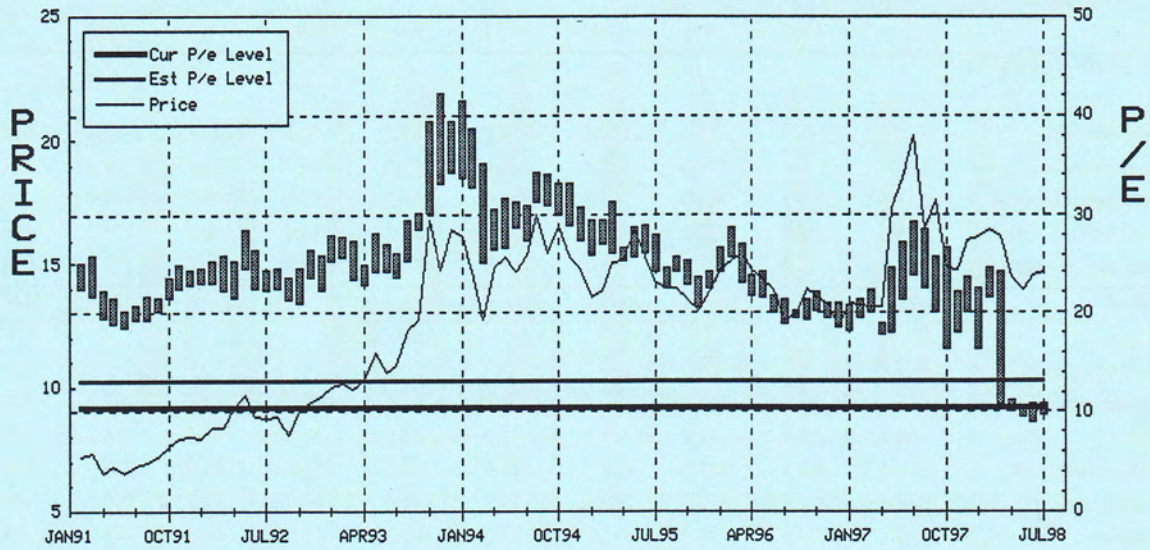
Comparison of P/E and Dividend Yield against other Int'l Telecom Companies

Company	Country	Market Cap (US\$m)	P/E	Dividend Yield
HK Telecom	Hong Kong	22,589.4	10.22	5.80%
Asia - Pacific				
NTT	Japan	123,650.6	101.79	0.22%
Singapore Telecom	Singapore	22,372.5	20.78	1.95%
China Telecom	China	17,405.2	23.53	0.00%
Telstra	Australia	11,309.4	35.48	2.45%
Telecom Corp of NZ	New Zealand	7,365.7	19.00	9.06%
Telekom Malaysia	Malaysia	4,915.9	11.23	1.75%
PT Telekomunikasi	Indonesia	2,426.7	23.70	1.66%
PLDT	Philippines	2,287.5	13.10	0.60%
Telecomasia	Thailand	506.6	n/a	0.00%
Europe - US				
AT & T	USA	102,283.9	25.51	2.33%
British Telecom	UK	88,947.7	31.80	4.56%
Deutsche Telekom	Germany	81,938.0	44.52	3.12%
France Telecom	France	77,136.6	31.22	2.10%

Comparison of Market Capitalization may be affected by currency fluctuation against US\$. Exchange Rates as at 19 July 1998

Hongkong Telecom

Historic P/E level: Feb 2, 1991 to July 31, 1998



Source: Bloomberg (Amounts in HK dollars)

10 Years Financial Summary

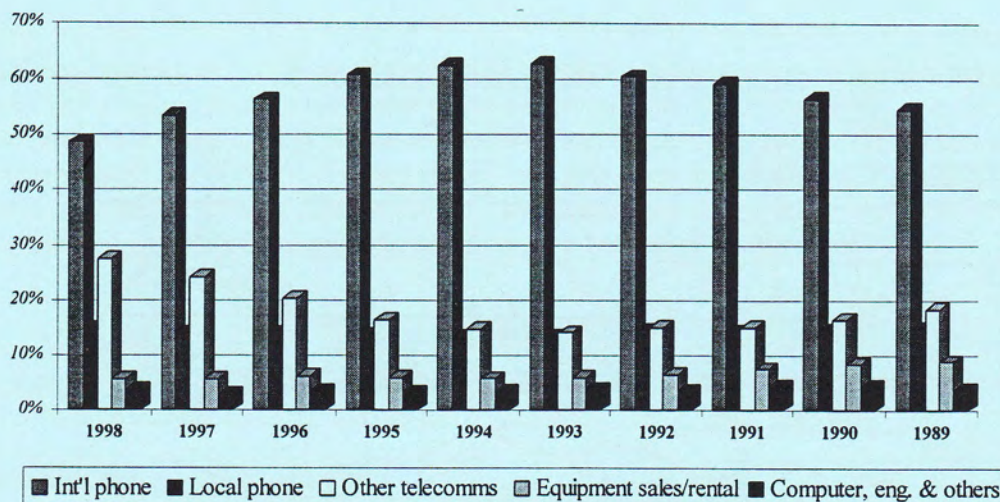
Fiscal Year Ended March 31 (Amounts in US\$ million)

	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
PROFIT & LOSS ACCOUNT										
Turnover										
Int'l phone services	2192.7	2244.5	2132.6	2104.6	1956.7	1753.4	1430.1	1240.1	1028.1	832.5
Local phone services	667.9	589.6	524.9	473.4	423.4	373.0	343.7	298.2	264.4	224.4
Other telecomms services	1241.8	1011.5	766.5	573.3	463.0	392.9	355.0	315.1	297.3	279.0
Equipment sales & rental	254.6	240.0	233.1	209.6	181.4	165.2	156.4	156.4	155.2	135.3
Computer, eng. & others	164.4	117.9	137.0	111.3	108.4	108.4	85.1	89.0	78.8	56.2
Total Turnover	4521.4	4203.6	3794.2	3472.2	3132.9	2792.9	2370.4	2098.9	1823.8	1527.4
Operating Costs										
Allocations to other admin										
-- Int'l phone services	1059.7	1086.6	969.2	950.7	874.9	787.1	644.7	587.3	483.3	403.8
-- Others	23.4	28.8	38.6	38.5	41.9	48.0	51.8	61.6	68.2	74.7
Salaries & related costs	519.4	505.4	517.8	472.5	416.6	407.7	351.3	347.9	293.9	242.6
Depreciation	315.3	282.6	250.3	220.7	189.5	171.9	133.5	124.1	100.5	86.5
Cost of Sales	390.1	274.3	171.8	114.7	119.5	104.3	84.5	75.3	78.0	54.3
Rent, rates & utilities	109.2	77.7	66.8	73.0	66.7	69.5	58.7	57.4	45.4	31.5
Royalty to H.K. Gov't	57.2	67.5	26.1	70.2	63.9	56.6	47.8	41.2	36.7	27.9
Mgmt fee to W&C	28.5	27.0	27.3	28.0	39.5	39.5	34.5	30.1	26.4	22.7
Other operating costs	308.9	279.1	256.3	244.5	209.6	172.1	145.8	110.0	118.3	97.3
Total Operating Costs	2811.7	2629.0	2324.2	2212.7	2022.1	1856.8	1552.6	1434.9	1250.7	1041.3
Operating Profits	1709.7	1574.6	1431.3	1259.5	1110.8	936.1	817.8	663.9	573.1	486.0
Exceptional Items	588.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Interest & Other Income	137.3	91.1	49.7	35.6	19.6	25.0	20.8	29.3	26.1	24.2
Profit Before Taxation	2297.9	1665.7	1481.1	1295.1	1130.4	961.2	838.6	693.2	599.1	510.2
Taxation	233.3	218.1	195.5	172.7	155.2	131.5	107.5	54.2	45.4	37.3
Profit After Taxation	2435.2	1447.5	1285.6	1122.4	975.2	829.7	731.1	639.0	553.8	472.9
Minority Interests	-4.8	-5.3	3.1	0.0	0.0	0.0	1.0	0.7	0.3	-0.6
Development Fund Transfer	0.0	0.0	0.0	0.0	0.0	0.0	0.0	14.2	8.6	-3.9
Profit Before XO Items	2197.1	1442.3	1282.4	1122.4	975.2	829.7	732.0	654.0	562.6	468.5
Extraordinary Items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-94.2	0.0	0.0
Net Income	2197.1	1442.3	1282.4	1122.4	975.2	829.7	732.0	559.8	562.6	468.5

Source: Annual Report. Reference exchange rate at US\$1=HK\$7.75.

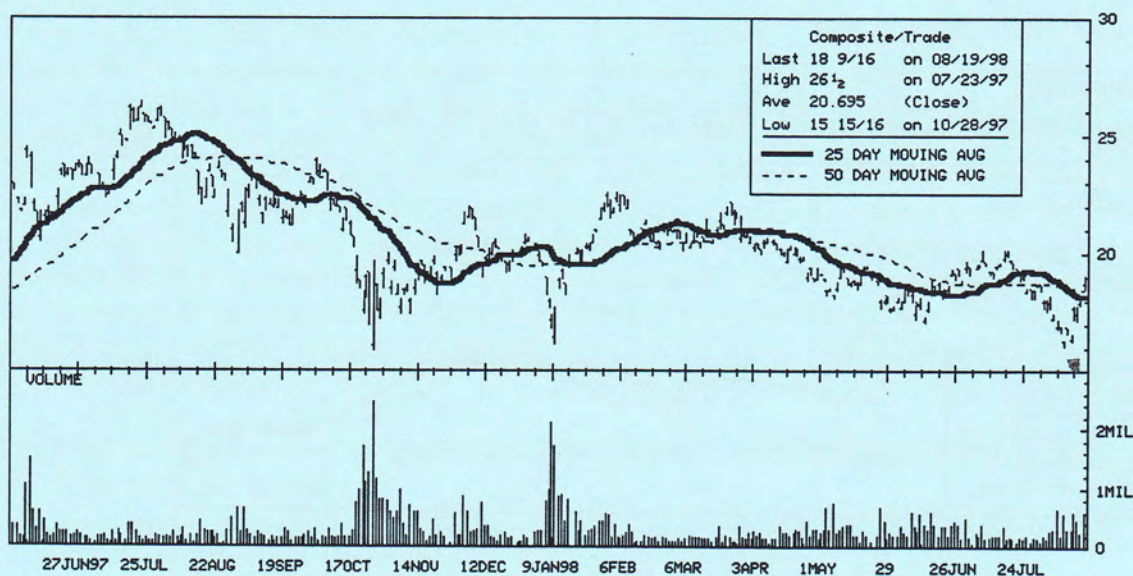
Hongkong Telecom

Turnover by Segment from 1989 to 1998 (in terms of percentage)



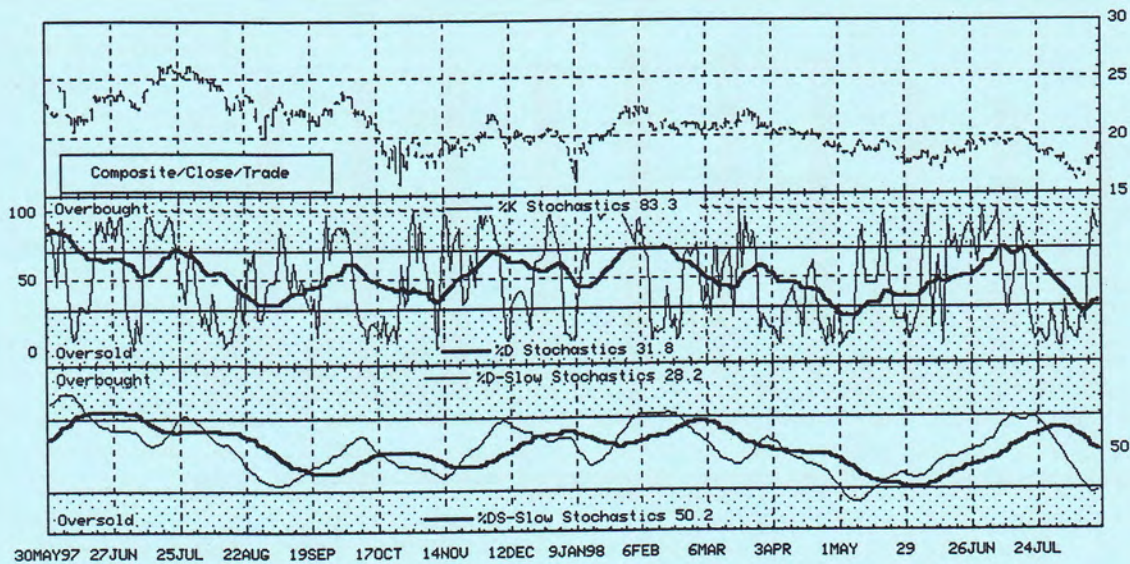
Hongkong Telecom ADR (Ticker: HKT)

Daily Price-Volume (shares) Graph: June 1, 1997 to Aug 19, 1998



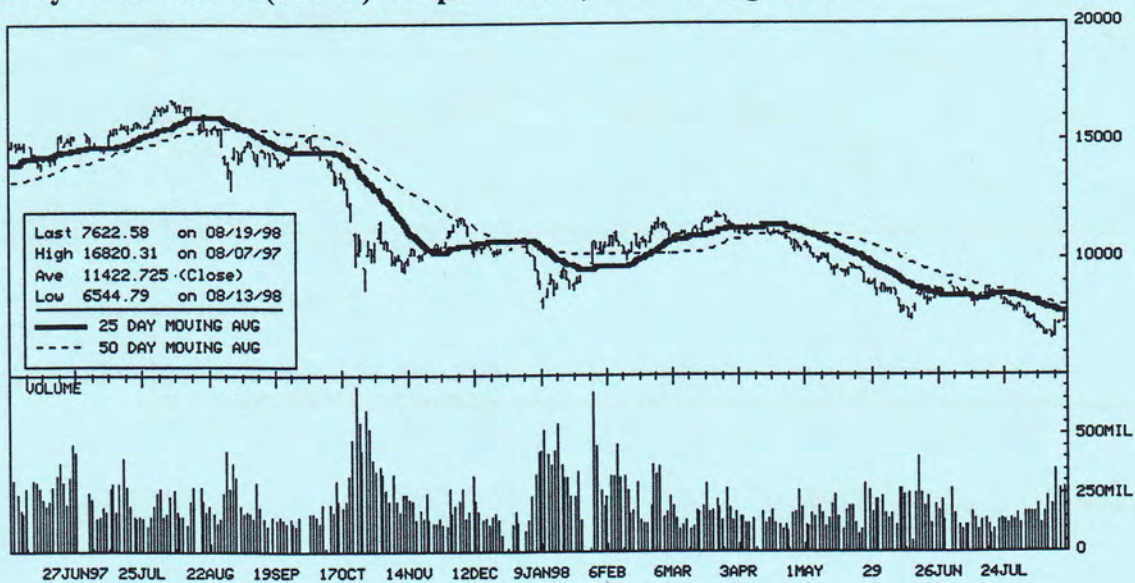
Source: Bloomberg (Amounts in US dollars)

Hongkong Telecom ADR (Ticker: HKT)
Stochastics Graph: June 1, 1997 to Aug 19, 1998



Source: Bloomberg (Amounts in US dollars)

Hang Seng Index
Daily Price-Volume(shares) Graph: June 1, 1997 to Aug 19, 1998



Source: Bloomberg

In evaluating an investment in the ADR Shares, prospective investors should consider carefully all the information contained in this report, including the considerations set below.

RISK RELATING HONG KONG

Political Factors

Hong Kong, which was a territory of the United Kingdom, became a Special Administration Region (SAR) subject to the sovereignty of the People's Republic of China (PRC) on 1 July, 1997. Current agreements and laws provide that the social and economic systems in Hong Kong will remain unchanged for 50 years and that Hong Kong will enjoy a high degree of autonomy except in foreign affairs and defense. Future political developments in Hong Kong or the PRC could have a material adverse effect upon the social or economic conditions in Hong Kong.

Economic Factors

Hong Kong is one of the leading economies in Asia-Pacific. Gross domestic product was about HK\$1,334 billion (US\$172.13 billion) in 1997. Since the end of 1997, the Hong Kong economy, along with other parts of Asia has been affected by the regional financial crisis. In the first quarter in 1998, Hong Kong recorded a 2 percent year-on-year decrease in gross domestic product. Also the unemployment rate was up to 4.2 percent in May 1998. Regarding the economy downturn in Hong Kong, the capital market experienced unprecedented levels of volatility and asset prices corrected significantly. The recent events affecting the economy may affect the businesses operating in Hong Kong.

Currency Risks

The Hong Kong dollar is freely convertible into other currencies (including the U.S. dollar), and, since 1983, the Hong Kong dollar has been officially linked to the U.S. dollar at the rate of U.S.\$1.00 to Hong Kong \$7.80. However, the market exchange rate of the Hong Kong dollar against the U.S. dollar continues to be subject to the forces of supply and demand in the foreign exchange market. Since the third quarter of 1997, exchange rates for various Asian currencies, including the Hong Kong dollar and the Renminbi (RMB), the official currency of the PRC, have come under market exchange pressure which has led to the devaluation of certain Asian currencies and which could lead to the future devaluation of other Asian currencies. No assurance can be given that the Hong Kong dollar or the RMB will not be devalued in the future or that the Hong Kong government will maintain the official link of the Hong Kong dollar to the U.S. dollar at the current rate or at any rate.

Listed below are the closing exchange rates of HKD against one United States dollars for the last day of the following quarter:

Quarter end	Spot Rate
June 98	7.7487
March 98	7.7497
Dec 97	7.7485
Sept 97	7.7380
June 97	7.7468
March 97	7.7488

Accounting Principles Considerations

Certain financial information of HKT which is reproduced herein has been prepared and presented in accordance with Hong Kong Generally Accepted Accounting Principles (GAAP) which differs in certain significant respects from U.S.GAAP. Therefore, there can be no assurance that the financial position or results of operations determined under U.S. GAAP would not be materially different than that determined under Hong Kong GAAP.

RISK RELATING TO THE ADRs

The primary trading medium for HKT shares is the Hong Kong Stock Exchange. In addition, American Depository Receipts (ADR's) evidencing American Depository Shares issued by the U.S. Depository Shares issued by the U.S. Depository representing HKT shares on deposit with the Depository, trade in the U.S on the American Stock Exchange and Pacific Stock Exchange. There is no assurance that either of these trading markets for HKT shares will be sustained. Discontinuation of any of these markets could have an adverse effect upon liquidity, i.e. the ability to sell HKT shares.

Notes

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