Chairman's Statement

Dear Fellow Shareholders,

I am proud to deliver this year's annual report.

The world has heard nothing but gloom from the telecommunications and IT industry over the last year.

It *was* a difficult year. PCCW knows that because we work in a fiercely competitive environment under harsh economic conditions. Nevertheless, we fulfilled our promises.

- **We said we would continue to reduce debt – and we did.**
- **We said we would continue to improve free cash flow – and we did, on the strength of improved operating profitability.**
- **We said we would achieve organic growth – and we did, in broadband and Business eSolutions.**

Even as revenues fell, we increased operating profits and were able to report a 10 percent improvement in EBITDA, plus a 6 percent improvement in EBITDA margin.

Those improved operating results enabled us to pay down net debt[1] by 16 percent in 2002.

Economic conditions in year 2002 demanded some difficult decisions by the Company. The most recent example was the write-down in our REACH investment which resulted in a loss attributable to PCCW shareholders for the year of HK$7,762 million (approximately US$995 million).

But the operating profit[2] in our on-going business actually increased 9 percent in 2002 to HK$5,212 million (approximately US$668 million).

Our core free cash flow – that is, cash flow before including the investment in Cyberport – was expected in May to be HK$1,950 million (approximately US$250 million) for 2002. But we exceeded that expectation and achieved a core free cash flow of HK$3,351 million (approximately US$430 million).

We spent cautiously, managed efficiently and made sure we had the means to preserve the investment-grade credit rating of PCCW–HKT Telephone Limited (HKTC). Our debt reduction and ratings goals remain the same. What has changed is that the global political and economic situation has become increasingly uncertain. Bearing that in mind, we believe it prudent to continue to strengthen our balance sheet in the interests of shareholders. Therefore, we will not pay a dividend in 2004. Our objective remains to pay a dividend in the medium term. To do so we must continue to make significant progress towards further debt reduction and achieving the desired 'A' credit rating for HKTC's debt.

PCCW continues to perform well, contain costs and navigate through a difficult regulatory and economic environment, while delivering quality service.

Looking back to 2001, we became more customer-focused, developed our systems-integration business, kick-started growth in broadband, restructured our balance sheet and began operating more efficiently.

In 2002, we built on those achievements under the leadership of a revitalised management team.

Now looking forward, our primary objectives include debt reduction, along with prudent financial management and improving free cash flow through efficiencies, while limiting our future direct funding of Cyberport. We will also continue to look for ways to improve revenue by offering new products and services and by considering investments consistent with our financial priorities and strict criteria of investment.

Here is how we performed on meeting our main objectives for 2002, as laid out in last year's annual report:

We promised to improve our balance sheet

We reduced our net debt to US$4.22 billion at year-end 2002, from approximately US$8 billion after the merger with Cable & Wireless HKT Limited (HKT) in August 2000 (at which time gross debt included the bridge loan of US$12 billion). In addition, we strengthened our balance sheet by refinancing on better terms and by prepaying and lengthening the maturities of debt.

During 2002, we continued to refinance, or prepay, and reduce net debt from US$5.04 billion to US$4.22 billion year-on-year. We followed this in early 2003 by raising US$456 million through a private placement of a 10-year bond and a US$385 million term loan facility. Both were raised at the PCCW level and for general corporate purposes. These transactions demonstrate PCCW's ability to obtain long-tenured funding at attractive pricing levels.

Over the past two years, we have extended debt maturities through opportunistic financing, while making debt payments through internal cash flows. All this has been achieved while retaining cash reserves which currently total more than US$1 billion.

We promised greater efficiencies

Last year, PCCW decided to close businesses that were unlikely to contribute to our long-term growth. Then, we reset staffing levels for optimum efficiency from approximately 14,600 to approximately 11,600.

This included the creation of 17 commercial subcontracting companies which is expected to provide annualized savings in operating costs.

We also improved performance efficiency within our network-services workforce by creating Cascade, one of Asia's most capable technical services companies. It is now 'open for business' across the region, while continuing to serve PCCW.

We promised to provide innovative new products and services

Early in 2002, we unveiled our ConXerto Commerce Product Suite, which enables customers, designers, engineers and executives in different locations to work online simultaneously. This 'online collaboration' helps businesses achieve faster product development and better sharing of information. We also agreed to provide tailormade, managed-network solutions to LG.Philips Displays International Limited, linking 46 locations around the world.

On the consumer side, we expanded our wi-fi (Wireless LAN) coverage to more than 200 locations around Hong Kong, enabling people with laptops and handheld devices to get high-speed Internet-access without the need of a cable or phone-socket. And PCCW's total number of broadband access lines has risen to more than 559,000 – up 39 percent from 2001.

We promised growth, particularly in the Greater China IT&T sector

We made progress through our Business eSolutions unit, which spearheads our IT&T drive in Hong Kong and beyond. In February 2002, a PCCW-led consortium won a HK$163 million contract from the Hong Kong Government to provide hardware, software and services for the city's new computer-chip ID card (SMARTICS).

Later that same month, we formed an IT venture with Sinopec, one of China's largest energy and petrochemical companies. In July, we followed up with an agreement for a venture with China Telecom to provide IT solutions to China's finance sector. These agreements – plus our representative offices in Shanghai, Beijing and Guangzhou – are expanding our footprint in Greater China, one of the world's fastest-growing IT markets.

We continue to evaluate Business eSolutions opportunities to grow our presence in mainland China. Our timing is good – mainland China's IT services market is expected to show healthy growth in the next five years.

And the two major IT alliances we announced in 2002 – with China Telecom and Sinopec – are poised to serve the high-growth areas of finance, public sector, telecoms and enterprise.

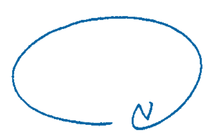
Our position is further strengthened by operations in Hong Kong, making PCCW the ideal partner to provide IT&T solutions in Greater China.

We will seek better ways to boost the value of our offerings to customers, regardless of whether we serve them with large-scale solutions for their multinational corporations, or with a single fixed-line for their homes. For example, we are studying a number of exciting initiatives, including advanced wi-fi possibilities to provide customers with more flexible ways to enjoy high-speed Internet.

This Company has been getting into shape to handle itself well in a tough market and economic climate.

Our management believes that when conditions improve, PCCW will be fit and ready to turn opportunities into rewarding growth for its customers, shareholders and employees.

Sincerely,



Richard Li
Chairman and Chief Executive
March 20, 2003

1 Please see note 2 on page 35 for definition of net debt.

2 Operating profit before net gains on investments, provision for impairment losses and restructuring costs.