Statement from the Deputy Chairman and Group Managing Director

- 2003 was a year of innovation for PCCW
- We continue to pay down debt and improve financial flexibility
- Management decided to make one-off impairment write-offs and remains committed to putting the Company in a position to pay a dividend
- Our home-grown broadband skills are being applied to a wireless broadband opportunity in the UK
- The listing of our property division will allow a focus on property development

It is my pleasure and privilege to have joined the Company mid-way through a year of substantial achievement. The management team has, under very difficult circumstances, focused on stabilizing the core business, revitalizing our products and services and improving the Group's financial position.

In addition, we pressed for reform of outdated telecommunications regulations in our home market, and became more active in expanding our business beyond Hong Kong.

2003 was a year of innovation for the Group, thanks to the second-half launches of our New Generation Fixed Line Services (NGFL), now Broadband TV and PCCW Convergence.

2003 Results Highlights

Solid progress was made towards achieving the Group's operational and financial goals in 2003. In particular, the quality of our balance sheet improved and was further deleveraged. Net debt was cut by HK$3,788 million to HK$29,131 million at December 31, 2003, with the Group's debt-to-EBITDA ratio improving to 4.7x in 2003 compared with 5.1x in 2002. Average debt maturity remained comfortable at about seven years.

Consolidated Group revenue for the year ended December 31, 2003 was HK$22,550 million, approximately 12 percent higher than a year ago. The increase was due to HK$4,111 million in revenue from our Residence Bel-Air property development. Excluding Residence Bel-Air, revenue fell by approximately 8 percent to HK$18,439 million. This reflected reduced turnover from our traditional telecoms services, lower revenue from other property operations and the reduction of unprofitable business operations to contain costs. The reduction was partially offset by sales growth for our broadband and IT businesses. The Group's core telecoms revenue was negatively affected by fierce competition.

Consolidated EBITDA for the 2003 fiscal year was HK$7,372 million, approximately 9 percent lower than a year ago. Residence Bel-Air delivered a minor profit after initial costs. Excluding Residence Bel-Air, we maintained EBITDA margin at 40 percent through cost containment, despite start-up costs for IT operations in mainland China and product-and-service launch expenditure in Hong Kong.

In view of changing market conditions and our focus on core business, we decided to make significant impairment provisions. Management believes this reflects the appropriate current worth of these assets and will provide a sound basis to generate value for shareholders in the future. The Group incurred approximately HK$6,954 million in aggregate, non-recurring charges against the carrying values of REACH, certain tangible and intangible assets, investments in joint-ventures and associates, and restructuring costs. I should stress that these provisions and charges have no impact on the Group's operating cash flows or its ability to repay debt. We do not now expect to incur further material impairments in 2004 and the foreseeable future.

REACH continued to operate in an extremely challenging market and sustained a net loss for the year ended December 31, 2003 of HK$1,723 million. This compares with a net profit of HK$1,174 million for the previous year. We expect REACH will continue to be affected by the oversupply of connectivity services in its major markets. PCCW has written down its investment in REACH to zero, which should eliminate the sharing of any losses that may arise at REACH in future.

As a result of the stated non-recurring charges and provisions, the Group sustained a consolidated loss attributable to shareholders of HK$6,100 million for the year ended December 31, 2003. This compares with a consolidated loss of HK$7,762 million for the previous year.

The Group recorded a profit before non-recurring items (comprising impairment provisions, net loss from disposal of investments in associates and joint-ventures and restructuring costs), and REACH, of approximately HK$1,676 million for the year ended December 31, 2003. On the same basis, profit for the previous year was approximately HK$2,041 million. The reduction was primarily due to lower operating profit from a 9 percent drop in EBITDA, partially offset by a higher net investment gain and a lower tax charge for the year. Please refer to Management's Discussion and Analysis on pages 36 to 52 for more on the Group's results.

Management remains committed to putting PCCW in a position to pay a dividend. To this end, the Group has made significant progress towards achieving our financial goals of reducing debt and achieving 'A' ratings at HKTC.

In parallel, we have begun to address technical matters to put the Company in a position to pay a dividend. These include the necessary reorganization of the Company's balance sheet. By the end of 2004, management anticipates the Company will have completed the necessary formalities to permit dividend payment, as and when the Board considers it appropriate in the future.

Operations in 2003

Our operations in early 2003 were affected by the outbreak of SARS. Development of our IT business in mainland China almost came to a standstill. In addition, the Hong Kong economy deteriorated further. Business returned to normal later in 2003, at the time we began launching new products and services.

Significant operational achievements in 2003 included:

Unihub branding for the Group's IT competency: Our Business eSolutions division, which includes the Group's IT operations, recorded revenue of HK$2,326 million in 2003 – 4 percent higher than last year. Growth was achieved primarily in the mainland China market.

The division's IT operations were re-branded Unihub to present a clear identity. A core mainland China management team was established, with a mission to co-ordinate and grow our business across the mainland, where we believe the IT market offers attractive growth potential. Unihub China Information Technology Company Limited, which we co-own with China Telecom, commenced operations in July 2003.

New Products and Services: Our management team tackled difficult market conditions with two parallel approaches – to encourage the regulatory authority to review outdated policies, and to enhance the value of our fixed-line business.

The Group's 2003 results did not fully reflect the effect of the launch of our new products and services in the second half of 2003, but we are confident of a positive impact on our results for 2004. We have already seen improved customer retention during the last quarter of 2003, with the new services helping to suppress fixed-line customer churn and stimulate consumer broadband growth.

By the end of 2003, more than 650,000 customers had signed up for NGFL Services, representing more than 30 percent of the Group's addressable exchange lines. I am very encouraged by net fixed exchange-line loss showing a 25 percent reduction in the second half of 2003 compared with the first half. By December 31, 2003, now Broadband TV had attracted more than 200,000 existing and new NETVIGATOR customers, representing approximately 40 percent of our consumer broadband customer base. now Broadband TV has proved to be a powerful growth catalyst. The number of consumer broadband subscribers grew 22 percent from a year ago to 517,000 at the end of 2003. Our challenge now is to meet demand for equipment installation while keeping costs low.

Encouraging Results from Residence Bel-Air: Residence Bel-Air at Cyberport enjoyed remarkable sales success in 2003. The project has now pre-sold all 1,204 residential units of the first two phases and raised approximately HK$9.765 billion. The proceeds were used to fund construction costs at Cyberport, cutting net cash outflow from the Group to HK$16 million in the second half, from HK$522 million in the first half. We do not expect to make further cash investment in Cyberport, which will enhance our cash flow and ability to pay down debt. Strong demand for Residence Bel-Air units is testimony to the high quality of the project and the skills of our management team.

The listing of the Group's Infrastructure unit: We have announced our intention to list the Group's Infrastructure unit – which includes the Group's Cyberport development, property holdings and management operations – on the Stock Exchange of Hong Kong. Subject to meeting conditions inclusive of approval from shareholders, the Group's Infrastructure unit will be injected into a locally listed company, Dong Fang Gas Holdings Limited (DFG), before the end of

June 2004. The value of assets to be transferred into DFG is approximately HK$6,557 million. If the transaction goes to plan, DFG will become a listed subsidiary of PCCW, and its results and balance sheet will be included in the Group's financials. More details will be contained in an announcement dated March 5, 2004. The transaction will allow the Group's property and telecoms-related businesses to be run as separately listed companies. Our Infrastructure unit will be able to focus more sharply on its business and financial position and attract interest from property investors, which will be beneficial to DFG and its controlling shareholder, PCCW.

New Growth Business – UK Wireless Broadband: The Group made significant inroads into the UK broadband market by acquiring a national license in the 3.4 Ghz band of the radio spectrum. This should be a cost-effective investment in a market with good growth potential. Our preparations in the UK are progressing towards soft launch of services in the first half of 2004.

Reduced Costs: Total Group operating costs in 2003 decreased by 4 percent from the previous year. This was the result of implementing structural improvements, such as the formation of Cascade. More work to keep cost under control will be undertaken in 2004. In particular, we shall follow through with cost reductions at JALECO, our software games operation in Japan, and we will target efficiency gains in corporate overheads.

Regulatory Activities

The need to campaign for regulatory policy reform was at the top of management's agenda. We believe current policies, in particular on Type II Interconnection and restrictions associated with our dominance status, are outdated and hamper investment and innovation. Accordingly, PCCW worked hard in 2003 to persuade the Government to remove such policies and return to fair competition in a free market.

In its second Type II Interconnection consultation paper, released in December 2003, the Government accepted that the policy is outdated and should be phased out to maximize investment and innovation. However, the Office of the Telecommunications Authority's (OFTA) proposed six-year phase-out period is too long, its building-by-building approach too cumbersome and the extension of unbundling to the broadband market unnecessary. We believe compulsory unbundling should end and the service should be offered on a commercial basis, as alternative networks now reach over 95 percent of all users.

PCCW has applied for its dominance status to be lifted in the business and residential fixed-line sectors on the grounds that market shares have fallen below OFTA thresholds, and that the market is now fully competitive. In response, OFTA initiated industry consultations on our applications and we responded with submissions in early 2004.

Corporate Governance

Much work was done in 2003 to enhance the Group's overall corporate governance, which the management team takes very seriously. Key steps during the year included creation of the Group Managing Director position, separate from the post of Chairman; and establishment of Board Nomination and Remuneration Committees. Please refer to the corporate governance section on pages 29 to 35 for more information.

Outlook for 2004

Looking into 2004, the management team is seeking to maximize the advantage afforded by our new products and services in 2003. We aim to bring more innovation to the market, while maintaining strict cost control to lift operational efficiency. We will continue to pay down debt and work towards the objective of paying a dividend.

Though we have achieved progress on regulation in 2003, it is too early to claim success – so we will continue to press the Government to accelerate reform of policies that have unfairly restricted the Group's ability to compete.

The mainland China market is a growth opportunity we are tackling through our Unihub IT services brand, while our expertise in broadband technology and marketing is being applied to a wireless broadband business opportunity in the UK. We are quietly confident that fixed wireless broadband will provide us with a breakthrough in technology and new markets – not only in the UK, but also in other geographies, including mainland China.

2004 will be full of challenges – but our management team has entered the year with confidence and a determination to succeed.

Jack So
Deputy Chairman and Group Managing Director
March 4, 2004