Statement from the Deputy Chairman and Group Managing Director

- 2004 was a year of creating value for shareholders
- We made a profit, paid our first dividend and continued to pay down debt
- Progress was made in stabilizing core revenues
- We unlocked the market value of our property assets
- An alliance with China Netcom Group, and expansion to mainland China and the UK are increasing growth prospects

It is my pleasure to report that 2004 was a year of creating value for shareholders. Our emphasis was on defending market share, sustained profitability, and laying the foundations for future growth.

In financial year 2004, we made a profit and paid our first dividend. At the same time, we continued to pay down debt, in an effort to further improve the Company's financial position.

We made progress towards stabilization of our core telecoms revenues as the line loss situation improved significantly and as our innovative new offerings including now Broadband TV, PCCW CVG, and New Generation Fixed Line services created new revenue streams. Both the broadband and IT solutions businesses experienced strong growth.

On the regulatory front, we moved towards a more level playing field as the regulator decided to phase out Type II interconnection and granted us a new Fixed Carrier license that allows pricing flexibility.

We unlocked the market value in our property assets in 2004 by transferring them into a separately listed company, renamed Pacific Century Premium Developments Limited (PCPD).

Beyond Hong Kong, we laid the foundation for future growth by concluding the deal with China Network Communications Group Corporation ("China Netcom Group"), expanding our Unihub IT solutions business in China, and continuing to invest in the wireless broadband network project in the UK.

2004 RESULTS HIGHLIGHTS

Further solid progress was made towards achieving the Group's financial and operational goals in 2004.

Consolidated Group revenue rose 2% to HK$22,895 million. The increase was mainly due to a 32% jump in revenue from our Bel-Air property development to HK$5,415 million. Excluding Bel-Air, revenue declined by approximately 5%, reflecting mainly reduced turnover from our traditional telecoms services, and reduction in non-core businesses. The Group's core telecoms revenue was negatively affected by fierce competition. Although the line loss situation was much improved in 2004, the year's telecoms revenues reflected the full-year impact of the significant line loss during 2003. In addition, there was price compression in retail IDD and traditional data services. The reduction was partially offset by sales growth for our NETVIGATOR broadband and Unihub IT businesses.

Group EBITDA was 11% lower at HK$6,552 million. Bel-Air delivered an increased EBITDA of HK$550 million, up from only HK$11 million in 2003. Excluding Bel-Air, the EBITDA decrease was primarily due to lower revenue from traditional telecoms services. There were also start-up costs associated with our new businesses. These cost increases were partially offset by savings in operating costs, which were reduced by 10% in 2004. We will continue to target efficiency gains in all areas of the Group.

Consolidated Group profit attributable to shareholders was HK$1,638 million in 2004 compared with a HK$6,100 million loss a year ago. Earnings per share were 30.50 HK cents. The significant improvement in profitability was due to sharply reduced asset and investment impairments, operating cost reduction, lower depreciation, and lower net finance costs and tax charges.

Our balance sheet was further de-leveraged in 2004 with net debt cut by HK$2,931 million to HK$26,200 million at year end. The Group's debt-to-EBITDA ratio improved to 4.5 from 4.7 in 2003, and average debt maturity remained comfortable at about six years.

PCCW and Telstra reached agreement in June 2004 with REACH's banking syndicate to buy back a US$1.2 billion loan facility for US$311 million. By doing so, we greatly reduced REACH's debt financing obligations and assured business continuity for REACH customers.

Please refer to Management's Discussion and Analysis on pages 36 to 44 for more on the Group's results.

Management is pleased that PCCW was able to start paying a dividend in 2004. Following the successful completion of a capital reduction as a necessary technical formality, an interim dividend of 5.5 HK cents per share was declared and paid in November 2004. The Board approved a final dividend of 9.6 HK cents per share in March 2005, bringing the total dividend for 2004 to 15.1 HK cents per share. Our total dividend yield for 2004 is 3.66%, based on the March 30, 2005 closing share price. This is the start of a new era of PCCW rewarding its shareholders.

OPERATIONS IN 2004

Our significant operational achievements in 2004 included reducing our fixed-line loss, successfully launching new products and services, and investing in new growth opportunities.

now Broadband TV achieved critical mass: The number of sign-ups for now Broadband TV reached 416,000 (361,000 installed) by year end, and the number of channels offered reached 67, including 52 video and 15 music. At these levels, now Broadband TV has achieved critical mass, only 16 months after launch. To ensure continued growth in sign-ups, we must widen the appeal of our content. Towards year end, we added a 24-hour Cantonese-language all-news channel. We also launched an Asian drama channel in Cantonese, and progressively added Cantonese language to our sports programming.

Strong growth of NETVIGATOR broadband: The success of now Broadband TV supported strong growth of our NETVIGATOR broadband business. The number of consumer broadband customers grew 28% from a year earlier to 660,000 at the end of 2004, while the number of business broadband customers grew 17%.

Nearly a million NGFL users: Our market-leading New Generation Fixed Line (NGFL) services played an important role in slowing our line loss during 2004. By year end, our customers had signed up for more than 969,000 NGFL lines, representing almost 50% of the Group's addressable exchange lines. PCCW continues to be the only fixed-line operator in Hong Kong with a service offering voice, short messaging service (SMS) and data download services. This product differentiation has been a major factor in reducing churn. I am very encouraged by the 41% reduction in our net total line loss in 2004.

Strong Unihub IT growth in China: Our Business eSolutions division, which includes the Group's Unihub IT operations, recorded a 16% rise in revenue to HK$2,701 million in 2004. Growth was achieved primarily in the mainland China market, driven by the strong growth of the Unihub IT solutions business. Unihub China Information Technology Company Limited, which we co-own with China Telecom, commenced operations in July 2003, and by 2004 was making a significant revenue contribution.

Strong Results from Bel-Air: PCPD's Bel-Air residential project at Cyberport enjoyed another year of strong sales. More than 560 luxury apartment units were pre-sold during 2004, generating US$1.15 billion of sales proceeds. Continuing strong demand for Bel-Air units is testimony to the high quality of the project and the skills of our management team.

The first pay out of surplus proceeds of the Cyberport project to the Hong Kong SAR Government and PCCW was made in August, with PCCW receiving HK$ 920 million. The end of cash outflow to the Cyberport project and the beginning of surplus proceeds payments enhances the Group's cash flow.

Property assets transferred to separately listed company: The property-related assets held by PCCW's Infrastructure division – including the Group's Cyberport development rights, property investments and facilities management operations – were transferred in May to Hong Kong-listed Dong Fang Gas Holdings Limited ("DFG"), which was renamed Pacific Century Premium Developments Limited (PCPD). Initially, PCCW held 93.4% of PCPD. By year end, that equity holding had been reduced to 51%, before being increased back to approximately 62% on March 1, 2005, when PCCW exercised Tranche A of the Convertible Notes. The transaction unlocked the value in the Group's property-related assets and allows the Group's property and telecoms businesses to run as separately-listed companies.

Successful soft launch of UK wireless broadband: We successfully soft launched wireless broadband network services in the Thames Valley west of London during 2004. The sign-up rate and customer feedback were encouraging, and at year end we decided to expand coverage to a wider area during 2005.

REGULATORY ACTIVITIES

The campaign for regulatory policy reform was at the top of management's agenda during 2004, and we achieved some significant successes, including the Hong Kong SAR Government's decisions to award PCCW a new, more flexible Fixed Carrier license and to phase out Type II interconnection.

PCCW applied in late 2003 for its dominance status to be lifted in the business and residential fixed-line sectors on the grounds that our market share had fallen below Office of the Telecommunications Authority (OFTA) thresholds, that the market is now fully competitive and that we lack market power. Following industry consultations, OFTA offered PCCW a new Fixed Carrier license under which PCCW is no longer considered dominant and is free to change its tariffs without the approval of OFTA. PCCW accepted the new ex-post license in early 2005.

The Government announced in July 2004 that it would phase out Type II interconnection by July 2008, bringing to an end the requirement for PCCW to lease the "last mile" to its fixed-line competitors. The Government accepted that the policy is outdated and should be phased out to maximize investment and innovation.

NEW STRATEGIC SHAREHOLDER

PCCW engaged in extensive discussions with China Netcom Group during 2004 on possible forms of cooperation. On January 20, 2005, the two companies announced that China Netcom Group had agreed to pay approximately HK$7.9 billion (about US$1 billion) to acquire 20% of the enlarged share capital of PCCW at HK$5.90 per share, thereby becoming the Company's second largest shareholder. PCCW's shareholders approved the agreement at an EGM on March 16, 2005. We look forward to completing the transaction soon and welcoming to our Board three Directors nominated by China Netcom Group. The new Directors will serve on various Board and Management committees, and one will be a Deputy Chairman.

Already before formal completion of the transaction, PCCW and China Netcom Group have established joint working groups to actively explore opportunities in broadband, property redevelopment, Yellow Pages, and international business. The working groups have engaged in intensive discussions and reached agreement on several key principles on how to jointly develop our business in China (subject to PRC regulations and necessary consents).

Broadband: PCCW intends to work with China Netcom Group by acquiring an interest in CNC Broadband Network Company Limited ("CNC Broadband"). Leveraging our expertise and experience in the development and marketing of a full range of broadband services, together with China Netcom's local market knowledge and infrastructure, we will jointly promote broadband services including connectivity and value-added services in targeted cities in China.

The services will initially be rolled out in six southern China cities – Hangzhou, Ningbo, Wenzhou, Yangzhou, Chongqing, and Chengdu.

Property Redevelopment: By drawing on its experience in property development, PCCW will work with China Netcom Group to fully unlock the value in China Netcom Group's land and property assets. The two sides have selected Hujia Lou telephone exchange building in Chaoyang District, Beijing, as the first site for redevelopment. This project will serve as the model for any future joint redevelopment of other China Netcom Group exchange buildings.

Both sides have agreed to undertake a feasibility study on the development of potential sites from China Netcom Group's land resources throughout China, measuring more than 28 million square meters in total area.

Yellow Pages: China Netcom Group and PCCW have agreed to jointly develop the Yellow Pages business. Together, the two sides will develop a multimedia platform to promote the business in both mainland China and Hong Kong through print, web-based, mobile SMS and other versions. It is intended that the venture will operate a business initially covering 20 provinces and cities in mainland China, in addition to Hong Kong.

OUTLOOK FOR 2005

The management team is seeking to maximize in 2005 the advantages afforded by our new strategic alliance with China Netcom Group and our new Fixed Carrier license in Hong Kong. We aim to continue bringing more new products to the market, while maintaining strict cost controls.

Following the regulator's decision to grant us a new ex-post license, we will be aiming to win back customers lost to competitors. We have confidence that this will be another year of substantially reducing fixed-line loss and stabilizing core revenue, while continuing to grow our NETVIGATOR Broadband Internet access and now Broadband TV businesses.

In the UK, our wireless broadband network business will continue to expand its coverage area. We are taking a prudent and cautious approach commensurate with market demand and technology enhancement.

We will continue to work closely with China Netcom Group on opportunities for cooperation and joint investment in mainland China and internationally.

While investing in mainland China and the UK to increase our potential for earnings growth, we will continue to focus on our core business in Hong Kong, both stabilizing traditional businesses and building new lines of business.

2005 will be a year of further progress towards enhancing shareholder value.

Jack So
Deputy Chairman and Group Managing Director
March 30, 2005