

Business Overview

POSITIONING THE COMPANY FOR GROWTH



A year of creating value has laid the foundations for growth in 2005 and beyond.

In 2004, we built on our reputation for communications innovation in the home, the workplace and on the move – winning a number of awards and accreditations along the way.

At the same time, PCCW formed a strategic alliance with China Netcom Group, ramped up its service to Asia's growing community of multinational corporations (MNCs) and began to create a wireless broadband network business in the UK.

A major regulatory development in Hong Kong – greatly assisted by our consultative and litigation efforts throughout 2003 and 2004 – will have significant impact on PCCW's business by granting commercial freedom to the way we price our products and services (see page 18).

Meanwhile, adoption of our New Generation Fixed Line (NGFL) services among business and residential customers advanced steadily towards the 1 million mark, generating greater customer loyalty and helping to slow churn.

Despite a global trend of falling numbers of fixed lines, our 2004 figures show an average reduction in line loss among retail commercial and consumer customers of 57%.

By December 2004, more than 361,000 NOW Broadband TV services were installed for customers who were able to enjoy a choice of 67 channels of local and international programming from our ground-breaking pay-TV service. Within a little over a year, the operation has grown into the largest of its kind in the world and has now entered the commercial arena with top hotels and hospitality outlets adopting the service.

In a major regional benchmarking exercise involving a number of global telecoms players, PCCW was found to provide the best quality local access lines and international leased lines after the Gartner Dataquest User Survey polled more than 400 MNC network managers in Asia Pacific.

Telecommunications Services (TSS)

New Generation Fixed Line (NGFL) services will continue to be shaped by the way customers respond to our innovative ideas for features and services. As a measure of that response, activation of NGFL functions increased from 70% in 2003 to 86% in 2004.



LOCAL TELEPHONY

Enhancements to our NGFL services, including a cordless home SMS phone and imaginative infotainment, helped us retain customers by adding value rather than competing on price.

NGFL continued to reinvigorate Hong Kong's fixed-line market – of which we hold a 68% total share – by continuously expanding the role of the phone in everyday home or office life.

This included stimulation of fixed-line SMS usage by initiatives such as prize quiz games and joint consumer promotions, plus new downloads as diverse as ringtones, football commentary and a facility to view PCCW bills.

Launched in July 2003, NGFL services will continue to be shaped by the way customers respond to our innovative ideas for features and services. As a measure of that response, activation of NGFL functions increased from 70% in 2003 to 86% in 2004.

Last year also saw development of a new NGFL service that enables our commercial clients to provide a better experience for their own customers. Super Hotline uses our network's growing "intelligence" to route callers to any one branch or department of a company by simple voice command. Signing up to Super Hotline means businesses with multiple branches and departments only need to offer their customers one number. PCCW's intelligent network does the rest, as soon as a voice command identifies the required branch or department.

PCCW's philosophy on IP (Internet Protocol) has been to proactively translate our technology know-how into innovative products and services to generate new revenues.

The Company began pushing IP benefits into everyday office life in 2003 with the launch of PCCW Convergence, which was renamed Prioritize Plus in February 2005. This helps customers to prioritize communications by bringing different message formats – such as voicemail, email and fax – together into one onscreen view, at the desk or on the move. Prioritize Plus is one of the next-generation services offered to business customers as part of a portfolio now branded PCCW CVG.

Our Commercial Group is now processing valuable customer feedback from among more than 10,000 Prioritize Plus users to develop versions to suit the SME (small-to-medium-sized enterprise) market, as well as MNCs across the region.

The service now branded Prioritize Plus won influential industry recognition when it was named Next Generation Telecommunications Service category winner in the IT Square "Editor's Choice" 2004 Awards, organized by Hong Kong's *Sing Tao* newspaper. Another everyday example of PCCW's IP prowess can be found at the prestigious new Langham Place Hotel in Mongkok, where hi-tech facilities include Hong Kong's first color IP telephones and a Wi-Fi "bubble" enabling calls to reach guests, regardless of where they might be in the hotel at any one time.

TRANSITION TO AN ALL-IP NETWORK

As a pioneer of IP technology, PCCW plans to build a network infrastructure that will converge all services – voice, data, video and applications – on one network.

What became the world's first all-digital network in 1993 has already begun its transition towards an all-IP infrastructure.

The carefully-considered design of the project means existing equipment will be phased out as it reaches the end of its working life to ensure maximum service is delivered before replacement.

As well as keeping Hong Kong at the leading edge of Information and Communications Technologies (ICT), the transition will enable PCCW to realize operational efficiencies plus significant space and cost savings.

INTERNATIONAL TELECOMS SERVICES

Although price erosion continued to impact on Hong Kong's International Direct Dial (IDD) market, PCCW was able to generate double-digit growth in overall traffic minutes and maintain total market share in the face of fierce competition.

BROADBAND

PCCW maintained its leadership in broadband services in 2004, with residential customers numbering 660,000 compared with 517,000 the previous year, and the number of retail business broadband lines – which form part of the Business eSolutions portfolio – increasing to 73,700 by the end of 2004 from 62,800 in 2003.

The reputation for quality of service held by our NETVIGATOR Internet Service Provider (ISP), coupled with NOW Broadband TV's growing popularity, helped reduce broadband churn by a significant margin in 2004.

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Telecommunications Services (TSS)

Localization was an important focus for NOW Broadband TV in 2004, with the result that the ESPN and STAR SPORTS channels now provide commentaries in Cantonese, as well as English, and all Disney animation programming is now offered with Cantonese and English soundtracks. A significant addition to the NOW Broadband TV line-up in 2004 was the 24-hour ATV News Channel – a 100% local Cantonese production.



Hong Kong's improving economy in 2004 spurred the commercial community to look beyond simple Internet access and use our broadband network to carry content and applications to enhance their business operations.

The broadband scene in Hong Kong is widely regarded as the most successful commercially-focused model in the world, with overall household penetration exceeding 60% by the end of 2004, according to the Office of the Telecommunications Authority. PCCW is able to serve all major business areas and 95% of all homes with broadband services.

NOW Broadband TV

Our pay-TV service has been a major success story since launch in September 2003, when this new arrival to Hong Kong's home-entertainment scene began with 23 channels.

A little over a year later, more than 361,000 **NOW** Broadband TV services were installed, offering 67 channels of local, Asian and international content.

In January 2005, Hong Kong was identified as Asia Pacific's fastest-growing pay-TV market in 2004, with the overall number of subscribers rising 34% to about 1.1 million. Dow Jones reported that the increase was powered by growth in **NOW** Broadband TV.

Localization was an important focus in 2004, with the result that the ESPN and STAR SPORTS channels now provide commentaries in Cantonese, as well as English, and all Disney animation programming is now offered with Cantonese and English soundtracks. In addition, most other international channels carry Chinese subtitles.

PCCW's role in the region's pay-TV industry took center stage in October last year when the Cable & Satellite Broadcasting Association of Asia (CASBAA) presented **NOW** Broadband TV with the inaugural CASBAA Chairman's Award.

Representing 120 corporations serving more than 3 billion viewers, CASBAA chose to honor **NOW** Broadband TV for its "innovative and proactive marketing of a secure and advanced pay-TV platform and for growing its interactive capability, resulting in a stellar subscriber take-up".

Another 2004 development was in extending our pay-TV service into the commercial arena. The result has been to make **NOW** Broadband TV available on 13,000 screens in Hong Kong hotel rooms and a number of other hospitality outlets such as sports bars.

NOW Broadband TV is also being made available in the office, where it offers a rich mix of local, regional and international news, plus business and financial analyses, as well as golf and other sports.

In 2005, our pay-TV service will seek to offer an even wider variety of content, plus interactive applications.

NETVIGATOR

Our ISP's popularity continued to rise in 2004, picking up awards for quality of service and innovation in both the residential and business sectors.

For example, NETVIGATOR has triumphed every year since 1999 in *Next* magazine's Top Service Award scheme for ISPs, setting a virtually unbeatable Hong Kong record.

2004 also saw Business NETVIGATOR Broadband declared winner of the Business Internet Service class of the IT Square "Editor's Choice" 2004 Awards, organized by the *Sing Tao* newspaper.

Last year's winning streak continued with Hong Kong IT magazine *PC Market* naming NETVIGATOR winner of its Best of Broadband Internet Service Provider Award in recognition of "technology advancement that caters for consumer needs". Our ISP also won the PCM Best of IT Award scheme's Universities and College Students' Choice Award, underlining its popularity among young people.

Another major 2004 development was the launch of the NETGame platform, which comprises a Sony Computer Entertainment PlayStation 2 feature, the *netvigator.com* games portal and other games-related services and collaborations.

Microsoft last year recommended PCCW as the No.1 choice among Hong Kong carriers to provide access to its Xbox Live online games after tests found that NETVIGATOR's broadband service out-performed competitors in speed, stability, coverage and technical support.

Wi-Fi services

NETVIGATOR customers are able to get online without wires at some 350 Hong Kong Wi-Fi hotspots, which now include stations along the MTR Corporation's Airport Express route to complement service throughout public areas at Hong Kong International Airport.

Sending and receiving email is now possible throughout the Cathay Pacific Airways fleet, thanks to the NETVIGATOR Inflight service, which connects with the Internet via satellite at frequent intervals.

In addition, international travelers are able to use our NETVIGATOR Internet Roaming Service from 4,800 cities in 150 countries.

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Telecommunications Services (TSS)

**Value-added services**

Subscriptions to NETVIGATOR's value-added services rose in 2004 to 400,000, from 330,000 in 2003. These services offer features such as video communications, protection against undesirable material getting to youngsters, spam blocking and digital image and video storage.

now.com.hk

Subscribers to Hong Kong's premier entertainment and information portal increased to 198,000 in 2004, from 169,500 the year before.

NETVIGATOR provides a total experience in broadband home entertainment – *now.com.hk* for PC users and NOW Broadband TV for television viewers.

As well as the portal's multi-media platform offering current TV and radio programs, plus music videos and Asian drama, *now.com.hk* has expanded its range of attractions to include casual games and a "virtual clubhouse".

NETVIGATOR subscribers are the first in Hong Kong to use an "avatar" feature – co-branded with prominent names in fashion and sportswear – that enables *now.com.hk* users to build an online image from a choice of hairstyles and clothes.

These serve to encourage growth in NETVIGATOR's online community of young, Internet-savvy, broadband users.

PCCW CONSUMER SALES AND CHANNELS

PCCW runs one of the largest sales operations in Hong Kong, via channels including retail shops, a 24-hour call center, a direct sales team and partnership sales.

The new-look chain of PCCW shops showcases the Company as an Information and Communications Technologies (ICT) expert, offering shoppers total connectivity plus a full range of the latest telecoms, computer and digital products.

All our 11 retail outlets have been upgraded to offer a bright and attractive hi-tech image that rejuvenates PCCW's presence on the high street and provides an interactive shopping experience.

Among the accolades won by the PCCW shop team last year were an individual 2004 Frontline Level Service & Courtesy Award from the Hong Kong Retail Management Association, and the Hong Kong Merchant of Integrity title, awarded for the second consecutive year by readers of the *Guangzhou Daily* newspaper.

Similarly, our 24-hour Hong Kong call center last year won a gold award from the Hong Kong Association of Customer Service Excellence and a best-in-class award from the Asia Pacific Customer Service Consortium.

PCCW products and services are also taken to consumers by a mobile team of direct sales professionals, while more than 1,000 business agents act as retail outlets for PCCW phone cards, network services, computer hardware and accessories.

LOCAL AND INTERNATIONAL DATA

Despite continued downward pressure on data prices, PCCW experienced significant growth in overall customer bandwidth consumption last year and maintained market share.

With some 5,000 connections, our IP-VPN operation is the largest of its kind in Hong Kong and has proved popular in supporting a growing trend of office automation and adoption of applications such as video-conferencing.

One of the consequences of falling data prices has been to make IPLCs (International Private Leased Circuits) more attractive to Asia Pacific's business community, which uses them for increasingly bandwidth-hungry applications.

PCCW's fast-growing reputation as a world expert in the field of IP technology was reinforced in January 2005 when the Company won a contract to build a leading-edge, IP-based network for Hong Kong Exchanges and Clearing Limited (HKEx).

When finished in 2007, the project will result in the largest integrated, mission-critical, IP-enabled securities and derivatives network in Asia.

Other large-scale contracts won last year included a back office solution for the Bank of East Asia and Phase 1 Academic Infrastructure for The Chinese University of Hong Kong – Tung Wah Group of Hospitals' Community College.

A data-carrying agreement with China Telecom struck in 2003 continues to enable PCCW to offer businesses access to the whole of mainland China through one point of contact in Hong Kong.

Our long-standing relationships with mainland China's telecoms operators position PCCW well as an expert provider of solutions into, out of and throughout the mainland. One large-scale solution put together by PCCW in 2004, for example, networked locations for an MNC in 20 cities across the mainland.

Through our presence in business hotspots such as Beijing, Shanghai, Guangzhou and Shenzhen, as well as via our various joint ventures, 2004 saw PCCW providing a growing number of solutions to incoming MNCs requiring connectivity, bandwidth, CPE and valued-added services. At the same time, the Company has been providing a similar service to Chinese conglomerates wanting to expand outside mainland China. Among the many accolades won by PCCW last year was the Best Marketing Strategy Award as part of the Frost & Sullivan Service Provider of 2004 Awards. These were based on a benchmarking study of performances from global and regional data service providers in Asia Pacific.

A statement from the Frost & Sullivan global consulting company said: "PCCW has a very clear marketing strategy for its customers, particularly the North Asian markets, helping Hong Kong enterprises and MNCs to expand and build their business operations throughout the region, especially into mainland China."

GLOBAL BUSINESS

A sharpened focus on serving MNCs and large organizations across Asia led to 100% growth last year in PCCW's provision of connectivity in and between markets other than Hong Kong.

PCCW is fast earning a reputation as an Asia-focused ICT player, thanks to its understanding of how technology can address modern business issues, and the Company's wealth of relationships in the region.

Thanks to points of presence in geographies including Europe, the US, Japan and a number of Asian countries, PCCW is able to strike a rapport with MNCs in their home territories, as well as in Hong Kong, with a view to serving their networking needs in developing markets such as India and southeast Asia.

One of our Global Business unit's major connectivity selling points is its relationship with REACH (see page 21), an Asia-focused international wholesale carrier and leading IP backbone operator.

BRAND

Moves to harness the power of our brand to increase market share and boost customer loyalty made visible progress in 2004.

The PCCW brand is a corporate asset of significant value and represents merits such as quality, innovation, experience and trustworthiness.

Strong branding is vital in Hong Kong – one of the world's most fiercely competitive telecoms arenas – and regular surveys help us to understand market dynamics and influence buying decisions.

A 2004 study of nearly 3,000 Cantonese speakers revealed that PCCW was regarded as Hong Kong's leader in delivering "innovative products and services that enhance my lifestyle". Respondents chose PCCW as the outright winner of a group comprising four telecoms players and a number of other major companies in Hong Kong.

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Telecommunications Services (TSS)

As well as serving PCCW's complex technology needs at home and overseas, Cascade won a number of commercial projects in 2004. These included a network management center in mainland China, a mobile communications switching center in Hong Kong and an IPTV trial solution for a fixed-line player in southeast Asia.



The same survey identified PCCW as the preferred service provider when respondents were asked to rate five telecoms companies in terms of “has staff that are knowledgeable and helpful when making product and service selection”.

Similarly, respondents singled out PCCW when asked to rate the telecoms provider that “makes it worth my while to use two or more of its individual services at the same time”.

PCCW was again awarded Superbrand status in 2004, as well as being named Telecom Category Leader for the second consecutive year and Best Local Brand 2004/2005. The awards were made by the Superbrands Organization, an internationally-recognized arbiter of branding with a presence in more than 42 countries.

CASCADE LIMITED

The main thrust of Cascade's 2004 activity was in pursuing revenue-generating opportunities among other network-reliant organizations in the Asia-Pacific region, while continuing to serve PCCW's complex technology needs at home and overseas.

Among commercial projects won by the Cascade technical services provider were a network management center for a major mobile operator in mainland China, a switching center for a Hong Kong mobile services provider and an IPTV trial solution for a fixed-line player in southeast Asia.

IPTV is a potentially fertile field of business for Cascade, especially after fixed-line operators from Europe, South America and Asia visited Hong Kong last year to see **NOW** Broadband TV in action and to talk about Cascade's IPTV expertise.

Cascade also played a central role in the UK Broadband project (see page 21) and is now well positioned to offer wireless broadband technical services across Asia Pacific.

As well as achieving double-digit efficiency improvements in 2004, Cascade won a number of accolades. These included the International Telecom Network Service Center Award from the Hong Kong Q-Mark Council, one of the region's foremost quality certification institutions.

Another was the title of Best Practice Winner for Technology Deployment from Hong Kong's Best Practice Management (BPM) Group. This was in recognition of the Cascade-developed eCenter, which ensures top service to PCCW's voice, data and multimedia customers.

Cascade also provided the technical services strength behind PCCW's success in the Gartner Dataquest 2004 User Survey, which named our international leased lines and local access lines as the best in Asia Pacific.



By the end of last year, Cascade's people were holding more than 1,700 certifications, making the PCCW subsidiary one of the most highly-qualified technical services operators in the region. Quality accreditations held by Cascade include the telecoms-specific TL 9000 standard and BS 7799-2 certification for information security management.

CONTACT CENTERS

PCCW runs one of Asia's largest and most sophisticated contact-center operations.

More than 3,000 agents handle in excess of 100 million inbound and outbound customer calls in 15 languages from contact-center set-ups in Hong Kong, Guangzhou, Beijing, Shanghai and Taipei.

This unit reaches out to PCCW's own customers to help maintain high levels of user satisfaction, while providing a comprehensive range of contact-center solutions – including operational consultancy, build and design and outsourcing – to serve the customers of large organizations such as banks, airlines and manufacturers across Greater China.

The operation has attracted domestic and international acclaim for being highly skilled in all forms of customer contact and was named one of the top three of its kind by the Hong Kong Call Centre Association in 2004.

In addition, our contact center business was last year named one of the top-50 teleservices agencies in the world by Customer Interaction Solutions, a US-based firm specializing in the global call-center industry.

Regulatory Developments

A YEAR OF SIGNIFICANT ACHIEVEMENT

As well as being influenced by market forces, the Group's results are affected by policies established by the Hong Kong Government and the regulator – the Office of the Telecommunications Authority (OFTA).

Prime examples of such policies have been compulsory provision to competitors of our local-loop assets (phonelines into homes and businesses) and the regulation of PCCW as a dominant provider of residential and business-line services. Major progress was made on these, and other issues, in 2004.

Wholesale services

PCCW continued to provide network-to-network interconnection to other telecoms providers in 2004, with charges generally applied on a per-minute basis. Last year, some per-minute interconnection rates were lowered while others remained unchanged.

In addition, PCCW provides Internet Service Providers (ISPs) with bandwidth services, pursuant to OFTA-approved tariffs.

The Company also provides Fixed Telecommunications Network Services (FTNS) competitors with access to “last-mile” phonelines between exchanges and customers – a requirement known as “local-loop unbundling” – pursuant to OFTA-approved tariffs and contracts. Interconnection and unbundled local-loop services are provided to competitors on a non-discriminatory basis.

In July 2004, the Government announced that its policy of compulsory local-loop unbundling would be phased out, on a building-by-building basis, no later than June 30, 2008. The Company welcomed this development, although it had recommended a shorter phase-out timescale.

PCCW is now negotiating carrier-to-carrier service agreements consistent with this policy decision, with one agreement already concluded. Compulsory access to unbundled in-building wiring continues without a phase-out date. PCCW strenuously advocated a phasing out of compulsory unbundling, and campaigned for a two-year “sunset” approach plus commercial agreements.

Retail pricing flexibility

In the second half of 2004, OFTA initiated a consultation with a view to changing the regulation of PCCW's pricing activities from ex-ante to ex-post.

OFTA adopted this new regulatory regime on January 13, 2005, with PCCW-HKT Telephone Limited (HKTC) accepting a new ex-post Fixed Carrier license on January 14, 2005. In the ex-post regime, OFTA's prior approval for tariff revisions (including discounts and promotions) will no longer be required. Instead, HKTC will merely notify OFTA of any tariff revisions one day before they become effective. In addition, no presumption as to dominance can be drawn from this new license.

This modification represents a significant change in OFTA's regulatory approach and will allow PCCW to compete on a more level playing-field.

PCCW had previously argued vigorously for this much-needed reform, filing applications to be declared non-dominant in the residential and business fixed-line markets and initiating litigation to expedite change.

During 2004, the Company launched a variety of promotions and loyalty programs to address competition, with tariff revisions being employed to enhance operations, introduce new services and support network investment.

Wireless services

OFTA launched a public consultation in December 2004 on the licensing framework for deployment of broadband wireless Internet access as an alternative to the delivery of both fixed and mobile telecommunications services in Hong Kong. The regulator proposes to use the 3.5 GHz band, to assign spectrum by auction, to permit only “limited mobility” and to restrict the auction to fixed-line licensees. No specific technologies are mandated. Consultation submissions were filed in mid-March 2005.

Merger and Acquisition Provisions

Becoming fully operational in 2004, this piece of legislation deals specifically with merger-and-acquisition (M&A) activities in Hong Kong's telecommunications network sector and gives the regulator power to review M&As involving significant shareholding changes in carrier licensees. OFTA is also able to take appropriate action when it is of the opinion that the transaction would substantially lessen competition in the market.

Business eSolutions

PURSUING BUSINESS IN GREATER CHINA AND BEYOND



UNI HUB

PCCW's Information Technology (IT) services division is fast earning a reputation as a leading-edge solutions provider throughout Greater China and beyond.

Significant contracts with top telecoms operators continue to raise Unihub's industry profile within mainland China.

At the same time, the Unihub innovation behind the Hong Kong SAR Government's Smart Identity Card System – known as SMARTICS – has sparked interest all over the world.

In fact, the system beat global competition to win an award for Breakthrough Implementation in an Oscars-style ceremony staged in April 2004 as part of the US-based Card Technology & Security Technology Annual Exhibition in Washington DC.

Just a few months later, the SMARTICS system won a Gold Award in the 6th IT Excellence Awards organized by the Hong Kong Computer Society, before going on to win the e-Government & Services category of the Asia Pacific ICT Awards in December.

Unihub led the consortium to design, build and operate SMARTICS and holds a 10-year maintenance contract for the system.

In mainland China, Unihub managed an ERP (Enterprise Resource Planning) project across all 31 provinces for China Mobile, then went on to win a contract to provide a similar service for China Netcom Group. The deal was negotiated independently of the alliance struck between PCCW and China Netcom Group in January 2005.

Unihub is also active in the Pearl River Delta – widely known as the “factory of the world” – where it is winning business to serve offshore centers for MNCs attracted by CEPA (Closer Economic Partnership Agreement) and China's accession to the WTO (World Trade Organization). Unihub's cross-border services and Collaborative Commercial Platform (CCP) provide sophisticated, total IT solutions to link mainland factories with sales and distribution operations in Hong Kong and the rest of the world.

In line with its strategy to expand operations into other Asian markets, Unihub has won a contract to provide a railway telecommunications system in Taiwan, and has joined forces with an international software company to serve the management-system needs of medical authorities across the region.

Other significant projects last year involved major IT systems for the new Sands Macau casino and a 10-year contract with the Hong Kong SAR Government's Social Welfare Department to provide a range of technical infrastructure-related IT solutions and operational support.

Having satisfied the Hong Kong SAR Government's stringent security requirements, Unihub is now well placed to bid for other large-scale projects.

In late 2004, Unihub established an Outsource Development Center in Guangzhou in response to a growing IT outsourcing trend among MNCs and other large organizations in Asia Pacific.

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Business eSolutions



Unihub's Internet Data Center (IDC) customers in 2004 included a major Hong Kong mobile phone operator, the REACH international wholesale carrier, the Bank of East Asia and the Amway (China) Co Ltd direct-sales company

Unihub offers IDC and outsourcing solutions and services to companies using Hong Kong as a "stepping stone" into mainland China, as well as to mainland companies venturing into world markets via Hong Kong.

A major Unihub achievement last year was top rating at Level 5 of the CMMI-SW assessment scale, which was established by the Software Engineering Institute at the Carnegie Mellon University in Pittsburg, US, and is recognized as the world's No.1 standard in software engineering excellence.

PCCW DIRECTORIES

The unit enjoyed significant growth in online advertising revenue in 2004, thanks to a fruitful partnership with Yahoo! Hong Kong, which brings together large numbers of users drawn to the Yahoo portal with our many advertisers.

Recognized as one of the region's most innovative players in the online advertising industry, PCCW Directories plans to collaborate with Yahoo's global Overture platform in 2005, bringing a US-developed, pay-for-performance model to Hong Kong's online advertising community.

One million Yellow Pages directories, comprising English and Chinese-language versions of both Consumer and Business publications, were printed in 2004.

Our 2004 Yellow Pages Consumer publication won the Directories category of the US Gold Ink Award, while the Business edition achieved a gold-standard Superb Printing Award, organized by the International Association of Printing House Craftsmen in the US.

Developed in-house by the PCCW Directories team and launched in early 2004, the YP Card has been very successful as a means of making Yellow Pages advertisers more visible and attractive to affluent consumers.

With more than 70,000 registered users, the YP Card is available from the Yellow Pages directory books or online, and offers a wide variety of special offers and discounts from merchant outlets.

Partnerships with major companies extend the power of the YP Card by attaching special discount privileges to the purchase of certain products. For example, Motorola has added a special version of the YP Card to one of its handsets on the Hong Kong market to make it more attractive to consumers.

Asia and Beyond (Others)



REACH

REACH is an Asia-focused international wholesale carrier of voice, International Private Leased Lines and IP data services.

This 50:50 joint venture between PCCW and Australia's Telstra is also one of the world's top-10 carriers of international voice traffic.

In September 2004, and for the fourth consecutive year, independent research firm Gartner ranked REACH as top IP backbone operator in intra-Asia connectivity.

REACH's international capability also played a central role in PCCW's top ranking in IPLCs (International Private Leased Circuits) by the Gartner Dataquest User Survey in 2004.

In addition, the REACH IP network was the highest-ranked Asian carrier in a performance league table compiled by the *Netconfigs* network management resource in 2004.

Significant events in 2004 included an agreement enabling the joint venture's shareholders to buy back REACH's US\$1.2 billion loan facility from its lenders for US\$311 million.

In early 2005, forecasts from PCCW and Telstra showed that their future data capacity requirements will absorb virtually all REACH's existing inventory for the foreseeable future. As a result, REACH decided not to acquire additional capacity other than to meet the needs of PCCW and Telstra, although it will continue to provide voice and satellite services to all customers.

UK BROADBAND

PCCW's wholly-owned subsidiary, UK Broadband Limited, is continuing a phased rollout of its wireless broadband Internet-access service in the UK.

The soft launch in six towns west of London attracted positive feedback that proved the technology and demonstrated customer acceptance.

The result also confirmed that the Company is able to deliver a strong product in another part of the world at a competitive price, drawing on expertise and support from the Hong Kong NETVIGATOR team and systems.

Rollout is proceeding with a TD-CDMA-based technology using portable, non-line-of-sight, plug-and-play devices that deliver the instant-service concept communicated by UK Broadband's "broadband to go" marketing campaign.

Offering speeds on a per-user basis of 512kbps and 1mbps, the service generated 25% of local broadband growth and captured 7% of the six towns' total broadband market share within eight months of launch.

Further rollout is expected to increase the size of the UK Broadband customer-base fourfold by the end of 2005.

A survey of 1,000 UK customers in November 2004 revealed that 89% of respondents were satisfied or very satisfied with the service.

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Asia and Beyond (Others)

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Developments slated for 2005 include greater portability and launch of a Voice-over-Internet Protocol (VoIP) service.

Holding licenses to provide a wireless broadband network service for almost the entire UK and Northern Ireland, PCCW is generating valuable expertise that could be applied in other parts of the world such as mainland China and other markets in Asia.

BtNAccess

Formed by merging PCCW's Beyond the Network and Corporate Access units, BtNAccess is recognized as a market leader in IP communications.

Headquartered in the US and Hong Kong, and operating across North America, the Middle East, Europe, Africa and Asia, this unit offers solutions including a hosted PBX (private branch exchange) service, a technology-independent MPLS (Multiprotocol Label Switching) network covering more than 200 markets in 50 countries, wholesale VoIP and dedicated Internet access and hosting for enterprises.

BtNAccess also provides VSAT (very small aperture terminal) satellite solutions for voice and data communications in remote areas of the world not served by conventional fixed or wireless networks.

INFRASTRUCTURE

PACIFIC CENTURY PREMIUM DEVELOPMENTS

Majority owned by PCCW, Pacific Century Premium Developments Limited (PCPD) is principally engaged in the development and management of property and infrastructure projects, as well as investment in premium-grade buildings in Asia.

PCPD was formerly known as Dong Fang Gas Holdings Limited, an investment-holding company into which PCCW transferred property interests from its Infrastructure division on May 10, 2004.

People Development

TRAINING AND DEVELOPMENT TO KEEP THE COMPANY AT THE LEADING EDGE



PCCW places great emphasis on training and developing its people to keep the Company at the leading edge of Information and Communications Technologies (ICT), as well as at the forefront of best business and customer service practices.

More than 14,000 “man-days” of technology and product training were provided in 2004, covering areas such as wireless and IP networking.

Product and systems training

Product and systems training ensured effective introduction, sales and service of products such as NGFL services, NOW Broadband TV, PCCW Convergence (now branded Prioritize Plus) and NETVIGATOR broadband Internet access. More than 900 sales professionals were updated on product knowledge and application and systems operation.

Company and professional/practitioner accreditation

Individuals attained more than 388 industrial certificates, including qualifications for Certified Oracle Database Administrator; Certified Information System Auditor; Microsoft Certified System Engineer, Certified Project Management Professional and Certified Security Professional; plus PRINCE2 Practitioner and Sun certification.

In March last year, the Company’s Trainee Engineer scheme was approved for a further five years by the Hong Kong Institution of Engineers. By 2004, 67 staff members had attained Professional/Chartered Engineer status, while 58 of their colleagues were partway through the qualification process.

Training and certification of contractor staff for services, including voice, broadband Internet access and NOW Broadband TV, also served to maintain field service quality levels.

Business and management training

More than 12,000 man-days of business and management training were provided in Greater China and other territories to develop skills in sales, marketing, consultancy, service and management, as well as to support the expansion of our business outside Hong Kong.

A total of 47 sales-related training programs were conducted for more than 900 salespeople from the Commercial and Consumer Groups, while 320 man-days of direct sales training helped to build a competitive team of more than 130 staff members to meet targets for broadband Internet-access and NOW Broadband TV services. In addition, 550 man-days of training were provided for commercial sales teams.

In 2004, five salespeople won Distinguished Salesperson Awards from the Hong Kong Management Association, with two of our sales professionals also receiving Best Presentation Awards.

Through nomination, a Corporate Sales professional with an outstanding record was awarded the Shorter Specialist Scholarship (Business Leadership) under the British Chevening Scholarship Scheme managed by the British Council on behalf of the British Consulate-General.

People-management and strategy-execution training programs were provided for about 420 managers to help cultivate effective management practices throughout the Company. Programs were conducted for the Commercial Group, Unihub, Cascade and other business areas to reinforce managers' sense of accountability for people development and to strengthen PCCW's high-performance culture.

To align people-management practices with Cascade's regional expansion plans, experiential training was provided for more than 40 senior managers and 300 staff within Cascade in Hong Kong and at the Guangzhou Huangpu Training Center. The idea was to encourage entrepreneurship, delegation and managerial practices relating to skills development and staff motivation. One of the main aims was to ensure a continuous supply of short and long-term employees to run operations and pursue business opportunities in other markets.

Training programs were also conducted to meet people-development needs in other locations across Greater China.

Intensive training and development programs, covering topics such as orientation, problem solving, decision making, communications and telecoms technology, were provided for 34 staff members last year at Unihub's newly-established Outsource Development Center in Guangzhou.

In addition, 128 man-days of people-management, complaint-handling, sales and presentation skills training were provided for first-line supervisors and management trainees to strengthen the Guangzhou Contact Center.

New talent

Six external intake trainee schemes and three internal schemes provided fast-track development to meet the needs of business units.

The Business Associate scheme served to build general business and management strength, while the Graduate Trainee and Trainee Engineer schemes helped to develop technical expertise within Cascade. The Trainee Engineer scheme was introduced in mainland China to address the technical talent needs of local markets.

Sales Management Trainee programs reinforced high-level sales strengths in the Commercial and Consumer Groups, while the IT Professional Trainee scheme continued to nurture Unihub talent. Management Trainee programs in Hong Kong and Guangzhou sales offices and contact centers aided development of high-potential, front-line supervisors in preparation for unit management roles.

About 160 new candidates went through the schemes in 2004 and benefited from structured training programs, job rotation and regular development meetings with senior managers.

Career and leadership development

Two senior managers attended the INSEAD global business school's Asian International Executive Program in pursuit of excellence in formulating and executing business strategies.

The Challenge21 Leadership Development Program was organized as part of the group's continuous efforts to groom high-performers for senior executive roles. By 2004, the program had facilitated development for more than 120 high-performance middle managers.

The fourth C21 Program commenced in September 2004, with more than 40 middle managers enrolled through nomination by business and corporate unit heads.

eLearning development

In 2004, more than 1,000 staff took part in 3,250 online training programs from PCCW's in-house Aladdin Learning Portal, which provided IT&T, plus business and management training in English and Putonghua.

More than 2,000 employees in mainland China, Taiwan and other territories are also able to access the Aladdin Learning Portal.