

STATEMENT FROM THE DEPUTY CHAIRMAN AND GROUP MANAGING DIRECTOR



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- Our core fixed line business regained an upward trend
- We re-entered mobile by acquiring SUNDAY
- NOW TV continued to show encouraging results
- Solid progress was made in China with China Netcom Group

2005 marked a turning point for the Group. Our core fixed line business has regained an upward trend and encouraging signs were seen in key development areas – notably NOW TV and mobile services.

2005 RESULTS HIGHLIGHTS

2005 Group net profit attributable to our shareholders was HK\$1,595 million, a 2.5 percent increase from last year. This was primarily due to a stabilizing core telecoms operation, efficiency gains, net investment gain and lower net finance costs.

Group EBITDA in 2005 was HK\$6,650 million, 1 percent higher than a year ago. Group revenue decreased by 2 percent to HK\$22,499 million primarily due to a change in accounting standard affecting recognition of property revenue from the Bel-Air project. Core revenue excluding Bel-Air increased 1 percent. Operating expenses were reduced by a further 9 percent in 2005.

Please refer to Management's Discussion and Analysis on pages 44 to 52 for more on the Group's results.

It gives me great pleasure to report that the Board recommended a final dividend for 2005 of 12 HK cents per

share, subject to the approval of shareholders. This brings the total dividend for 2005 to 18.5 HK cents per share.

2005 OPERATIONS

Fixed Line – Our core fixed line business achieved a turnaround in 2005. We experienced a continuous monthly net line gain throughout the second half of 2005 after reaching an inflection point at the beginning of July 2005. The challenge ahead is to stabilize and improve the local telephony service revenue while upholding our market share positioning.

Total broadband access lines in service reached approximately 953,000 by the end of 2005 from approximately 796,000 at the end of December 2004, as our NOW TV business encouraged continued broadband growth.

NOW TV – The IPTV business in 2005 continued to show encouraging results, including a big jump in customer numbers and significant growth in both pay-channel subscribers and ARPU. In July, we announced exclusive-content agreements with HBO, the STAR Group and Mei Ah Entertainment. Our content was further enriched in January 2006 as STAR World became exclusive, and CNN International also became available on NOW TV.

New interactive features were introduced to **NOW TV** during the year. In October 2005, we launched the on-screen cinema ticketing services. Recently, another interactive value-added service, “**NOW Select**” was activated – a program on-demand service for three Cantonese-language channels.

In February 2006, PCCW and Galaxy Satellite Broadcasting Limited announced an agreement for the carriage of the TVB PAY VISION service on the PCCW platform for a period of five years with another five year option. This arrangement will strengthen our position as the most comprehensive pay TV platform in Hong Kong.

In March 2006, we took another step to further localize our content by launching the Cantonese-language Business News Channel (**NOW BNC**). The 24-hour **NOW BNC** will offer coverage of financial and property markets as well as general business news. We expect this channel to be yet another impetus for subscriber growth.

PCCW mobile – The Group re-entered the mobile market in June 2005 by acquiring SUNDAY and created a new brand, PCCW mobile. In January 2006, we introduced an unprecedented six-month “3G Trial”. This trial provides a stress test for our network and an educational exercise for customers who would like to try our new 3G services. The trial attracted over 330,000 applications and we have selected about 110,000 users. Surveys have revealed a high level of satisfaction with our 3G handset, network coverage and content. We will continue to enrich the content and applications, and look forward to transforming 3G trial users into our paying customers in the second half of 2006.

For 2G service, additional capital expenditure was invested to enhance the coverage and capacity of the existing SUNDAY network. The total number of 2G subscribers was 738,000 at the end of December 2005 compared to 702,000 at the end of June 2005 when SUNDAY was acquired.

PCCW Solutions – Our IT solutions business unit has been rebranded “PCCW Solutions”. In January 2006, PCCW Solutions was awarded a 10-year Electronic Passport System (e-PASS) contract from the HKSAR Government. This contract has further proved our excellent reputation, superior IT capabilities and strong resources to deliver world class quality system projects.

Cascade – This business unit successfully captured several overseas projects in 2005. One of the major projects completed was building a network infrastructure

interconnecting all government agencies for Brunei’s Ministry of Finance. In September 2005, Cascade signed a contract with a telecoms operator in South East Asia to upgrade its broadband network using our latest IPTV technology.

Pacific Century Premium Developments Limited (PCPD) – Our Bel-Air luxury residential development continued to strengthen its brand in the market during the year. More than 210 luxury apartment units were sold in 2005, generating approximately HK\$3,551 million of sales proceeds. HK\$727 million of surplus proceeds from the Cyberport project was distributed to the Company in 2005. The redevelopment of our first telephone exchange in Sheung Wan, Hong Kong is on schedule and is expected to complete before the end of 2008.

CHINA NETCOM GROUP

Real Estate Development – Working closely with the Chaoyang District Government, PCCW and China Netcom Group have presented the Hu Jia Lou telephone exchange redevelopment proposal to various government departments including the Land, Planning and Traffic Departments. The proposal has been well received by the respective government officials. Under our proposed scheme, which is still subject to further government approval, the site area will be close to 15,000 square metres with a Gross Floor Area of approximately 100,000 square metres. Feasibility studies for the remaining sites in China Netcom Group’s portfolio are also underway.

Telephone Directories (Yellow Pages) – Restructuring of PCCW’s Yellow Pages business in China is in advanced stages. We are now ready for further discussions with China Netcom Group to form a joint venture to operate telephone directories businesses and related value-added services in 20 provinces in mainland China.

Broadband – PCCW has entered into a sale and purchase agreement with China Netcom Group on acquiring a 50 percent stake in China Netcom Broadband Corporation Limited (“CNCBB”), which provides broadband access and value-added services in the cities of Hangzhou and Ningbo. We hope to finalise all outstanding issues and obtain approvals from the relevant Chinese authorities by late April 2006.

Mobile – Following our acquisition of SUNDAY, a joint working team with China Netcom Group has been formed to carry out research on the provision of mobile services in Guangdong province and the Yangtze River Delta. China Netcom Group is now conducting a 3G trial in a designated city and is awaiting the result of the telecoms review by the Central Government which will decide on the issue of 3G licenses in due course.

OUTLOOK

Few traditional telecommunications incumbents in the world have successfully arrested the decline in market share after liberalization. June 2005 was without a doubt the turning point; since then, the Company has been registering net gain in fixed lines month after month.

NOW TV, launched more than two years ago, has won worldwide acclaim as the most successful IPTV operation, not only in subscriber numbers but also in richness of content. Looking ahead, the Group will roll out HDTV on the **NOW TV** platform, and, based on the success of the cinema booking service, further expand the interactive functions of IPTV to other areas of e-commerce. The proposed acquisition of a 50% stake in CNCBB, which has Internet access operations in the mainland cities of Hangzhou and Ningbo, gives the opportunity to enter the huge mainland market. Many operators around the world have expressed interest in co-operative arrangements with PCCW in IPTV.

The same technological leadership is fully demonstrated in the product line-up for the fixed line phone. More exciting new products are in the pipeline as the Group progresses with the building of its Next Generation Network.

Despite being the fourth operator to enter the 3G market, PCCW is the only operator with the ability to offer the quadruple play of fixed line voice, data, video content and mobile services. The synergies and opportunities for inter-play between the four are immense. The challenge is to ensure that the great majority of those on the 3G trial program become satisfied paying customers.

The Group's efforts to commercialize certain internal functions to serve external customers have shown significant success. Both PCCW Solutions and PCCW Teleservices have landed major contracts from the Government of the Hong Kong Special Administrative Region, multi-national corporations, banks, airlines, and insurance companies. The technical services arm, Cascade Limited, is carrying out assignments in no less than ten countries.

The Group's efforts to stabilise core business and grow new business are beginning to bear fruit. More needs to be done but the Group hopes to see a positive impact of these initiatives on our financials in the years ahead.



Jack So

March 29, 2006