

Information Highway to the **Future**

The Group is streaks ahead in delivering cutting-edge fibre optic technology to meet the diverse communications needs of the new millennium. Deploying more than 800,000 kilometres of core fibre optic cable and 4,600 kilometres of ducting, we have built the largest “fibre-to-the-building” network in Hong Kong, ensuring that all our customers benefit from world-leading Voice Services, Broadband Access, Data Services and International Connectivity. Recognising our services, our growing base of customers includes a wide cross-section of business and residential users, schools and local communities. We’re so far ahead that we also provide high-speed fibre optic connectivity to other network carriers. We have established a strong foothold in the market.



On 12 March 2004, Vanda Group, HGC Group and PowerCom Group businesses were combined to form the Group. The Group's financial statements have been prepared in accordance with the reverse acquisition method pursuant to the requirements of Hong Kong Financial Reporting Standards ("HKFRS") 3, "Business Combinations". Pursuant to the requirements under HKFRS 3, HGC Group is deemed to be the effective acquirer of Vanda Group and the respective businesses of the three groups were combined as from the said date of combination.

As regards to financial statements prior to the combination, the 2003 comparative figures represent the consolidated financial statements of HGC Group only. Details regarding the reverse acquisition accounting and basis of preparation of the consolidated financial statements are set out in note 1 and note 2A of the Notes to the Accounts respectively.

Since the combination, the Group has been focusing on two core businesses - the provision of telecommunications services and IT solutions. Turnover for the year totalled HK\$2,721 million, an increase of 70% over last year. The increase is mainly due to continued service expansion in the telecommunications services division and contribution from the IT solutions division. EBIT for the year improved by 66% (after excluding one-off gains of HK\$24 million from USC refund and HK\$24 million from government rates adjustment in 2003) over last year to HK\$197 million.

The telecommunications services division provides a comprehensive range of services spanning local and International Direct Dialling ("IDD") voice call services, residential broadband and local and international data transmission services. Our client base includes local residents, global and local telecommunications operators, multi-national companies, small and medium enterprises ("SMEs") and government departments. Turnover for this division improved by 19% to HK\$1,904 million in 2004, whilst EBIT reached HK\$174 million, a 47% increase from 2003 (after excluding one-off gains of HK\$24 million from USC refund and HK\$24 million from government rates adjustment mentioned above).

OPERATIONS REVIEW

voice

residential and business



Connecting
you with the
Next Generation



**Voice &
Video for the
human touch**



Nothing beats being able to talk it over with family, friends or business associates.

Supported by a world-leading optical fibre network, the Group helps you make a human connection by delivering clear and fast voice communications. It's the next best thing to actually being there. Even if you are chatting to someone on another continent, our IDD services provide seamless global interconnectivity for the most rewarding communications experiences. What's more, we have now added a visual dimension with the introduction of the innovative Vfone. So when Dad calls home, not only can he talk to Junior but they can see each other as well.

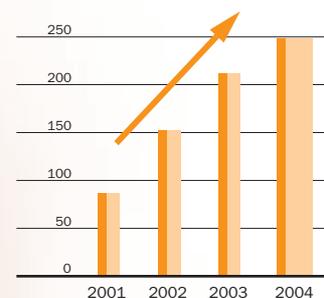
By the end of 2004, the number of our subscribed lines for residential voice grew by 17% to reach approximately 248,000. Healthy growth was also achieved in the commercial voice sector.

The IDD services offered by the Group currently covers over 230 countries and destinations. Although prices remain low due to intense competition, there has been substantial growth in the traffic volume handled by us. Total handled traffic increased from 502 million minutes in 2003 to over 1,050 million minutes in 2004.

We launched our Vfone service in late 2003. Vfone is a broadband-based video phone which allows customers to communicate and interact with each other via a premium quality video display. The Vfone has generated substantial interests and customer intakes have been encouraging.

No. of Subscribed Lines - Residential Voice

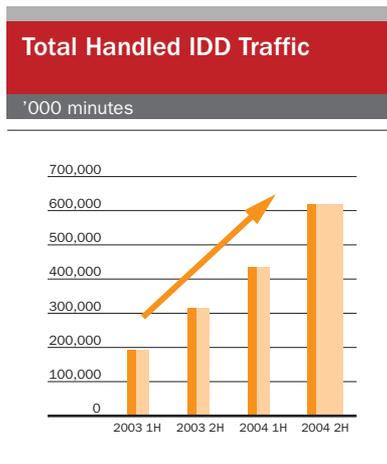
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 The Group provides reliable and crystal clear voice communications to customers, both at home and in the office.

We also introduced our “Residential Broadband Phone” services in late 2004 to allow our customers to enjoy phone services with simultaneous access to the Internet. The recently announced co-branding arrangement with global Internet telephony provider Skype further demonstrates our versatility and readiness to meet the challenge of Internet telephony. Through this arrangement, the Group can cater to the communications needs of tech-savvy users for Internet telephony and a host of value added Internet-based services such as instant messaging, instant conferencing and a global directory.



OPERATIONS REVIEW

broadband

& multi-media services



**Ultra-fast
Connectivity &
Scalable Capacity**



Keeping
you up to
speed

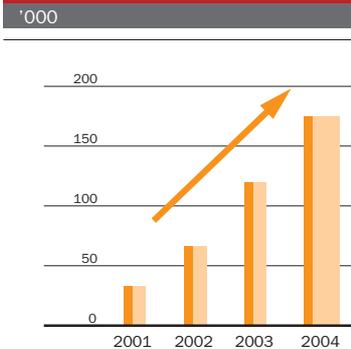
Whether you are researching a college paper, watching movie or keeping your fingers on the pulse of the world, HGC Broadband puts you at the centre of the multi-media world from the comfort of home.

Supported by Gigabit Ethernet technology, our residential broadband service is renowned for its dedicated bandwidth and speedy access. This ultra-fast connectivity lets you access a compelling range of infotainment and communications services. What's more, on-line gamers at faraway terminals can get together to enjoy the most realistic and thrilling gaming experience available, without sacrificing other on-line activities.

With us, you'll always be up to speed.

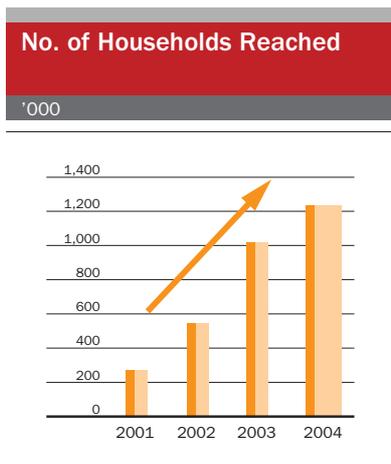
The number of residential broadband subscribers continues to increase globally and Asia is one of the biggest and fastest growing regional markets. Amongst the various economies in Asia, Hong Kong has one of the highest penetration rates with around 60% of households now using broadband for Internet access.

No. of Subscribed Lines - Residential Broadband



The Group provides one of the fastest bi-directional residential broadband services available in the market. The services are currently being offered via in-building connection using either telecommunications cables or electric power grids. At the end of December 2004, the number of subscribers for residential broadband services provisioned by either connection method reached approximately 175,000, representing an improvement of 47% since the beginning of the year, well above the industry average growth rate of 20% per annum.

In view of the increasing popularity of broadband television services and on-line phones, the Group has been working closely with different contents and application service providers to enhance our service offerings. Recently, the Group signed up with pay TV service provider, Galaxy (currently a wholly



owned subsidiary of Television Broadcasts Limited, Hong Kong's leading television broadcaster), to deliver 34 channels of innovative infotainment contents to Hong Kong households through our broadband network. This arrangement demonstrates the superiority of our network in video transmission and enriches the contents and value of our broadband service.

As part of our continual efforts to expand our service coverage and our subscriber base, the Group continues to invest in the expansion of its network coverage and the improvement of its network infrastructure. The number of households reached by our network in Hong Kong has exceeded 1.2 million by the end of 2004. We have also enhanced the resilience of our network by improving its diversity which, in turn, further upgraded our already highly reliable residential broadband services.



- Residential customers can keep a finger on the world's pulse through the Internet via the Group's Gigabit Ethernet technology, delivered over the most extensive "fibre-to-the-building" telecommunications network in Hong Kong.



- The "HGC-PowerCom Broadband" service allows customers to plug their broadband data modem into any power socket for instant connectivity and real on-line mobility at home.

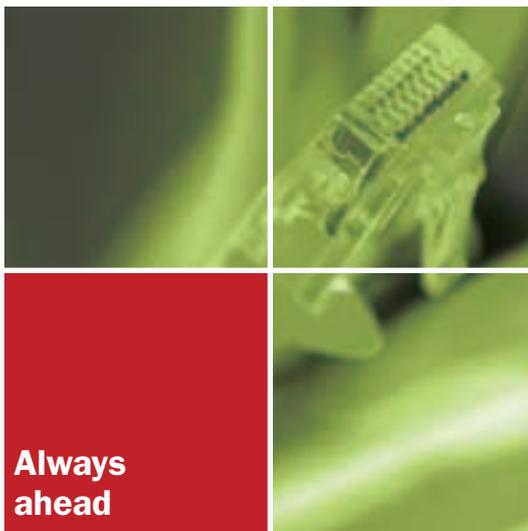
OPERATIONS REVIEW

data

and other businesses



Connecting
every
Possibility



**Always
ahead**

Even when they can't make it to the racetrack, Hong Kong's horseracing fans can enjoy all the excitement of a last-minute flutter on their favourite pony.

Riding on the Group's MetroNET data network, the Hong Kong Jockey Club connects its central sites at Shatin, Happy Valley and 116 Off-Course Betting branches, enabling secure and speedy betting entertainment transactions across the territory.

This is just one example of the top-notch networks, technology, data storage, IT solutions and facilities the Group delivers. Our customers not only include local and international corporations and service providers but also network carriers who in turn connect to all spheres of our daily lives.

The Group provides a wide range of customers in both the private and public sectors with reliable and high-speed data transmission services through its terrestrial network in Hong Kong and its regional and international capacities in various submarine cable systems. Not only has our total data revenue from local and international businesses in 2004 increased by 13% over 2003, we have also captured new businesses from many important and prestigious customers.

In the private sector, the Group won the contract to provide an odds and information service hotline platform to the Hong Kong Jockey Club. This contract is in addition to the existing arrangement for the provision of the advanced Multi-Service Network Infrastructure ("MSNI") branch network service platform for connecting many of the Club's Off-Course Betting branches to its main sites at Shatin and Happy Valley. We have widened our customer base for the banking sector during 2004 as we offered a variety of services to an increasing number of international retail and investment banks ranging from lower speed Metro-Ethernet ("MetroNET") connections to high bandwidth communications based on Dense Wavelength Division Multiplexing ("DWDM").

In the public sector, we are serving an increasing number of government departments, statutory and quasi-governmental bodies such as hospitals, libraries and schools. The scope and volume of data services required by such bodies increased significantly in 2004 as they continued to migrate their legacy network to the latest IP services. Among the public bodies that we serve, the Hospital Authority has awarded us a three-year contract for the provision of Internet access services and data communication services to link up 16 hospitals to three major data centres. The Information Technology Services Department and the Vocational



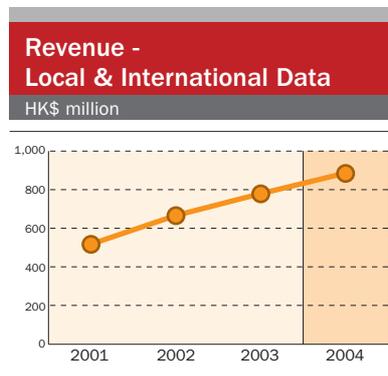
With the Group's "School Fibre Broadband" service, schools in Hong Kong can support ultra-high speed Internet access and deploy a full range of broadband applications, such as high quality video conferencing and Internet live broadcast for talks, seminars and other school events.

Training Council have both contracted with us for the provision of data communications services.

The Group is an active promoter of on-line education and e-Learning in the educational sector. It is currently offering high-speed broadband connectivity to over 700 primary and secondary schools in Hong Kong.

The Group's fixed telecommunications network in Hong Kong continued to expand in

2004. The total linear length of ducting of our network in Hong Kong exceeds 4,600 kilometres and the length of core fibre optical cable exceeds 800,000 kilometres. In terms of coverage, our network now reaches over 4,000 residential buildings as well as 1,000 commercial buildings in Hong Kong. With such a comprehensive coverage, future capital investments to be spent for the expansion of our local terrestrial network are not expected to be significant. We have also upgraded our MetroNET





■ The Group provides scalable bandwidth and instant global connectivity, linking Hong Kong to major cities in Asia, North America and Europe.

the Group in a good position to meet the increasing demand for different IP services, especially in the Asian region.

Recently, we have also embarked on the setting up of a private Internet peering arrangement with PCCW Limited and New World Telecommunications Limited to strengthen our management of bandwidth and Internet access. Such arrangement is expected to provide a springboard to induce further development of bandwidth-hungry applications, and at the same time enhance the performances of services provided to broadband customers, Internet service providers, multi-national corporations and international carriers.

As a total solution provider, the Group is also providing comprehensive data centre hosting services to customers via

backbone to further improve the quality of our corporate MetroNET broadband services. All these, together with the capacity of our overseas submarine cable systems and numerous partnership arrangements with major international carriers, place



■ The Group is the leader in the Hong Kong telecommunications market through its ownership of the largest fibre-to-the-building network in the territory.

its wholly-owned subsidiary, Hutchison GlobalCentre Limited. As at 31 December 2004, our data centres at Quarry Bay and Shatin were almost fully occupied. Many of our data centre customers are also obtaining telecommunications services from the Group at the same time.

The Group's IT solutions division provides services and solutions in the areas of hardware and software distribution, software development, system integration and project-based and annual maintenance services. Major customer groups include banks and financial institutions (particularly in Mainland China), SMEs and governmental bodies. Besides providing IT solutions, there are plenty of opportunities for our IT solutions division to collaborate with our telecommunications services division to serve our customers' needs for IT solutions and telecommunications services on an integrated basis. Turnover for this division reached HK\$817 million in 2004, with EBIT turning positive at about HK\$23 million. This is in sharp contrast with the loss from operating activities of HK\$52 million reported in the last audited results covering the nine-month period ended 31 December 2003.



■ With the Group's data services, our clients can enjoy a wide array of tailor-made network solutions with high degree of flexibility and functionality, such as multi-party video conferencing.

Group Capital Resources and Liquidity

At 31 December 2004, the Group's cash and bank balances (excluding pledged bank deposits) were HK\$135 million (31 December 2003: HK\$8 million) of which 15% were denominated in Hong Kong dollars, 22% in Singapore dollars, 21% in Renminbi, 25% in US dollars and 17% in other currencies.

At 31 December 2004, the Group's borrowings of HK\$7,260 million (31 December 2003: HK\$3,440 million) were 99% denominated in Hong Kong dollars with the balance in other currencies.

At 31 December 2004, approximately 45% of the Group's borrowings bore interest at fixed rates and the remaining 55% were at floating rates.

The net debt to net capital ratio of the Group as at 31 December 2004 was approximately 97% (31 December 2003: 51%). Excluding the loans and convertible note due to companies controlled by Hutchison Whampoa Limited, the ultimate holding company of the Group, the net debt to net capital ratio of the Group as at 31 December 2004 was approximately 17% (31 December 2003: 0.23%).

The Group's capital expenditures have dropped to HK\$740 million (2003: HK\$1,298 million). Capital expenditures are shown by business segment in note 4 to the Notes to the Accounts.

Treasury Policies

The Group adopts a conservative and balanced treasury policy. At 31 December 2004, the Group had no material exposure under foreign exchange contracts, interest or currency swaps or other financial derivatives.

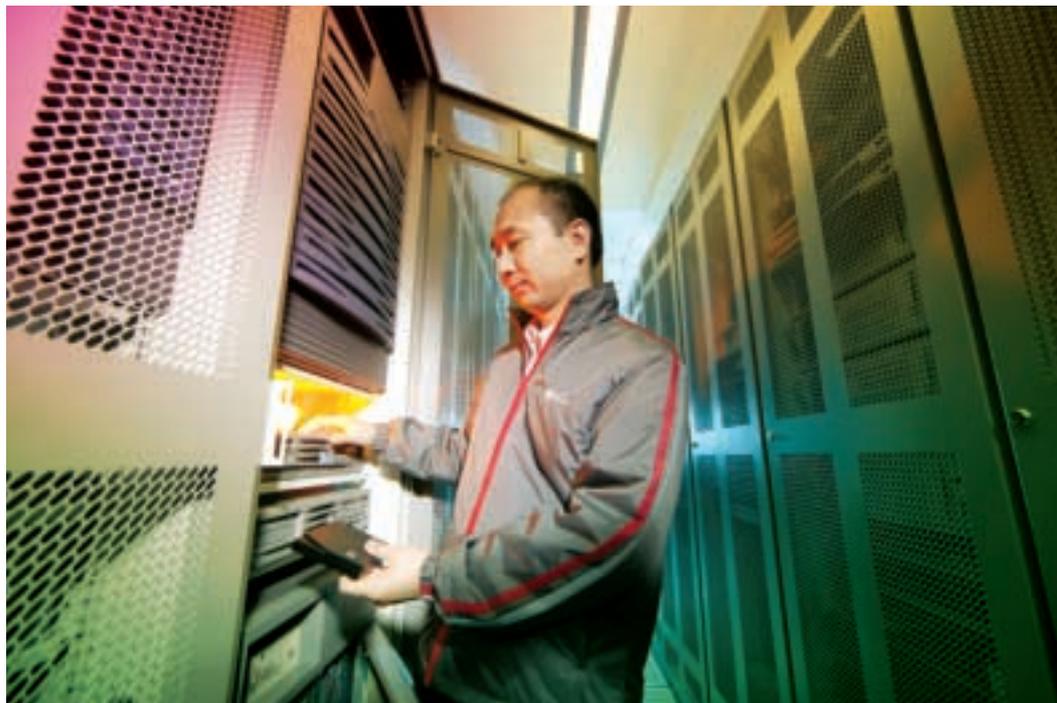
Pledge of Assets

As at 31 December 2004, other than the pledged deposits which were disclosed on the consolidated balance sheet, certain of the Group's leasehold land and buildings with a net book value of HK\$6 million (31 December 2003: nil) and investment properties with carrying value of HK\$19 million (31 December 2003: nil) were pledged as security for banking facilities granted to the Group. The net book value of the Group's fixed assets held under finance leases

amounted to HK\$0.1 million (31 December 2003: nil).

Contingent Liabilities

At 31 December 2004, the Group had provided guarantees given to banks for facilities granted to subsidiaries of HK\$169 million (31 December 2003: nil) and guarantees given to suppliers for credit lines granted to subsidiaries of HK\$42 million (31 December 2003: nil). At 31 December 2004, the Group had provided performance guarantees amounted to HK\$5 million (31 December 2003: HK\$4 million)



- The Group offers world-class data centre facilities and premium systems-management solutions to companies
- worldwide through a combination of reliability, security, scalability and connectivity.



- With its ongoing commitment to building an unobstructed network, the Group is constantly expanding the network coverage not only on a local scale, but also on a worldwide basis.

and for utility deposit in lieu of cash deposit of HK\$4 million (31 December 2003: HK\$9 million).

Community and Employees' Relations

The Group received a Caring Company Award from the Hong Kong Council of Social Service for its effort placed in the community. The need for care and concern within the community was particularly pronounced during the Severe Acute Respiratory Syndrome ("SARS") outbreak. During this difficult time, the Group took the lead, providing free "Video Visit Service" for SARS patients in Princess Margaret Hospital and Wong Tai Sin Hospital, enabling "face-to-face" communication platform for those kept stayed in the hospitals with the outside community.

At 31 December 2004, the Group employed a work force of 2,135 with 1,476 in Hong Kong, 522 in PRC, 136 in South-East Asia and 1

in US (31 December 2003: 1,346) and the related employee cost for the year ended, including Directors' emoluments, totalled HK\$454 million (2003: HK\$359 million). The Group maintains the salary and benefit levels at a competitive level and its employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system.

The Group would not achieve such a remarkable year without the endeavour of our employees. I would like to take this opportunity to thank them for their hard work throughout the year.

WONG King-fai, Peter

Chief Executive Officer

Hong Kong, 7 March 2005