



PCCW Limited

電訊盈科有限公司

(Incorporated in Hong Kong with limited liability)

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2003

The directors (“Directors”) of PCCW Limited (the “Company” or “PCCW”) are pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended December 31, 2003.

OVERVIEW

- Consolidated revenue increased 12 percent to HK\$22,550 million (approximately US\$2,891 million)
- EBITDA¹ decreased 9 percent to HK\$7,372 million (approximately US\$945 million)
- Recurring operating cash flow increased to HK\$1,432 million (approximately US\$184 million)
- Net Debt² reduced by 11 percent to HK\$29,131 million (approximately US\$3,735 million)
- Provisions for impairment of the Group’s interests in REACH and in various other assets and restructuring costs totaled HK\$6,954 million (approximately US\$892 million)

Consolidated revenue of the Group for the year ended December 31, 2003 was HK\$22,550 million (approximately US\$2,891 million) compared to HK\$20,112 million (approximately US\$2,578 million) for the year ended December 31, 2002, representing a 12 percent increase. Group EBITDA decreased 9 percent to HK\$7,372 million (approximately US\$945 million) for the year ended December 31, 2003 from HK\$8,120 million (approximately US\$1,041 million) for the year ended December 31, 2002. Loss attributable to shareholders for the year ended December 31, 2003 was HK\$6,100 million (approximately US\$782 million) compared to a loss of HK\$7,762 million (approximately US\$995 million) in 2002.

The increase in revenue was primarily due to the successful pre-sales of Residence Bel-Air of the Cyberport project, with revenue of HK\$4,111 million (approximately US\$527 million) recognized in 2003; continuing growth in broadband Internet access business; and increased revenue from the IT business in mainland China.

Competition in the Hong Kong telecommunications market continued to be substantial. The increase in revenue was partially offset by a reduction in revenue from certain traditional telecommunications services primarily due to a reduction in the overall number of direct exchange lines in service operated by the Group, and the significant downward pricing pressure in the traditional local data and international telecommunications markets.

During the year, the Group launched a number of innovative products and services. New generation fixed-line services were introduced in July 2003 to redefine the traditional telephone network with an aim to keep Hong Kong at the forefront of developments in telecommunications technology. Up to December 31, 2003, over 650,000 customers have signed up for the services, representing over 30 percent of the Group's addressable exchange lines. Further in September 2003, the Group launched **now** Broadband TV, the all new pay-TV service, attracting over 200,000 existing and new NETVIGATOR customers by December 31, 2003.

During the year, PCCW applied to be declared non-dominant in the supply of business and residential direct exchange line services. The Office of the Telecommunications Authority ("OFTA") is currently in the process of consultations on these two applications. Another consultation paper in relation to Type II interconnection policies (i.e. unbundled local loop) was also issued during the past year. In a second consultation paper on unbundling, the Government of the Hong Kong Special Administrative Region (the "Hong Kong Government") tentatively concluded to phase out compulsory unbundling. The details are still being considered in this second round. PCCW is determined to strive for further regulatory relief and pricing flexibility and to compete on a level playing field. It was, however, too early to determine how the Group's results would be influenced by these regulatory developments.

Pre-sales of Residence Bel-Air commenced in February 2003. The luxurious flats attracted an overwhelming response from the market and all 1,204 units in the first and second phases have now been sold. As a result of the recognition of Residence Bel-Air sales and the corresponding costs, the Group's EBITDA margin decreased to approximately 33 percent for the year ended December 31, 2003 from approximately 40 percent in the previous year. Excluding Residence Bel-Air of the Cyberport project, EBITDA margin remained stable at 40 percent.

The continuing difficult and volatile trading conditions in the undersea and long haul telecommunications market led to a decline in the operating results of Reach Ltd. ("REACH") in 2003. As a result, REACH'S EBITDA decreased to HK\$733 million (approximately US\$94 million) for the year ended December 31, 2003 from HK\$3,304 million (approximately US\$423 million) for the year ended December 31, 2002. REACH recorded a loss during the year and PCCW's share of loss before tax from REACH was HK\$821 million (approximately US\$105 million) for the year ended December 31, 2003 versus a share of profit before tax of HK\$738 million (approximately US\$95 million) for the year ended December 31, 2002.

The Group performed impairment assessments of its interests in REACH and in various other assets. In view of the continuing difficult operating environment due to aggressive pricing and over-supply of capacity, prudent decisions have been made to make a full provision for impairment of the Group's entire stake in REACH of HK\$4,159 million (approximately US\$533 million). Accordingly, the Group's total investment in REACH has been written down to zero as at December 31, 2003 and there will be no further equity loss pick up required by the Group for future losses from REACH.

Other provisions for impairment losses and restructuring costs totaling HK\$2,795 million (approximately US\$359 million) were taken to reflect technology development and changes in market dynamics of the sectors in which the Group operates. Certain network fixed assets and other intangibles have become obsolete or impaired. In addition, JALECO LTD., the Company's majority-owned subsidiary listed in Japan, ("JALECO") has restructured its gaming business and exited certain legacy businesses.

All the impairment charges are non-cash related and will not have an impact on the Group's operating cash flow or its ability to pay down debt.

The Group recorded a loss attributable to shareholders of HK\$6,100 million (approximately US\$782 million) for the year ended December 31, 2003 compared to a loss of HK\$7,762 million (approximately US\$995 million) for the year ended December 31, 2002. Net profit before impairment provisions, restructuring costs, the Group's share of REACH'S results and net losses on disposal of interests in Joint Venture (Bermuda) No. 2 Limited ("RWC") and MobileOne Ltd ("MobileOne") was HK\$1,675 million (approximately US\$215 million) for the year ended December 31, 2003 compared to HK\$2,041 million (approximately US\$262 million) for the year ended December 31, 2002, presented on the same basis.

The Group continued to generate healthy core operating cash flow during the year. Recurring operating cash flow increased to HK\$1,432 million (approximately US\$184 million) for the year ended December 31, 2003 from HK\$902 million (approximately US\$116 million) for the year ended December 31, 2002. The increase was primarily due to a significant reduction in investment in the Cyberport project.

Further deleveraging and achieving the desired "A" credit ratings for its indirect wholly-owned subsidiary, PCCW-HKT Telephone Limited ("HKTC"), remained as the Group's financing priorities. PCCW continued to adhere to its goals by making significant progress in debt reduction. As at December 31, 2003, Net Debt² was reduced by 11 percent to HK\$29,131 million (approximately US\$3,735 million) from HK\$32,919 million (approximately US\$4,220 million) as at December 31, 2002.

Note 1 EBITDA represents earnings before interest, taxation, depreciation, amortization, loss on disposal of fixed assets, net gains/(losses) on investments, provisions for impairment losses, restructuring costs, impairment losses on interests in jointly controlled companies and associates, net losses on disposal of interests in RWC and MobileOne, other income and the Group's share of results of jointly controlled companies and associates. While EBITDA is commonly used in the telecommunications industry worldwide as an indicator of operating performance, leverage and liquidity, it is not presented as a measure of operating performance in accordance with accounting principles generally accepted in Hong Kong ("HK GAAP") and should not be considered as representing net cash flows from operating activities. The computation of the Group's EBITDA may not be comparable to similarly titled measures of other companies.

Note 2 Net Debt refers to gross long-term debt minus Net Cash³.

Note 3 Net Cash is cash and cash equivalents plus fixed deposits for banking facilities for the Cyberport project minus short-term borrowings. Pre-sales proceeds from Residence Bel-Air net of monies applied to construction costs of Cyberport are excluded.

FINANCIAL REVIEW OF BUSINESS UNITS

Year ended December 31,	2003				2002				y-o-y Better/ (Worse)
	H1	H2	Full Year	Full Year	H1	H2	Full Year	Full Year	
	HK\$'M	HK\$'M	HK\$'M	US\$'M	HK\$'M	HK\$'M	HK\$'M	US\$'M	
Revenue									
TSS	8,386	8,186	16,572	2,125	9,105	8,902	18,007	2,309	(8)%
Business eSolutions ¹	1,141	1,185	2,326	298	1,142	1,092	2,234	286	4%
Infrastructure	1,697	2,903	4,600	590	311	374	685	88	572%
Infrastructure (ex-Residence Bel-Air)	250	239	489	63	311	374	685	88	(29)%
Residence Bel-Air	1,447	2,664	4,111	527	-	-	-	-	NA
Others	165	261	426	54	362	431	793	102	(46)%
Elimination	(663)	(711)	(1,374)	(176)	(717)	(890)	(1,607)	(207)	14%
Total Revenue	10,726	11,824	22,550	2,891	10,203	9,909	20,112	2,578	12%
EBITDA									
TSS	4,276	4,015	8,291	1,063	4,487	4,416	8,903	1,142	(7)%
Business eSolutions ¹	80	(35)	45	6	125	26	151	19	(70)%
Infrastructure	143	118	261	33	279	197	476	61	(45)%
Infrastructure (ex-Residence Bel-Air)	142	108	250	32	279	197	476	61	(47)%
Residence Bel-Air	1	10	11	1	-	-	-	-	NA
Others	(637)	(588)	(1,225)	(157)	(760)	(650)	(1,410)	(181)	13%
Total EBITDA	3,862	3,510	7,372	945	4,131	3,989	8,120	1,041	(9)%
Group EBITDA Margin	36%	30%	33%	33%	40%	40%	40%	40%	

EBITDA Margin (ex-Residence Bel-Air)	<u>42%</u>	<u>38%</u>	<u>40%</u>	<u>40%</u>	<u>40%</u>	<u>40%</u>	<u>40%</u>	<u>40%</u>	
Depreciation and amortization	(1,432)	(1,456)	(2,888)	(370)	(1,403)	(1,429)	(2,832)	(363)	(2)%
Loss on disposal of fixed assets	<u>(72)</u>	<u>(73)</u>	<u>(145)</u>	<u>(19)</u>	<u>(4)</u>	<u>(72)</u>	<u>(76)</u>	<u>(10)</u>	(91)%
Operating Profit ²	<u>2,358</u>	<u>1,981</u>	<u>4,339</u>	<u>556</u>	<u>2,724</u>	<u>2,488</u>	<u>5,212</u>	<u>668</u>	(17)%

Note 1 Business eSolutions included IT business provisioned under Unihub.

Note 2 Operating profit before net gains on investments, provisions for impairment losses and restructuring costs.

REVENUE

Telecommunications Services (“TSS”)

During 2003, TSS continued to actively manage its business and operations in response to the specific economic realities faced by its global and Hong Kong customers as well as the challenging operating, competitive and regulatory environment in Hong Kong’s telecommunications market. The unit continued to be the market leader in introducing innovative products and launched new generation fixed-line services, **now** Broadband TV and PCCW Convergence, during the year. Its investments in value-added services, data transmission services and broadband services, and its quality of service are seen as key differentiators against competitors.

The table below sets out the financial performance of TSS for the years ended December 31, 2003 and 2002:

Year ended December 31,	2003				2002				y-o-y Better/ (Worse)
	<i>H1</i>	<i>H2</i>	<i>Full Year</i>	<i>Full Year</i>	<i>H1</i>	<i>H2</i>	<i>Full Year</i>	<i>Full Year</i>	
	<i>HK\$'M</i>	<i>HK\$'M</i>	<i>HK\$'M</i>	<i>US\$'M</i>	<i>HK\$'M</i>	<i>HK\$'M</i>	<i>HK\$'M</i>	<i>US\$'M</i>	
Local Telephony Services	3,071	2,953	6,024	772	3,503	3,346	6,849	879	(12)%
Local Data Services	2,234	2,162	4,396	564	2,242	2,215	4,457	571	(1)%
International Telecommunications Services	1,536	1,434	2,970	381	1,893	1,664	3,557	456	(17)%
Other Services	1,545	1,637	3,182	408	1,467	1,677	3,144	403	1%
Total Revenue	8,386	8,186	16,572	2,125	9,105	8,902	18,007	2,309	(8)%
EBITDA	4,276	4,015	8,291	1,063	4,487	4,416	8,903	1,142	(7)%
EBITDA Margin	51%	49%	50%	50%	49%	50%	49%	49%	

TSS revenue for the year ended December 31, 2003 was HK\$16,572 million compared to HK\$18,007 million for the year ended December 31, 2002. The decrease was mainly due to a reduction in the fixed-line market share of PCCW resulting from increasing market competition; and the significant pricing pressure in the traditional local data and international telecommunications markets. However, the revenue decline was partially offset by strong revenue growth from broadband Internet access services and an increase in revenue from wholesaling local access lines.

Local Telephony Services. Revenue from local telephony services consists of revenue from local exchange line services, value-added services and interconnection and network access services for traffic carried for other local operators and service providers. Interconnection fees include fees for the delivery of traffic and fees for the physical interconnection of facilities, as determined by OFTA, or by commercial agreements between the Company and other local carriers.

Revenue from local telephony services decreased by 12 percent to HK\$6,024 million for the year ended December 31, 2003 from HK\$6,849 million for the year ended December 31, 2002. This primarily reflected a reduction in the overall number of direct exchange lines in service operated by the Group, partially offset by an increase in revenue from wholesaling local access lines to other fixed-line operators. Certain interconnection fees were lower due to a rate reduction as determined by OFTA in October 2003.

The decline in the number of direct exchange lines in service operated by the Group during the year was due to a combination of factors including increasing competition from other fixed-line operators, softening of the Hong Kong economy, and substitution by broadband access lines and wireless telecommunications services.

In July 2003, the Group launched new generation fixed-line services to help retain and win back customers, improve the churn rate and maintain its premium on revenue per customer. The new services enable customers to enjoy a range of new network-based applications including sending and receiving short messaging service (SMS), information downloads, personal assistant and auto receptionist. The Company has seen encouraging results in the latter half of the year as over 650,000 customers have signed up for the new generation fixed-lines services, representing over 30 percent of the Group's addressable exchange lines. The amount of average monthly net line loss has been significantly reduced since the services were launched.

Notwithstanding increasing liberalization since 1995, and further full liberalization at the beginning of 2003, the Company has maintained a leading market position in Hong Kong's fixed-line telecommunications market. According to industry statistics provided by OFTA, the overall fixed-line telecommunications market contracted by nearly 1 percent in 2003 versus approximately 2 percent in 2002. As at December 31, 2003, the Group had 1,543,000 residential lines and 1,236,000 business lines in service compared to 1,802,000 residential lines and 1,336,000 business lines in service as at December 31, 2002. Based on OFTA's industry statistics and the Group's estimates, the Group had 73 percent total market share at the end of 2003, with similar market share in each of the residential and the business sectors; compared to 82 percent total market share, 84 percent in the residential sector and 79 percent in the business sector at the end of 2002.

Local Data Services. Revenue from local data services consists of revenue from the provision of data and network services; wholesale broadband access lines and retail consumer Internet access services utilizing the Company's fiber-optic network and the digital subscriber line technology behind the broadband offerings.

Local data services revenue was HK\$4,396 million for the year ended December 31, 2003 compared to HK\$4,457 million for the year ended December 31, 2002. A decrease in revenue from the provision of local area and wide area (LAN and WAN) corporate networks, and high-speed, high-volume data transmissions from mobile telephone operators and Internet service providers ("ISP") as a result of intense pricing pressure was partially offset by an increase in revenue from broadband Internet access services.

Demand for broadband Internet access services continued to be strong during the year. The total number of broadband access lines (inclusive of wholesale to other ISP operators) rose by 26 percent to 703,000 as at December 31, 2003 compared to 559,000 at the end of 2002. The number of retail consumer broadband Internet access customers of NETVIGATOR, the market leading Internet access brand, grew 22 percent from 424,000 to 517,000.

The Group's successful marketing effort continued to focus on delivering innovative broadband products and services to maintain its leading market position and its premium on revenue per customer, and to expand into new revenue streams. In September 2003, the Group launched **now** Broadband TV, the all new pay-TV service delivered over the proprietary asymmetric digital subscriber line (ADSL) broadband network. The service was offered exclusively to NETVIGATOR broadband customers, bringing them a range of world-class TV programming on an a-la-carte menu. 23 channels were introduced at launch and currently there are 34 video channels and 15 music channels including sports, news and entertainment such as The Golf Channel, CNBC, MGM, the Discovery Channel, HBO and Disney, etc. By the end of 2003, over 200,000 existing and new NETVIGATOR customers had signed up for the service.

Other new value-added services launched during the year included NETVIGATOR Inflight service, giving customers access to emails on certain Cathay Pacific flights. Customers can also have wireless access to the Internet in more than 200 Wi-Fi hotspots in Hong Kong.

International Telecommunications Services. Revenue from international telecommunications services consists of revenue from retail outgoing International Direct Dial (“IDD”), retail international data services and delivery fees for the origination and termination of international calls on the Company’s network.

International telecommunications services revenue decreased approximately 17 percent to HK\$2,970 million for the year ended December 31, 2003 from HK\$3,557 million for the year ended December 31, 2002. The international telecommunications markets continued to be competitive, driving down retail prices while boosting traffic volume. Retail outgoing IDD minutes increased by approximately 18 percent year-on-year to 1,226 million minutes through customer segmentation and win-back programs. The Company has been able to maintain its market share in the IDD market at the end of 2003, despite fierce pricing competition.

International Private Leased Circuit (“IPLC”) bandwidth sold increased to 1,592 Megabits per second (Mbps) at the end of December 2003 from 855 Mbps at the end of December 2002. Unit prices of IPLC and other managed data products were lower than those in 2002, in line with the general global market trend. There was also a drop in delivery fee revenue as more international traffic was carried by the mobile operators versus through PCCW’s network.

The Group continued to build a stronger foothold in mainland China. In August 2003, PCCW co-operated with China Telecom Group Guangdong Corporation and offered premier network services in mainland China to business customers in Hong Kong. Customers are guaranteed 100 percent service level commitment on cross border connectivity services to cities in Guangdong.

Other Services. Revenue from other services consists of primarily revenue from the sale of network equipment, customer premises equipment (“CPE”) and connectivity products and services, fees for technical and maintenance subcontracting services, and income from the Contact Center business.

Other services revenue remained stable at HK\$3,182 million for the year ended December 31, 2003 compared to HK\$3,144 million for the year ended December 31, 2002. The increase was primarily due to an increase in revenue for the provision of connectivity products and services including IP-based end-to-end communications.

Business eSolutions (including Unihub)

Business eSolutions includes IT business provisioned under the new brand name, Unihub, retail business broadband Internet access services and the Group's directories businesses, PCCW Directories Limited in Hong Kong and ChinaBiG Limited ("ChinaBiG") in mainland China.

The IT business in Hong Kong and mainland China have been consolidated and branded as Unihub to provide the Group's pool of IT professionals a clear focus and to raise customers recognition. Unihub also includes Internet data centers and Unihub China Information Technology Company Limited, the Group's subsidiary co-owned with China Telecommunications Corporation ("China Telecom").

Business eSolutions revenue for the year ended December 31, 2003 increased 4 percent to HK\$2,326 million from HK\$2,234 million for the year ended December 31, 2002.

Following the establishment of the new brand Unihub and the formation of the Group's subsidiary co-owned with China Telecom, IT business in mainland China began to show stronger traction in 2003. IT business in Hong Kong, however, was slightly affected by the outbreak of Severe Acute Respiratory Syndrome ("SARS") during the year. On a net basis, revenue from Unihub increased 9 percent to HK\$1,525 million for the year ended December 31, 2003 from HK\$1,397 million for the year ended December 31, 2002.

The Hong Kong Government Smart ID Card project is progressing satisfactorily, with new ID cards issued beginning in June 2003. Unihub also delivered other major contract work during the year including provisioning of a nationwide enterprise resource planning information system in 18 locations for China Mobile, implementation of a Credit Card Back Office Processing platform for Bank of China, Human Resources Management and Financial Management Systems for the Hong Kong Council of Social Service, and Flight Information Display System for the Xiamen Airport.

The Company continued to maintain its leading market position and premium on revenue per customer in business broadband by enhancing value-added services such as additional security features. While the number of business broadband Internet access customers inclusive of leased lines grew to 62,800

as at December 31, 2003 from 51,800 as at December 31, 2002, the mix of business broadband customer base continued to change as more small and medium enterprise (SME) customers versus large corporations subscribed the service. As a result, revenue from business broadband Internet access services remained flat at HK\$530 million for the year ended December 31, 2003 compared to HK\$531 million for the year ended December 31, 2002.

Revenue from the Group's directories businesses decreased to HK\$271 million for the year ended December 31, 2003 from HK\$306 million for the year ended December 31, 2002. The unfavorable economic conditions in Hong Kong resulted in lower advertising revenue.

Infrastructure

Infrastructure revenue (ex-Residence Bel-Air) decreased to HK\$489 million for the year ended December 31, 2003 from HK\$685 million for the year ended December 31, 2002. The Group's investment properties continued to enjoy high occupancy rates, however, average rent decreased in line with the trend in the Hong Kong real estate market. Lower revenue in 2003 was also due to a one-off revenue of HK\$83 million from Cyberport entrustment work and sale of certain properties in mainland China recorded in 2002.

Overwhelming response was received from the market and all 1,204 units of the first and second phases of Residence Bel-Air have now been sold. Sales of HK\$9,765 million (US\$1,252 million) achieved during the year is sufficient to fund ongoing future construction costs and project expenses. The Group recorded revenue of HK\$4,111 million in 2003 (2002: Nil) on the basis of percentage of completion in accordance with industry practice.

Others and Elimination

Other revenue of HK\$426 million (2002: HK\$793 million) includes revenue from the Group's business in Taiwan, JALECO and Internet Services.

The Group continued to provide data network services in Taiwan through its majority-owned subsidiary, Taiwan Telecommunication Network Services Co., Ltd. ("TTNS"), including high-speed packet data utilizing asynchronous transfer mode (ATM) and information networks and Internet access supported by an extensive fiber-optic network. TTNS revenue was lower after exiting

certain unprofitable products and services. SARS, keen competition and generally lower product prices of telecom data products also had an adverse impact on the demand for both telecom and CPE business.

During the year, JALECO restructured its gaming business and exited certain legacy businesses. Revenue in 2003 was lower as a result of the delay in development and launch of certain game software.

Elimination of HK\$1,374 million (2002: HK\$1,607 million) predominantly relates to internal charges for communications services consumed, IT support and computer system network charges, customer support services and rental between the Group's business units.

COSTS OF SALES AND SERVICES

Total costs of sales and services for the year ended December 31, 2003 were HK\$8,730 million, compared to HK\$5,295 million for the year ended December 31, 2002. Certain construction and establishment costs of the Cyberport project previously capitalized were recognized as cost of sales during the year. As a result, gross margin for the Group decreased to approximately 61 percent for the year ended December 31, 2003 from nearly 74 percent for the year ended December 31, 2002. Excluding Residence Bel-Air, gross margin for the Group remained stable at approximately 74 percent.

TSS costs of sales and services were HK\$3,788 million for the year ended December 31, 2003 compared to HK\$3,993 million for the year ended December 31, 2002. TSS gross margin decreased marginally to approximately 77 percent from nearly 78 percent a year ago primarily due to some customer acquisition costs incurred in the second half of the year in relation to the new products and services launched partially offset by a decline in wholesale international voice and data disbursements.

OPERATING COSTS

Year ended December 31,	2003	2003	2002	2002	y-o-y Better/ (Worse)
	<i>HK\$ million</i>	<i>US\$ million</i>	<i>HK\$ million</i>	<i>US\$ million</i>	
Staff costs	3,150	404	3,766	483	16%
Repair and maintenance	423	54	443	57	5%
Other operating costs	2,875	369	2,488	319	(16)%
	<hr/>	<hr/>	<hr/>	<hr/>	
Total operating costs before depreciation and amortization	<u>6,448</u>	<u>827</u>	<u>6,697</u>	<u>859</u>	4%

Operating costs before depreciation and amortization decreased 4 percent to HK\$6,448 million for the year ended December 31, 2003 from HK\$6,697 million for the year ended December 31, 2002. Operating costs for TSS also decreased 12 percent to HK\$4,493 million for the current year from HK\$5,111 million a year ago.

In 2002, the Group reset staff levels by about 1,400 positions. A subcontracting program was announced in September 2002, under which about 1,600 employees in network maintenance and installation divisions took the opportunity to form 17 independent companies which then signed agreements to provide services to PCCW. Cascade Limited (“Cascade”), a wholly-owned subsidiary of PCCW and one of Asia Pacific’s leading technical services companies was also formed in January 2003 to provide PCCW’s telecommunications network operations, support and maintenance services. As part of the formation of Cascade, approximately 3,000 employees accepted new service contracts that generally reduced salaries slightly, as well as realigned benefit packages.

As a result of these strategic realignment plans and efficiency programs, staff costs decreased substantially by 16 percent year-on-year to HK\$3,150 million.

Other operating costs primarily included rent, rates and utilities, publicity and promotion, professional and consulting fees and subcontracting costs. Other operating costs increased to HK\$2,875 million year-on-year primarily due to incremental publicity and promotion expenses for the pre-sales of Residence

Bel-Air and for the new products and services; and an increase in subcontracting costs as a result of various strategic realignment programs implemented in 2002 and 2003.

The number of full-time and part-time employees of the Group was 12,510 at the end of 2003, compared to approximately 11,560 a year ago:

Year ended December 31,	2003	2002
TSS	8,897	8,445
Business eSolutions	2,229	1,280
Infrastructure	365	361
Others ¹	1,019	1,474
	<u>12,510</u>	<u>11,560</u>
Total	<u>12,510</u>	<u>11,560</u>
Total (excluding part-time/temps)	<u>12,013</u>	<u>10,978</u>

Note 1 Others primarily includes Corporate Functions, Taiwan, JALECO, and Internet Services.

The increase in the number of employees was primarily a result of the inclusion in Business eSolutions of all the employees from ChinaBiG, which became an indirect non wholly-owned subsidiary of the Group in April 2003; increased workforce for the launch of PCCW's new products and services and for the IT business in mainland China; while JALECO was streamlined.

EBITDA

Group EBITDA decreased 9 percent to HK\$7,372 million for the year ended December 31, 2003 compared to HK\$8,120 million for the year ended December 31, 2002. While the Group's EBITDA margin decreased to 33 percent for the current year compared to 40 percent in the previous year, EBITDA margin, excluding Residence Bel-Air, remained stable at 40 percent. The decrease in the Group's EBITDA was primarily due to lower EBITDA contribution from TSS.

TSS EBITDA decreased 7 percent to HK\$8,291 million for the year ended December 31, 2003 from HK\$8,903 million for the year ended December 31, 2002 while EBITDA margin increased to approximately 50 percent from

approximately 49 percent a year ago. The improvement in TSS EBITDA margin was primarily a result of the substantial cost savings from a reduction in wholesale voice and data disbursements partially offset by some customer acquisition costs incurred in the second half of the year in relation to the new products and services launched. The Group also achieved significant operating efficiency through various strategic realignment plans implemented in 2002 and 2003.

Business eSolutions EBITDA decreased 70 percent to HK\$45 million for the year ended December 31, 2003 from HK\$151 million for the year ended December 31, 2002. While the Group's Unihub businesses in mainland China began to show stronger traction in 2003, certain start-up costs in relation to those businesses were expensed during the year. EBITDA also decreased due to the outbreak of SARS which delayed certain contracts during the year.

Infrastructure EBITDA (ex-Residence Bel-Air) decreased to HK\$250 million for the year ended December 31, 2003 from HK\$476 million for the year ended December 31, 2002 primarily due to the slower property market in Hong Kong during the early part of the year, and the absence of an one-off government rates rebate in 2003.

Pre-sales of Residence Bel-Air commenced in February 2003 and the Group started to record revenue contribution and the corresponding costs during the year. The project contributed a small EBITDA of HK\$11 million in 2003 (2002: Nil).

EBITDA loss from others, inclusive of costs associated with corporate functions, has been further contained by 13 percent to HK\$1,225 million for the year ended December 31, 2003 from HK\$1,410 million for the year ended December 31, 2002. This was primarily driven by tighter control on corporate overheads.

REACH

	Year ended December 31, 2003 ³			Year ended December 31, 2002		
	HK\$ million ¹	US\$ million ¹	US\$ million ²	HK\$ million ¹	US\$ million ¹	US\$ million ²
Revenue	7,036	902	902	9,854	1,263	1,263
EBITDA	733	94	92	3,304	423	423
PCCW's 50 percent share of (loss)/profit before tax	(821)	(105)	NA	738	95	NA

Note 1 Amounts prepared in accordance with HK GAAP.

Note 2 Amounts prepared in accordance with US GAAP.

Note 3 2003 balances are yet to receive audit approval.

REACH, a 50:50 joint venture with Telstra Corporation Limited (“Telstra”), generated HK\$7,036 million (2002: HK\$9,854 million) in revenue and HK\$733 million (2002: HK\$3,304 million) in EBITDA for the year ended December 31, 2003. PCCW’s 50 percent share of loss before tax for the year ended December 31, 2003 was HK\$821 million compared to a profit of HK\$738 million for the year ended December 31, 2002.

Despite remaining a leader in the Asian market and the primary wholesale international connectivity provider to both PCCW and Telstra, REACH’s results were affected by the continuing difficult environment in the international undersea and long haul telecommunications market. New technology and new supply of international connectivity services have created excess capacity in the market. Following global market trends, REACH continued to experience volatile trading conditions and substantial pricing pressure. To achieve the best results possible in the current market conditions, REACH has focused on improving efficiency and continued to streamline costs. Cash management is a key financial focus.

During the year, the Group performed an impairment assessment of its interests in REACH. A prudent decision has been made to make a full provision for impairment of the Group’s entire stake in REACH and a loss of HK\$4,159 million (approximately US\$533 million) was recognized. Accordingly, the Group’s total investment in REACH has been written down to zero as at December 31, 2003 and there will be no further equity loss pick up required by the Group for future losses from REACH.

In April 2003, REACH and its bankers restructured the terms of REACH's original US\$1,500 million syndicated term loan facility by repaying US\$300 million of principal with the balance of US\$1,200 million repayable in a bullet payment in December 2010. The amendments to the original syndicated term loan facility were aimed at providing REACH with greater financial flexibility and an improved capital structure. Details of the restructured terms were set out in the Company's announcements dated April 14 and April 15, 2003.

An indirect wholly-owned subsidiary of the Company and REACH are parties to a Hong Kong Domestic Connectivity Agreement (as amended) and an International Services Agreement (as amended), for the provision of domestic and international connectivity services in Hong Kong and between Hong Kong and other countries. Pursuant to the amended International Services Agreement, each of the Group and Telstra have agreed to purchase 90 percent per annum of the Group's and Telstra's respective "Committed Services" (being international public switched telephone network terminating access, international transmission capacity and Internet gateway access services) from REACH and its subsidiaries until repayment of the amended US\$1,500 million syndicated loan facility of REACH on December 31, 2010 or earlier. REACH similarly must acquire 90 percent per annum of its local connectivity services from the Group under the amended Hong Kong Domestic Connectivity Agreement, under similar terms and conditions. Purchases made by the Group for the year ended December 31, 2003 were approximately HK\$1,036 million.

PCCW has, historically, been a substantial acquirer of cross-border connectivity services supplied by REACH, and expects to continue to require these services to support the Group's domestic business. REACH's 2004 business plan is currently being finalized.

FINANCIAL HIGHLIGHTS OF AUDITED CONSOLIDATED RESULTS

Depreciation and amortization

Depreciation and amortization for the year ended December 31, 2003 was HK\$2,888 million compared to HK\$2,832 million for the year ended December 31, 2002.

Operating Profit before Net Gains on Investments, Provisions for Impairment Losses and Restructuring Costs

Operating profit before net gains on investments, provisions for impairment losses and restructuring costs decreased by approximately 17 percent to HK\$4,339 million for the year ended December 31, 2003 from HK\$5,212 million for the year ended December 31, 2002 primarily due to the aforementioned reasons for the decrease in EBITDA and the increase in loss on disposal of certain fixed assets.

Net Finance Costs

Net finance costs increased to HK\$2,117 million for the year ended December 31, 2003 from HK\$1,997 million for the year ended December 31, 2002. The Group prudently managed its debt profile and the interest rate risk by moving the majority of debt from floating to fixed rates. Weighted average maturity was also lengthened to nearly 7 years. As a result, average cost of debt increased to 5.6 percent from 5.0 percent year-on-year. The balance also included arrangement fees expensed of approximately HK\$217 million (2002: HK\$241 million) incurred in respect of the bank loans and other long-term borrowings of the Group.

Share of Results of Jointly Controlled Companies

Share of loss of jointly controlled companies for the year ended December 31, 2003 of HK\$891 million (2002: Share of profit of HK\$550 million) primarily comprised the Group's 50 percent share of loss before tax from REACH of HK\$821 million (2002: Share of profit before tax of HK\$738 million), and the Group's share of profit or losses of other jointly controlled companies.

Share of Results of Associates

Share of results of associates for the year of HK\$65 million (2002: HK\$281 million) comprised the Group's share of profits and losses of its associates for the year ended December 31, 2003. The 2002 balance included the Group's 40 percent share of profit before tax from RWC of HK\$137 million from January 1, 2002 to the date of disposal of June 28, 2002.

Loss on Disposal of Interest in RWC

On disposal of the Group's 40 percent interest in RWC in June 2002, the Group recorded an accounting loss of HK\$1,771 million.

Taxation

Taxation for the year ended December 31, 2003 was HK\$1,165 million compared to HK\$1,406 million in 2002. The 17 percent decrease was primarily due to a write back of deferred tax on fixed asset impairment and over provision for overseas tax, partially offset by the effect of an increase in the statutory tax rate from 16 percent to 17.5 percent.

Under the current tax system in Hong Kong, certain impairment losses and overseas losses are not deductible permanently and there is no group loss relief on Hong Kong operating losses. Furthermore, the Group's financing costs, to the extent that they are attributable to the acquisition of Cable & Wireless HKT Limited (now known as PCCW-HKT Limited ("HKT")) and other companies, are not tax deductible. Excluding these factors, the Group has an effective tax rate which is approximately the statutory tax rate of 17.5 percent. Management does not believe there is tax inefficiency within the Group but will continue to review and minimize the overall tax costs, subject to the constraints of the existing Hong Kong tax rules.

Loss for the Year Attributable to Shareholders

Loss attributable to shareholders was HK\$6,100 million for the year ended December 31, 2003 compared to a loss of HK\$7,762 million for the year ended December 31, 2002. Current year loss was primarily attributable to the impairment losses and restructuring costs of a total of HK\$6,954 million taken in relation to the Group's interests in REACH, JALECO, and various other assets. (See notes 5, 6 and 8)

Net profit before impairment provisions, restructuring costs, the Group's share of REACH's results and net losses on disposal of interests in RWC and MobileOne was HK\$1,675 million for the year ended December 31, 2003 compared to HK\$2,041 million for the year ended December 31, 2002, presented on the same basis.

The loss in 2002 was largely attributable to an impairment loss of HK\$8,263 million recognized for the goodwill in relation to the Group's investment in REACH, and a loss on disposal of the Group's 40 percent interest in RWC of HK\$1,771 million.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2003, the Group had Net Cash³ of HK\$5,375 million (approximately US\$689 million), and gross long-term debt of HK\$34,506 million (approximately US\$4,424 million) compared to HK\$8,447 million (approximately US\$1,083 million) and HK\$41,366 million (approximately US\$5,303 million), respectively, as at December 31, 2002. Therefore, Net Debt² reduced by 11 percent to HK\$29,131 million (approximately US\$3,735 million) as at December 31, 2003 from HK\$32,919 million (approximately US\$4,220 million) as at December 31, 2002.

During the year ended December 31, 2003, the Group has prepaid a total of approximately HK\$17,208 million (approximately US\$2,206 million) gross long-term debt including the remaining balance of Tranche C of the original US\$4,700 million term loan facility (HK\$6,093 million or approximately US\$781 million) and the two term loan facilities of HK\$5,000 million (approximately US\$641 million) each. Total prepaid amount also included US\$143 million (approximately HK\$1,115 million) of early redemption of Telstra mandatory convertible bond as part of the restructuring of REACH syndicated term loan facility.

On July 17, 2003, PCCW announced a share placement of 715 million existing shares of the Company by its substantial shareholder, Pacific Century Regional Developments Limited ("PCRD") at HK\$4.40 per share. Concurrent with the share placement, PCRD also agreed to subscribe for 715 million new shares in the Company at HK\$4.40 per share (the "Subscription"). The Directors considered that the top-up share placement would strengthen the Group's capital base and further the Group's previously stated goals of continuing to reduce debt and improve credit fundamentals. The entire net proceeds arising from the Subscription of HK\$3,060 million (approximately US\$392 million) were used to prepay the Group's long-term debt.

Management continued to take advantage of the historically low interest rate environment and raised a total of HK\$10,459 million (approximately US\$1,341 million) of long-term borrowings including US\$456 million (approximately HK\$3,556 million) of 7.88 percent guaranteed notes due 2013; a HK\$3,003 million (approximately US\$385 million) term loan facility repayable in 2008; and US\$500 million (approximately HK\$3,900 million) of 6 percent guaranteed notes due 2013.

In addition to the new long-term borrowings, HKTC also arranged HK\$6,000 million 5-year, HK\$2,000 million 6-year and HK\$2,800 million 7-year revolving credit facilities for long-term liquidity and general corporate purposes.

Subsequent to December 31, 2003, the Group further reduced its gross long-term debt by prepaying a HK\$750 million (approximately US\$96 million) term loan facility, the HK\$1,058 million (approximately US\$136 million) Beijing property Renminbi denominated loan and the HK\$3,003 million (approximately US\$385 million) term loan facility. A total of HK\$3,400 million was drawn down from various revolving credit facilities.

Cash Flow

For the year ended December 31,	2003 <i>HK\$ million</i>	2003 <i>US\$ million</i>	2002 <i>HK\$ million</i>	2002 <i>US\$ million</i>
<i>Core operating cash flow:</i>				
Operating cash flow ^{1 and 2}	6,610	848	7,260	931
Less: Net interest paid	(1,285)	(165)	(1,298)	(166)
Tax paid	(1,397)	(179)	(1,245)	(159)
	<hr/>	<hr/>	<hr/>	<hr/>
Operating cash flow after interest and taxes	3,928	504	4,717	606
Less: Capital expenditure	(1,958)	(251)	(1,611)	(207)
Investment in Cyberport	(538)	(69)	(2,204)	(283)
	<hr/>	<hr/>	<hr/>	<hr/>
Recurring operating cash flow	<u>1,432</u>	<u>184</u>	<u>902</u>	<u>116</u>

Non-recurring items	(658)	(84)	245	31
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Core operating cash flow	774	100	1,147	147
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Pre-sales proceeds from Residence Bel-Air received, strictly intended for the future development of the Cyberport project ³	2,701	346	–	–
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Note 1 Operating cash flow is net cash inflow from operating activities in the audited consolidated cash flow statement plus investment in Cyberport, non-recurring items and net interest related to operating activities and tax paid.

Note 2 US\$143 million capacity prepayment to REACH incurred in April 2003 was treated as a long-term investment and was excluded from operating cash flow. The amount was subsequently determined impaired and fully provided for as at December 31, 2003.

Note 3 HK\$2,701 million (approximately US\$346 million) of pre-sales proceeds from Residence Bel-Air, net of monies retained in stakeholders account and applied to construction costs and other project costs, were received during the year (2002: Nil).

The Group continued to generate healthy operating cash flow during the year. Recurring operating cash flow increased to HK\$1,432 million (approximately US\$184 million) for the year ended December 31, 2003 from HK\$902 million (approximately US\$116 million) for the year ended December 31, 2002. The substantial increase was primarily due to a significant reduction in investment in the Cyberport project, which has become self-funding with the pre-sales proceeds of Residence Bel-Air since the second half 2003.

Net investment in the Cyberport project reduced to HK\$538 million (approximately US\$69 million) in 2003 compared to HK\$2,204 million (approximately US\$283 million) in the prior year. As at December 31, 2003, the Group has invested a total of HK\$4,428 million (approximately US\$568 million) in the Cyberport project. Cash proceeds received have been, and will continue to be, used to fund future construction and other project costs.

Non-recurring items. During the year, the Group made some non-recurring payments which primarily included the Universal Service Contribution (“USC”) refunded to other telecommunications operators. The USC refund amount was determined by OFTA and had no impact on the Group’s operations or income statement. Some guaranteed rental and construction income was received in 2002.

The Directors consider that it is not meaningful to publish a gearing ratio for the Group until such time as the Group is in a positive shareholders’ equity position.

Credit Ratings of HKTC

In May 2003, subsequent to a review of the Group’s strategy as well as the underlying performance of its core business, Standard & Poor’s Ratings Services reaffirmed its BBB corporate credit rating on HKTC and maintained its outlook as positive while Moody’s Investors Service downgraded the senior unsecured debt ratings of HKTC to Baa2 from Baa1, with the outlook maintained at stable.

Further, in July 2003, Fitch Ratings assigned HKTC an investment grade rating of BBB+ with a stable outlook.

PCCW was named by The Asset magazine as the 2nd best credit in Hong Kong and the 8th best in Asia. Management will continue to further reduce the Group’s long-term debt and improve credit fundamentals of HKTC with the goal of achieving the desired “A” ratings.

CAPITAL EXPENDITURE

Capital expenditure for the year ended December 31, 2003 was HK\$1,958 million (approximately US\$251 million), compared to HK\$1,611 million (approximately US\$207 million) for the year ended December 31, 2002. The majority of capital expenditure was spent on meeting demand for **now** Broadband TV connections, new generation fixed-lines, broadband access lines, and data services.

PCCW has made significant investment in its communications network in previous years. This has included the upgrade and expansion of network coverage, and building a platform for broadband and fast developing IP initiatives. Besides on-going core network expansion, 2004 capital expenditure will include overseas network projects and other new products and services. PCCW will continue to invest prudently, using criteria including internal rate of return, net present value and payback period, depending on the type of business.

HEDGING

Market risk arises from foreign currency exposure and interest rate exposure related to cash investments and borrowings. As a matter of policy, the Group continues to manage the market risk directly relating to its operations and financing and does not undertake any speculative derivative trading activities. The Finance and Management Committee, a subcommittee of the Executive Committee of the Board of Directors, determines appropriate risk management activities undertaken with the aim of managing, prudently, the market risk associated with transactions undertaken in the normal course of the Group's business. All treasury risk management activities are carried out in accordance with policies and guidelines approved by the Finance and Management Committee and the Executive Committee, which are reviewed on a regular basis.

In the normal course of business, the Group enters into forward contracts and other derivative contracts in order to limit its exposure to adverse fluctuations in foreign currency exchange rates and interest rates. These instruments are executed with creditworthy financial institutions, and all contracts are denominated in currencies of major industrial countries. Gains and losses on these contracts serve as hedges in that they offset fluctuations that would otherwise impact the Group's financial results. Costs associated with entering into such contracts are not material to the Group's financial results.

CHARGE ON ASSETS

As at December 31, 2003, certain assets of the Group with an aggregate carrying value of HK\$4,188 million (2002: HK\$4,357 million) were pledged to secure loan and borrowing facilities utilized by the Group.

In addition, certain investments, with an aggregate value of HK\$246 million (2002: HK\$237 million), were placed as collateral in relation to certain equity-linked transactions entered into by the Group.

As at December 31, 2002, the Group had been granted a standby letter of credit facility that was secured by a charge over bank deposits of approximately HK\$720 million. There was no such standby letter of credit facility as at December 31, 2003.

The Group's interest in REACH has been given as security for the amended 5 percent mandatory convertible note of approximately US\$54 million due 2005.

CONTINGENT LIABILITIES

	2003 <i>HK\$ million</i>	2002 <i>HK\$ million</i>
Performance guarantee	130	74
Others	125	60
	<hr/>	<hr/>
	<u>255</u>	<u>134</u>

On April 23, 2002, a writ of summons was issued against HKT, an indirect wholly-owned subsidiary of the Company, by New Century Infocomm Tech Co., Ltd. for HKT's failure to purchase 6,522,000 shares of TTNS, pursuant to an option agreement entered into on July 24, 2000. The total claim against HKT amounted to approximately HK\$96 million (NT\$418 million), being the purchase price of shares in TTNS, contractual interest for the period from January 1, 2001 to January 2, 2002 at 6.725 percent per annum and interest on the due amount pursuant to Sections 48 and 49 of the High Court Ordinance, Cap. 4. However, this figure should be reduced by the current market value of the shares in TTNS which would be transferred to HKT in the event that the claimants are successful in their claim. A defense was filed by HKT on May 29, 2002 and proceedings are ongoing. Based on legal advice received, the Directors consider that HKT has valid defenses and therefore no provision has been made.

On August 23, 2003, a summons was issued against the Company upon the application of Wharf T&T Limited (“Wharf”). The summons relates to an application to a Magistrate for an order declaring that the Company shall not obstruct or prevent Wharf from entering PCCW Tower for the purposes of exercising its rights under Section 14(1) of the Telecommunications Ordinance to install telephone lines amongst other things. Based on facts available and legal advice received, the application would not result in any award, damages or monetary penalty against the Company. Accordingly, no provision has been made.

POST BALANCE SHEET EVENTS

On January 19, 2004, the Company prepaid in full a HK\$750 million term loan.

On February 17, 2004, HKTC drew down HK\$600 million under a 5-year HK\$6,000 million revolving loan facility entered into in December 2003.

On February 19, 2004, HKTC drew down HK\$2,800 million under a 7-year HK\$2,800 million revolving credit and term loan facility entered into in August 2003. This facility was amended to become a 100 percent revolving loan facility in October 2003.

On February 19, 2004, a sale and purchase agreement was signed to dispose of The Broadway, the office building located in the Wan Chai district in Hong Kong, at a profit of HK\$34 million. It is anticipated that this transaction will be completed on or before March 16, 2004.

On February 26, 2004, the Company prepaid in full a HK\$3,003 million 5-year term loan.

On March 1, 2004, Beijing Jing Wei House and Land Estate Development Co., Ltd., an indirectly wholly-owned subsidiary of the Company, prepaid the outstanding principal amount of RMB1,220 million under the RMB1,300 million loan facility.

EMPLOYEES

As of the year ended December 31, 2003, the Group had approximately 12,510 employees (at December 31, 2002: 11,560). The majority of these employees work in Hong Kong. The Company has established incentive bonus schemes designed to motivate and reward employees at all levels to achieve the Company's business performance targets. Payment of bonuses is generally based on achievement of revenue and EBITDA targets for the Company's individual businesses and the Group as a whole. The Company also operates a discretionary employee share option scheme and two share award schemes to motivate employee performance in enhancing shareholder value.

Global economic conditions and a prolonged negative return on investments have led to a continuous decline in retirement scheme assets around the world. Despite better-than-market median investment performance, the Company restructured its defined benefit scheme during the year to minimize its future exposure to the volatile market. The investment returns of the scheme have improved since then and, together with some additional contribution by the Company, the estimated solvency ratio improved to approximately 93 percent at the end of 2003, from 76 percent a year ago.

DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended December 31, 2003 (2002: Nil).

OUTLOOK

The consolidated results in 2003 reflected the fiercely competitive environment and difficult circumstances in which the Group operated. While the Group focused on stabilizing its core business, tremendous sales progress was achieved at Residence Bel-Air.

Year 2003 was a year of innovation for the Company as a series of new products and services were launched and were welcomed with enthusiasm by customers. It is, however, too early to see any reflection of these positive steps in the 2003 results.

Looking forward to 2004, an economic recovery appears to be gathering momentum in Hong Kong although the operating environment is expected to continue to be challenging.

The Group believes that many of the innovative and aggressive actions it is pursuing are positioning it well to deliver acceptable operating results over the medium-term. Contributions from the new products and services launched in 2003 and other new value-added services coming in 2004, such as multimedia applications and advanced new generation fixed-line services, will become more material this year.

The Group expects that its core business will stabilize whilst broadband, value-added services, and the IT business will continue to grow. This change in business mix over time could negatively impact the Group's margin. Management will continue to maintain a regime of strict cost control and further lift operating efficiency.

At the same time, the Group will continue to press the Hong Kong Government to accelerate the reform of outdated regulatory policies that have unfairly restricted the Company's ability to compete. Management is cautiously optimistic that the regulatory constraints may be lessened during 2004.

Leveraging the new brand name Unihub, and as CEPA (Closer Economic Partnership Arrangement) promises stronger economic ties between Hong Kong and mainland China, the Group will continue to actively increase its presence in mainland China.

Further afield, our home-grown expertise in broadband technology and marketing is driving a wireless broadband business opportunity in the UK, with a soft launch planned for the second quarter of 2004. Our UK wireless broadband experience, if successful, could provide an excellent basis for expansion into other markets, including mainland China.

In light of changed market conditions, the Group has performed asset impairment tests and made a prudent decision to take impairment provisions for its interests in REACH and in various other assets. These non-cash related charges have put the Company in an accounting loss position in 2003, but will

not hinder the Company's commitment to start paying dividends. Management does not expect to incur material impairments in 2004 and the foreseeable future.

The Company has begun to actively address the technical matters which need to be resolved to put the Company in a position to pay a dividend. These technical matters include the necessary reorganization of the Company's balance sheet. The Company anticipates that by the end of 2004, it will have completed the necessary technical formalities, in order to permit the payment of dividends as and when the Board considers it appropriate in the future.

In parallel, the Group will continue to maintain its financing priorities: to further reduce debt using its healthy operating cash flow and the expected cash return from the Cyberport project starting in 2004; and to target "A" ratings at HKTC.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Details of the purchase, sale or redemption of the Company's listed securities during the year ended December 31, 2003 will be set out in the Consolidated Financial Statements contained in the Company's Annual Report for the financial year ended December 31, 2003 (the "2003 Annual Report").

COMPLIANCE WITH THE CODE OF BEST PRACTICE

Throughout the year ended December 31, 2003, the Company has complied with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") save that non-executive directors of the Company are not appointed for a specific term of office, but are subject to retirement by rotation and re-election at annual general meetings in accordance with the Company's Articles of Association.

PUBLICATION OF FINAL RESULTS ON THE WEBSITE OF THE STOCK EXCHANGE

A detailed results announcement containing all the information required by paragraphs 45(1) to 45(3) of Appendix 16 to the Listing Rules will be published on the website of the Stock Exchange on or before March 18, 2004. In addition, the 2003 Annual Report will be dispatched to the shareholders of the Company on or around April 13, 2004.

By order of the Board
Hubert Chak
Company Secretary

Hong Kong, March 4, 2004

AUDITED CONSOLIDATED RESULTS

For the year ended December 31, 2003

(Amounts expressed in millions of Hong Kong dollars except for loss per share)

	<i>Note</i>	2003	2002
Turnover	3	<u>22,550</u>	<u>20,112</u>
Operating profit before net gains on investments, provisions for impairment losses and restructuring costs		4,339	5,212
Gains on investments, net	4	407	13
Provisions for impairment losses	5	(2,452)	(534)
Restructuring costs	6	<u>(38)</u>	<u>(311)</u>
Profit from operations	3	2,256	4,380
Finance costs, net	7	(2,117)	(1,997)
Share of results of jointly controlled companies		(891)	550
Share of results of associates		65	281
Impairment losses on interests in jointly controlled companies and associates	8	(4,464)	(8,263)
Losses on disposal of interests in RWC and MobileOne, net		<u>-</u>	<u>(1,433)</u>

Loss before taxation		(5,151)	(6,482)
Taxation	9	(1,165)	(1,406)
		<u> </u>	<u> </u>
Loss after taxation		(6,316)	(7,888)
Minority interests		216	126
		<u> </u>	<u> </u>
Loss for the year attributable to shareholders		<u>(6,100)</u>	<u>(7,762)</u>
Basic and diluted loss per share	10	<u>(122.81 cents)</u>	<u>(168.53 cents)</u>

AUDITED CONDENSED CONSOLIDATED BALANCE SHEET

As at December 31,

(Amounts expressed in millions of Hong Kong dollars)

	2003	2002
Total assets	44,647	49,763
Total liabilities	(52,183)	(55,271)
	<u> </u>	<u> </u>
Net liabilities	<u>(7,536)</u>	<u>(5,508)</u>
Represented by:		
Share capital	1,343	1,164
Deficit	(9,182)	(7,080)
Minority interests	303	408
	<u> </u>	<u> </u>
Net liabilities	<u>(7,536)</u>	<u>(5,508)</u>

NOTES:

1. GROUP ORGANIZATION

The principal activities of the Group are the provision of local and international telecommunications services, Internet and interactive multimedia services, the sale and rental of telecommunications equipment, and the provision of computer, engineering and other technical services, mainly in Hong Kong; investment in, and development of, systems integration and technology-related businesses; and investment

in, and development of, infrastructure and properties in Hong Kong and elsewhere in mainland China.

On June 12, 2003, the Company announced that it had been informed that PCRD, a substantial shareholder of the Company, had ceased to account for the Company as a subsidiary and would treat the Company as an associated company. Following this development, Pacific Century Group Holdings Limited, which is a company incorporated in the British Virgin Islands and the ultimate holding company of PCRD, is no longer considered as the ultimate holding company of the Company.

2. BASIS OF PREPARATION

The accounting policies adopted in preparing these audited consolidated financial statements are consistent with those followed in preparing the Group's annual financial statements for the year ended December 31, 2002.

3. SEGMENT INFORMATION

An analysis of turnover and profit from operations of the Group by business and geographical segments is set out below:

Year ended December 31,	Turnover		Profit/(Loss) from operations	
	2003	2002	2003	2002
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
(a) Business segments:				
TSS	16,572	18,007	5,156	6,348
Business eSolutions	2,326	2,234	(148)	(102)
Infrastructure	4,600	685	102	267
Others	426	793	(2,317)	(1,930)
Eliminations	(1,374)	(1,607)	–	–
	<u>22,550</u>	<u>20,112</u>	<u>2,793</u>	<u>4,583</u>
Other corporate expenses net of other income	–	–	(537)	(203)
	<u>22,550</u>	<u>20,112</u>	<u>2,256</u>	<u>4,380</u>

Year ended December 31,	<i>Turnover</i>	
	2003 <i>HK\$ million</i>	2002 <i>HK\$ million</i>
(b) Geographical segments:		
Hong Kong	21,172	19,063
Mainland China (excluding Hong Kong) and Taiwan	948	701
Others	430	348
	<u>22,550</u>	<u>20,112</u>

4. GAINS ON INVESTMENTS, NET

	2003 <i>HK\$ million</i>	2002 <i>HK\$ million</i>
Net unrealized holding gains/(losses) on other investments	8	(142)
Net realized gains/(losses) from disposals of investments in subsidiaries, investment securities and other investments	103	(92)
Provision for impairment of investments	(258)	(581)
Amortization of premium received from equity options	12	32
Release of provision for an onerous contract	–	464
Gain on termination and amendment of the terms of cross currency swap contracts	532	332
Dividend income	10	–
	<u>407</u>	<u>13</u>

5. PROVISIONS FOR IMPAIRMENT LOSSES

	2003 <i>HK\$ million</i>	2002 <i>HK\$ million</i>
Provisions for impairment of:		
Fixed assets (<i>note a</i>)	1,167	204
Multimedia business related assets (<i>note b</i>)	301	309
Game business related assets (<i>note c</i>)	893	–
Other non-current assets	91	21
	<u>2,452</u>	<u>534</u>

- (a) Due to technology and market changes in the sectors in which the Group operates, certain of the Group's fixed assets have become obsolete or impaired. Accordingly, the Group has recognized an impairment loss of approximately HK\$1,155 million in the income statement for the year ended December 31, 2003. Further, an impairment loss of approximately HK\$12 million on the fixed assets of the game business has been recognized as described in note (c) below.
- (b) Following the launch of certain value-added services in 2003, the Group has reviewed the recoverable amount of its multimedia business related assets and identified that the usage of certain content archive will be diminishing. The income to be generated from such assets is expected to be insignificant. Accordingly, the Group has fully written down the remaining carrying value of a content licence as at December 31, 2003 to zero and recognized an impairment loss of approximately HK\$301 million.
- (c) During the year, JALECO, has restructured its on-line game and game development businesses and exited certain legacy businesses. In view of the continual losses incurred by JALECO, management has performed an assessment of the fair value of its interest in JALECO, including the related goodwill that had previously been eliminated against reserves as at December 31, 2003. As a result, based on the estimated value in use of JALECO determined using a discount rate of 12.5 percent (2002: 12.5 percent), the Group has recognized impairment losses for goodwill and other assets of HK\$742 million and HK\$151 million respectively in the income statement for the year.

6. RESTRUCTURING COSTS

During the current year, JALECO incurred restructuring costs of approximately HK\$38 million representing mainly the severance payments and the write-off of development cost and inventory in relation to the restructuring exercise described in note 5(c) above.

During 2002, the Group subcontracted a significant portion of its network maintenance function to 17 newly-established subcontracting companies owned by individuals previously employed by the Group. Approximately 1,600 former employees joined these subcontracting companies in November 2002 and approximately 3,000 of the Group's employees joined a new wholly-owned subsidiary, Cascade, on January 1, 2003. In addition, the Group reset staff levels in 2002 involving approximately 1,400 employees. Restructuring costs of approximately HK\$311 million in 2002 mainly represent the ex-gratia payments, curtailment losses on the related defined benefit retirement schemes, Cascade incentive bonuses on employment transfers and payments in lieu of notice for the above exercises.

7. FINANCE COSTS, NET

	2003 <i>HK\$ million</i>	2002 <i>HK\$ million</i>
Interest paid/payable for:		
Overdrafts and bank loans wholly repayable within 5 years	501	10
Bank loans not wholly repayable within 5 years	4	842
Other loans wholly repayable within 5 years	908	811
Other loans not wholly repayable within 5 years	853	531
	<u>2,266</u>	<u>2,194</u>
Interest capitalized in properties under development and fixed assets	(17)	(33)
	<u>2,249</u>	<u>2,161</u>
Interest income on bank deposits	(132)	(164)
	<u>2,117</u>	<u>1,997</u>

Finance costs of HK\$2,249 million (2002: HK\$2,161 million) include arrangement fees expensed of approximately HK\$217 million (2002: HK\$241 million) incurred in respect of the bank loans and other long-term borrowings of the Group.

During the year, the capitalization rates used to determine the amount of interest eligible for capitalization ranged from 2.7 percent to 4.9 percent (2002: 3.0 percent to 3.5 percent).

8. IMPAIRMENT LOSSES ON INTERESTS IN JOINTLY CONTROLLED COMPANIES AND ASSOCIATES

	2003 <i>HK\$ million</i>	2002 <i>HK\$ million</i>
Impairment losses on interests in:		
REACH (<i>note a</i>)	4,159	8,263
Another jointly controlled company (<i>note b</i>)	227	–
Other associates	78	–
	<u>4,464</u>	<u>8,263</u>

- (a) On April 15, 2003, REACH and its bankers amended the terms of REACH's US\$1,500 million syndicated term loan facility, which was subsequently reduced to US\$1,200 million, with effect from April 25, 2003. The amendments to the term loan facility were intended to provide REACH with greater financial flexibility and an improved capital structure. REACH continues to operate in a difficult environment and the industry is expected to remain challenging for a period of time due to aggressive pricing and oversupply of capacity.

The Group has performed an assessment of the fair value of its interest in REACH, including the related goodwill that had previously been eliminated against reserves, as at December 31, 2003. As a result, based on the estimated value in use of REACH determined using a discount rate of 10 percent (2002: 9 percent), the Group has made full provision for impairment of its previously unimpaired interest in REACH, recognizing an impairment loss of approximately HK\$4,159 million (2002: HK\$8,263 million) in the income statement for the year ended December 31, 2003. Accordingly, the Group's total interest in REACH has been written down to zero as at December 31, 2003 (2002: HK\$3,930 million).

- (b) Due to continual losses sustained, the Group has performed an assessment of the carrying value of its interest in a jointly controlled company, which is engaged in the on-line game business, as at December 31, 2003. Based on the result of the assessment, the Group has made a full provision for impairment of its interest in this jointly controlled company of approximately HK\$227 million in the income statement for the year ended December 31, 2003.

9. TAXATION

In March 2003, the Hong Kong Government announced an increase in the profits tax rate applicable to the Group's operations in Hong Kong from 16 percent to 17.5 percent. Accordingly, Hong Kong profits tax has been provided at the rate of 17.5 percent (2002: 16 percent) on the estimated assessable profits for the year. Overseas taxation has been calculated on the estimated assessable profits for the year at the rates prevailing in the respective jurisdictions.

10. LOSS PER SHARE

The calculation of basic loss per share is based on the following data:

	2003	2002
Loss (HK\$ million)	<u>(6,100)</u>	<u>(7,762)</u>
Weighted average number of ordinary shares	<u>4,967,178,732</u>	<u>4,605,653,512</u>

The diluted loss per share for the year ended December 31, 2003 and 2002 is the same as the basic loss per share as all potential ordinary shares are anti-dilutive.

The weighted average number of ordinary shares in 2003 and 2002 for the purposes of calculating the basic and diluted loss per share has been retrospectively adjusted for the five-to-one share consolidation which took place in January 2003.

Forward-Looking Statements

This announcement contains certain forward-looking statements. These forward-looking statements are not guarantees of future performance. Actual results may differ materially from those expressed or implied in such forward-looking statements. Such forward-looking information is based on PCCW's current assumptions and expectations and is subject to risks and uncertainties that could significantly affect expected results. These risks and uncertainties are discussed in PCCW's reports furnished to or filed with the U.S. Securities and Exchange Commission, including, but not limited to, PCCW's report on Form 6-K containing this announcement and certain sections of PCCW's most recent Annual Report on Form 20-F.

“Please also refer to the published version of this announcement in South China Morning Post”.