



STATEMENT FROM THE DEPUTY CHAIRMAN AND GROUP MANAGING DIRECTOR

I am pleased to report the Group's interim results. In the first half of 2006, our core business continued to recover in a steadily improving business environment. NOW TV grew strongly and PCCW mobile added a 3G service. As in the past few years, innovation played a key role in keeping us ahead of the competition.

First Half 2006 Results

Group revenue increased 21 percent from the first half of 2005 to US\$1,811 million and group EBITDA increased 13 percent to US\$468 million. This was largely due to the higher booking of Bel-Air sales and the inclusion of SUNDAY's consolidated results in the first half of 2006. Excluding the group's property business and SUNDAY's results, the financial performance of PCCW's telecommunications business was relatively stable.

Group net profit attributable to our shareholders was US\$102 million, down 17 percent from the first half of 2005, primarily due to lower investment gains. Excluding such impact, attributable profit would have increased.

Basic earnings per share were 11.83 Hong Kong cents. It gives me great pleasure to inform you that the Board has declared an interim dividend of 6.5 Hong Kong cents per share.

First Half 2006 Operations

Telecommunications Services – TSS continued to deliver stable results in a steadily improving business environment.

PCCW added 15,000 more fixed lines in the first half of 2006. The total number of fixed lines in service at the end of June 2006 was approximately 2,579,000, up 1 percent from the end of 2005. Our market share remained solid at 68 percent and ARPU showed clear signs of stabilizing.

Total broadband access lines in service reached 998,000 by the end of June 2006, up 5 percent from the end of 2005, as our high-quality value-added services including NOW TV, now.com.hk, and MOOV encouraged customer loyalty.

CASCADE continued to build its external business during the first half of 2006, as it was awarded significant network-operation outsourcing and consultancy projects including in Indonesia, Vietnam and mainland China. CASCADE also successfully implemented an IPTV solution for True Internet, the largest broadband operator in Thailand.

Revenue from the Group's contact center business increased as the outsourcing model became increasingly popular with Hong Kong and multinational corporations.

Cont'd...

TV & Content – Revenue surged 66 percent to US\$39 million in the first half of 2006, driven by the strong growth of **NOW TV**. By the end of June 2006, the number of installed **NOW TV** services reached 608,000, of which 73 percent were subscribing to pay channels at an ARPU of HK\$118 per month. By the end of August, the number of installed services had reached 654,000.

NOW TV added more exclusive local, international and sports content including a self-produced **NOW Business News Channel (NOW BNC)**, the **TVB PAY VISION** pack, an expanded **HBO** suite of channels, and the **UEFA Champions League**.

NOW TV will be exclusively broadcasting the **UEFA Champions League** for three seasons starting from September 2006. We will offer complete coverage of 125 **UEFA** matches by broadcasting four matches simultaneously, with all the matches also made available through our on-demand service, "**NOW Select**".

More interactive features were introduced including the **NOW** game channel, and **NOW shop**. The **NOW shop** channel offers customers an interactive shopping gallery experience with a growing array of products and services such as **DVDs**, on-line cinema tickets, and real-time stock quotes from a partnership of **NOW BNC** with **Reuters**.

The Group's internet portal **now.com.hk** continued to expand its high-quality value-added services. 227,000 **NETVIGATOR** customers had subscribed to this exclusive service by the end of June 2006, up 8 percent from December 2005. During the period, **MOOV**, Hong Kong's largest on-line digital music streaming service, was launched and quickly gained popularity.

Mobile – **PCCW** mobile launched a 3G trial program in January 2006. The trial was a success, with 105,000 customers selected and activated. Beginning in August, marketing efforts were launched to migrate the 3G trial users to various pricing packages.

In May 2006, the Group introduced the world's first real-time, mobile TV service using **Cell Multimedia Broadcast** technology from **Huawei**. The initial TV programs offered include **NOW BNC**, 24-hour **ATV News Channel**, **CNN International**, **CNBC**, and **Mobile ESPN**.

Riding on the Group's quadruple play advantage, the Company will integrate more **NOW TV** content into our 3G mobile services.

PCCW Solutions – The Group's ICT solutions arm continued to expand its external business and was awarded significant contracts despite the challenging business environment.

Major contracts won recently included high-profile public-sector projects such as the 10-year contract for the **Electronic Passport System (e-Pass)**, and the **Government Financial Management Information System (GFMS)** contract, both with the **Hong Kong Government**.

In the private sector, a contract with Bossini International Holdings Limited was also signed to manage its new Oracle Financial system rollout in the region, and provide comprehensive implementation services.

Pacific Century Premium Developments Limited – Revenue from PCPD increased 58 percent to US\$676 million in the first half of 2006, as the Bel-Air residential project continued to deliver good results.

China Netcom

The relationship with China Netcom continues to strengthen.

CNC Broadband (CNCBB) – We have signed the Sale & Purchase Agreement with China Netcom for the acquisition of a 50 percent stake in CNCBB. Approval for the restructuring of CNCBB was obtained from the State-owned Assets Supervision and Administration Committee. Pending the approval from the Ministry of Information Industry, we will soon sign a 50-50 joint venture agreement with China Netcom.

IPTV – CASCADE will provide IPTV consultancy services to China Netcom, including network and system design and build. We are continuing discussions on the possibility of setting up a joint venture between China Netcom, PCCW and other strategic partners to provide IPTV services.

Directories – We are continuing discussions on the possibility of forming a joint venture with China Netcom and other strategic partners to operate Internet and printed directories businesses in mainland China.

Property Development – Following completion of a technical and traffic analysis of the Hujialou site in Beijing, China Netcom and PCCW have finalized the site development scheme, including modification of the original China Netcom telephone exchange. The scheme has been presented to the Beijing Municipal Government, which has started the approval process. China Netcom and PCCW have completed a joint feasibility study of another potential development site at Dongsu in the central Beijing area.

Data Center Cooperation – PCCW has agreed to jointly develop new data center services with China Netcom in Guangdong. This data center service would support our customers in Southern China and also support the research and development initiatives of PCCW Solutions.

OUTLOOK

PCCW has successfully stabilized its core telecommunications business. The Group is working on building new revenue streams from TV & Content, Mobile, CASCADE, and PCCW Solutions.

After years of intense competition in the local fixed line market, signs of industry consolidation and improvements in retail prices in the market were seen. The market share of the Group's core telecommunications business has stabilized, generating stable operating cash flow to finance the development of new businesses.

Cont'd...

NOW TV has rapidly become one of the largest pay TV services in Hong Kong, as viewers have been attracted to the increasingly rich content and the unique interactive features. The Group is optimistic about continued growth.

PCCW mobile's 3G trial proved successful in quickly adding a large number of test users to the network. The Group has commenced migrating 3G trial users to paying customers. Innovations such as Mobile TV help to differentiate our 3G offering. The Group is confident that 3G will play an important role in increasing our market share in the mobile sector.

The Company looks forward with optimism to the second half of 2006 and beyond, as the strengthened financial position and stabilization of the core business has laid a firm foundation for the future.

Jack So
September 14, 2006