



## ANNUAL RESULTS STATEMENT

2006 was a year of further transformation for PCCW. We have become a telecom/media company, as we deliver a growing variety of services to customers over multiple platforms including fixed line, broadband, mobile and TV.

Our leadership in technology and innovation is playing a key role in this transformation and keeping us a step ahead of the competition.

### 2006 RESULTS HIGHLIGHTS

Our annual results for the year ended December 31, 2006 reflect the Group's success in turning around our core business, good performance by the Group's property subsidiary and the growing impact of new businesses including mobile and TV.

Group revenue increased 14 percent to HK\$25,637 million, due largely to the higher recognition of Bel-Air sales and a full year of mobile revenue. Group EBITDA also increased, rising 3 percent to HK\$6,827 million.

We made the deliberate decision to invest in new businesses and technologies during 2006, to maintain our market leadership. This and the full-year impact of mobile resulted in heavier capital expenditure which increased to HK\$3,366 million from HK\$2,441 million in 2005. Much of the benefit to the bottom line from these investments will come in later years.

Profit attributable to our shareholders was HK\$1,252 million, down 22 percent, due primarily to sharply lower investment and other non-recurring gains. Excluding such impact, attributable profit would have increased.

Basic earnings per share were 18.59 Hong Kong cents. It gives me great pleasure to inform you that the Board has recommended a final dividend of 12 Hong Kong cents per share.

### 2006 OPERATIONS

**TV & Content** – Revenue surged 71 percent to HK\$739 million, as **NOW TV** maintained its strong growth. The **NOW TV** installed base reached 758,000, keeping **NOW TV** on track to become Hong Kong's largest pay-TV operator.

**NOW TV** made further progress towards becoming Hong Kong's premier platform for sports programming. Exclusive live broadcast of UEFA Champions League matches began in September, and in November PCCW won the exclusive live broadcast rights to English Premier League ("EPL") matches over three seasons beginning August 2007.

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As part of TV and Content's quadruple-play strategy, six **NOW** TV channels were offered on PCCW mobile beginning in June; and coverage of UEFA Champions League matches was launched simultaneously on **NOW** TV, now.com.hk and PCCW mobile.

In May, we launched MOOV, Hong Kong's largest online digital streaming music library offering over 60,000 songs and music videos.

**Telecommunications Services ("TSS")** – The turnaround of the Group's core business continued as TSS revenue increased 2 percent. The total number of fixed lines rose 1 percent, and ARPU showed clear signs of stabilizing.

NETVIGATOR maintained its market leadership in broadband access as total broadband lines in service reached 1,117,000, up 17 percent. Demand was sustained at a high level by our high quality value-added services such as **NOW** TV, now.com.hk and MOOV.

During 2007, we plan to launch High Definition service on **NOW** TV, increase the number of PCCW Wi-Fi hotspots in Hong Kong to over 3,000 and enrich our fixed-line offering with high-speed data and video services.

Cascade Limited ("CASCADE") continued to build its external business, and was awarded significant IPTV and network projects in Southeast Asia and elsewhere.

The Group's contact center business achieved encouraging revenue growth, benefiting from outsourcing by multinational corporations, and PCCW Global saw good revenue growth.

**Mobile** – The total number of PCCW mobile subscribers reached 921,000 at the end of 2006, up 25 percent. This strong subscriber growth was supported by the launch of 3G services, network improvements and innovative services.

Such applications introduced during the year included Hong Kong's first real-time mobile TV service; PCCW EasyWatch, Hong Kong's first mobile remote monitoring service; and MOOV on mobile. MobileTix, Hong Kong's first mobile ticketing service, was launched in early 2007.

**PCCW Solutions** – The Group's ICT solutions arm continued to expand its external business and revenue increased 5 percent. High-profile projects included the Hong Kong Government's Electronic Passport System (e-PASS) and Government Financial Management Information System.

**Pacific Century Premium Developments Limited ("PCPD")** – Revenue from PCPD increased 42 percent to HK\$7,263 million in 2006, as the Bel-Air residential project continued to deliver good results.

## **CHINA NETCOM**

The relationship with China Network Communications Group Corporation (“China Netcom”) continues to develop.

**China Netcom Broadband Corporation Limited (“CNCBB”)** – After obtaining approvals from the authorities in January 2007, PCCW completed acquisition of a 50 percent stake in CNCBB. CNCBB provides broadband access and value-added services to more than 250,000 customers in Hangzhou and Ningbo.

**Information Technology Services Cooperation** – PCCW Solutions and China Netcom (Hong Kong) Operations Limited have signed an agreement to cooperate in providing IT services. Planned areas of cooperation include data center services, IT outsourcing, managed IT operations, disaster recovery services, and network and bandwidth provisioning in China connecting to Hong Kong and beyond.

**International Connectivity** – PCCW Global has secured a contract with China Netcom to provide a 30 Gigabyte connectivity solution between Hong Kong and the U.S.

**Other Cooperation** – We continue to discuss with China Netcom cooperation in the directories business. The development plan for the Hujialou property development project is awaiting approval from the Beijing authorities, and a joint venture for the Dongsu project will be established once agreement is reached on the commercial terms. We continue to explore with China Netcom ways that we could provide technical and marketing support to their deployment of IPTV in China, and opportunities for cooperating on developing an outsourced contact center business in Dalian.

## **OUTLOOK**

The results for 2006 reflect the turnaround of the core business, and significant investment in the development of new businesses including TV and mobile, as part of our quadruple-play strategy. Much of the benefit from such investments will come in future years. For our stabilized core business, our focus now is on raising revenue.

With a full quadruple-play delivery platform now in place, we can focus in 2007 on offering a growing variety of content and interactive services across all four platforms. We have built a solid foundation for the company’s future.

March 28, 2007