



**Speech by Jack C.K. So
Deputy Chairman and Group Managing Director, PCCW**

**Interim Results Announcement
28 August 2003**

Speech Summary

- Return to profit, debt further reduced
- Cost control continues, exit non-core business
- Prospect for top line stabilization / growth positive because
 - major marketing campaign through new product launches
 - government reviewing regulatory restrictions
- Existing regulatory restriction on PCCW outdated
 - disincentive for investment and upgrading of technology
 - against natural justice & free market
- Focus on Hong Kong, eye on Mainland market - a good start has been made
- New technology :
 - over 200 Wi-Fi hot spots in Hong Kong
 - low cost option on wireless broadband in U.K.
- Medium term goal to pay dividend, face challenge ahead with confidence

Ladies & Gentlemen,

I feel privileged and honoured to be with you today as the new Deputy Chairman and Group Managing Director. This is an exciting time to join the company. I have a lot to learn but even in my first few short weeks, I found that PCCW is a great company with excellent people. I sincerely hope that I can make a useful contribution not only to the business but, equally important, to enhancing the value of the company to our shareholders.

The first half of 2003 saw the company's net debt reduced to below US\$3.9 billion after adjusting for our recent share placement. On operating results, the EBITDA margin excluding CyberPort sales which went very well, increased from 40% (H1 2002) to 42%.

PCCW reported a profit for the period of US\$90 million versus a loss in the same period last year. This is despite continued pressure on market share and the loss arising from REACH (which was in profit in H1 2002).

The loss of market share in the fixed line business is as much a result of the current economic climate as the regulatory restrictions about which I will have more to say later. Every effort has been made to stem the tide. With the recent introduction of the Intelligent Line and other marketing initiatives, the rate of decline seems to have moderated.

Hong Kong is going through a major economic restructuring. Trade ties with the Mainland will be further strengthened with CEPA, and Hong Kong's role as the service center for the enormous manufacturing hinterland of the PRD (Pearl River Delta) is well recognized.

Without doubt, one of the pillars of a service center is telecommunications and Hong Kong used to take pride in being one of the world's best in this field. Since deregulation started in 1995, many significant changes have taken place. There are no longer any legal, regulatory, economic or technical barriers to new entrants, and Hong Kong now has six competing network operators, offering an extensive range of services and quality.

As a result, consumers have on the whole benefited from the availability of options as well as lower prices. But our industry structure is not sustainable. There are insufficient returns to meet shareholder expectations. For instance, telecom revenues have only grown 9% in the past 7 years, while GDP has expanded over 20% in the same period, not the characteristic of an industry leading Hong Kong's development. Excessive competition has led to wave after wave of cut throat price wars, which has had the undesirable consequence of dampening the incentive to invest.

Between 1996 and 2002, PCCW invested HK\$3.7 billion a year in infrastructure and upgrading, much more than any other network.

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One further reason for the lack of investment is that the mandatory unbundling requirement has made it possible for some operators to latch onto existing networks instead of building their own. This policy was intended to create competition in the early days. It has now become a hindrance to the free market, to the detriment of those (including PCCW) who invested in the building and the upkeep of the networks. A government review on this subject is currently under way and we argue strongly that, eight years into market liberalisation, there is no longer any obstacle to market access.

Over 80% of the population have a choice of three networks. The compulsory unbundling requirement, coupled with the restriction on marketing flexibility for PCCW, makes it possible for competitors to easily take away our market share. This is not only against natural justice but also stifles our incentive to further invest in Hong Kong. This cannot be in the interests of developing Hong Kong into the telecommunications hub of Asia and an efficient service center for Mainland China.

In spite of all these difficulties, PCCW has not given up on its mission to take Hong Kong to the next level of telecommunications development. The highly popular new generation fixed line services recently introduced to the market can perform the following functions: Fixed Line SMS, Personal Assistant and Auto Receptionist. More sophisticated products and services representing months of research and millions of dollars of development costs will be made available to our customers in the coming months -- one which you will see later is the video-infoline.

We are confident that these new products will bring enhanced convenience and satisfaction to our customers. Hong Kong can be proud of these technological advances. It is to be hoped that our Government will encourage further innovation through ensuring fairness of competition and not kill off such incentives or destroy the viability of the business by excessive and outdated regulation.

Hong Kong will remain the main focus of PCCW's business. We are confident that given a fairer regulatory regime, as the economy recovers and the trade links with the Mainland especially the PRD further strengthen, our various business lines will benefit. As a forward-looking company, we must also look for growth and expansion for the future. A good start has already been made in our business in Mainland China particularly in the area of Business eSolutions. We believe the potential is enormous in the China market for IT/Telecom service.

On the technology front, the company is prudently making advances in the area of wireless Internet. Not only has PCCW launched over 200 Wi-Fi hot spots around Hong Kong, we recently acquired, for relatively low cost, rights in the United Kingdom in the 3.5GHz spectrum for the next 15 years to develop wireless broadband service. The U.K. experience will provide an excellent basis for expansion into other markets including Mainland China.

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As you can see, the company is diligently reducing debt, our current financials have again shown improvement in the areas of debt/EBITDA and interest coverage ratios, and we have recently been awarded BBB+ by Fitch. Continued deleveraging coupled with our constant effort to control costs, exit non-core businesses and maximize free cash flow will eventually put the company in a position to pay a dividend in the medium term. We have not lost sight of this objective and although we cannot yet commit to a definite timetable, we are vigorously pursuing this goal.

The Hong Kong market is excessively competitive and should go into consolidation for a healthier development in the future. However, outdated regulatory protection has delayed the process and also hinders innovation and investment. At PCCW, we are doing the best we can to bring better products and services to satisfy our customers' needs. We have a clear focus of future directions in terms of both geographical expansion and technical development.

In taking on this job, I fully realize the challenge I face. I am greatly encouraged by the tremendous strides already made under the leadership of Mike Butcher and his team, especially in cost control and market development. I have also derived confidence from the much improved balance sheet and take comfort in the fact that government has finally decided to review the regulatory policy.

OFTA has come out with statements emphasizing the quality of telecom service. I think that is a step in the right direction. Recently the courts have also ruled in our favour on various regulatory disputes. Of course, there are still challenges to overcome, but we have clearly identified the problems and can now see the way forward.

The entire executive team and I are totally committed to making PCCW a global leader in telecommunications technology to the benefit of our shareholders and the community of Hong Kong.

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