

INDUSTRY OVERVIEW

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OVERVIEW OF THE MOBILE TELECOMMUNICATIONS INDUSTRY IN HONG KONG

Mobile penetration and future growth

Hong Kong has one of the most developed mobile communications markets in the world. According to figures released by OFTA, the mobile penetration rate in Hong Kong (total mobile subscribers as a percentage of the total Hong Kong population), increased from approximately 78.0 per cent. at the end of 2000 to approximately 105.6 per cent. as at the end of December 2003, with the number of subscribers increasing from approximately 5.23 million to approximately 7.19 million over the same period. The mobile penetration rate of approximately 105.6 per cent. as at the end of December 2003 represents one of the highest mobile penetration rates anywhere in the world. The table below sets out certain information relating to the mobile telecommunications industry in Hong Kong.

	2000	2001	2002	2003
Total Hong Kong population (in millions) ¹	6.71	6.76	6.79	6.81 ⁴
Mobile subscriber (in millions) ²	5.23	5.70	6.22	7.19
Mobile penetration rate (per cent.) ³	78.0	84.4	91.6	105.6

Notes:

1. *Source:* Census and Statistics Department of the Government
2. *Source:* OFTA
3. Mobile penetration rate refers to the total number of mobile subscribers (based on SIM cards) as a percentage of the total Hong Kong population.
4. Provisional year-end data.

According to OFTA, growth in the Hong Kong mobile communications market reached its peak in 1996 when the number of mobile subscribers increased 76.1 per cent. from the previous year. With the high level of penetration in the Hong Kong mobile communications market, there is a shift of focus within the industry to the provision of more sophisticated services such as data services, including wireless Internet and multimedia services.

We believe some of the key factors behind the future development of Hong Kong's mobile communications and data services market are:

- Hong Kong is one of the most significant commercial and financial centers in Asia and is one of the world's wealthiest economies based on per capita GDP; and

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- According to OFTA statistics, Hong Kong's Internet market has a penetration rate of approximately 34.0 per cent. as of December 2003. In addition, Hong Kong has a broadband Internet market with a penetration rate of 18.1 per cent. as of December 2003. These trends provide a foundation for the growth of wireless Internet and multimedia services.

Mobile telecommunications operators in Hong Kong

Hong Kong currently has six primary providers of mobile telecommunication services. The six primary operators provide 2G mobile services with one of the six operators currently offering a 3G service.

Hong Kong's first mobile telecommunications system was launched in 1984 and was based on the analogue NAMPS system. From 1992 onwards, analogue networks in Hong Kong were progressively phased out and since 1997, all analogue networks have been replaced by digital networks such as those based on GSM and PCS systems. SmarTone launched the first GSM network in Hong Kong in March 1993 and was followed by CSL and Hutchison.

In 1996, six licences were issued for the provision of PCS services. We were awarded one of these licences. The table below sets out certain information in respect of the six primary providers of mobile communications services in Hong Kong.

	The Company	CSL	Hutchison	New World	SmarTone	Sunday
Launch of GSM/PCS services	1997	1993	1995	1997	1993	1997
Current network	GSM 1800	GSM 900/1800	GSM 900/1800 3G-W-CDMA	GSM 1800	GSM 900/1800	GSM 1800
Frequency allocation — GSM/PCS (MHz) ¹	2 x 11.6 (1800)	2 x 8.3 (900) 2 x 11.6 (1800)	2 x 8.3 (900) 2 x 11.6 (1800)	2 x 11.6 (1800)	2 x 8.3 (900) 2 x 11.6 (1800)	2 x 11.6 (1800)
Frequency allocation — 3G (MHz) ¹		2 x 14.8 (paired) 5 (unpaired)	2 x 14.8 (paired) 5 (unpaired)		2 x 14.8 (paired) 5 (unpaired)	2 x 14.8 (paired) 5 (unpaired)
Frequency allocation — other (MHz) ¹		2 x 7.5 (TDMA)	2 x 7.5 (CDMA)			
Products and services ²	Postpaid tariff plans, pre-paid services, international roaming, inbound roaming, IDD, SMS, MMS, GPRS, VAS, infotainment services, data content, mobile handsets and accessories	Postpaid tariff plans, pre-paid services, international roaming, inbound roaming, IDD, SMS, MMS, GPRS, VAS, infotainment services, data content, PDA services, mobile handsets, PDAs and accessories	Postpaid tariff plans, pre-paid services, international roaming, inbound roaming, IDD, SMS, MMS, GPRS, 3G-W-CDMA, VAS, infotainment services, data content, PDA services, PDA services, mobile handsets and accessories	Postpaid tariff plans, pre-paid services, international roaming, inbound roaming, IDD, SMS, MMS, GPRS, VAS, infotainment services, data content, mobile handsets and accessories	Postpaid tariff plans, pre-paid services, international roaming, inbound roaming, IDD, SMS, MMS, GPRS, VAS, infotainment services, data content, mobile handsets and accessories	Postpaid tariff plans, pre-paid services, international roaming, inbound roaming, IDD, SMS, MMS, GPRS, VAS, infotainment services, data content, PDA services, mobile handsets and accessories

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Notes:

1. *Source:* Consultation Paper on Licensing of Mobile Services on Expiry of Existing Licenses for Second Generation Mobile Services, 1 August 2003, OFTA
2. *Source:* Relevant company websites

With one of the highest mobile penetration rates in the world, the Hong Kong mobile communications market is highly competitive. From time to time, there have been periods of intense price competition or “price wars” amongst the various Hong Kong mobile communications operators. For more information on the price wars and its effect on our business, please refer to the section headed “Business — Competition” of this prospectus.

In October 2001, the Government issued a 15-year 3G mobile licence to each of CSL, Hutchison 3G, SmarTone 3G and SUNDAY 3G under a royalty payment scheme. The 3G licences contain an open network access requirement whereby 3G network operators are required to make 30 per cent. of their network capacity available for access to non-affiliated MVNOs and/or content and service providers on a non-discriminatory basis.

On 27 January 2004, Hutchison 3G launched its 3G services in Hong Kong. For further information, please refer to the section headed “Business — Competition” of the prospectus.

Availability of Inter-Operator SMS and MMS

In December 2001, inter-operator SMS was launched by all six mobile telecommunications operators in Hong Kong, thereby allowing customers of one network operator to send short messages to customers of another network operator. Similarly, in December 2002, inter-operator MMS was launched by all six mobile telecommunications operators. The development of such new technologies enables a wider scope of services to be provided over wireless handsets and offers customers an enhanced experience.

MNP

MNP was introduced on 1 March 1999. MNP allows customers to change mobile operators and yet retain their mobile phone numbers. The objective in introducing MNP was to promote competition between the various mobile operators. The introduction of MNP in the Hong Kong mobile communications market caused an escalation in price wars amongst the various mobile operators. For more information on the price wars and its effect on our business, please refer to the section headed “Business — Competition” of this prospectus.

According to figures released by OFTA, as at the end of December 2003, there have been a total of 6,052,528 number portings since the introduction of MNP, equating to an average of 104,354 portings a month.

MVNO

A MVNO provides mobile telecommunications services to customers through interconnection with and access to the radiocommunications infrastructure of a licensed mobile operator. MVNOs may provide certain services without licensing the required radio spectrum from the TA. As at 1 November 2003, PNETS (MVNO) licences have been issued to seven service licensees, namely Trident Telecom Ventures Limited, China Motion Telecom (HK) Limited, China Unicom International Limited, i100 Wireless (Hong Kong) Limited, China-Hong Kong Telecom Limited, CITIC Telecom 1616 Limited and Telecom Digital Mobile Limited. For further information on MVNOs and 3G open network access requirements and possible 2G

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open network access requirements that would require the 2G operators to make their network capacity available to the MVNOs, please refer to the section headed “Regulation — Other Areas Subject to Regulation — MVNOs” of the prospectus.

Under the terms of the existing 2G licences, there are no open network access requirements.

OVERVIEW OF THE ETS INDUSTRY IN HONG KONG

Prior to the liberalisation of the telecommunications industry, HKTI was the exclusive ETS provider to and from destinations outside Hong Kong. OFTA began to issue PNETS (ETS) licences with effect from January 1999 to allow PNETS (ETS) licensees to provide ETS over networks supplied by FTNS licensees authorised to maintain such networks in Hong Kong or over other external switched telecommunications networks lawfully operated in Hong Kong.

Liberalisation of external facilities commenced on 1 January 2000. For further information, please refer to the section headed “Regulation — Overview — IDD Services and External Telecommunications Facilities” of this prospectus.

EFTNS licensees and fixed carrier licensees authorised to provide ETS have their own FTNS networks through which they can provide ETS. They compete directly with the PNETS (ETS) licensees who rely on interconnections.

Since 1999, OFTA has increasingly issued more ETS, EFTNS and fixed carrier (authorised to provide EFTNS) licences. As a result, many new players have entered the market. As at 2 February 2004 there were a total of 223 PNETS (ETS) licensees. We hold an ETS licence and are permitted to provide ETS.

In addition to this competition, all mobile phone customers in Hong Kong have the flexibility of using the IDD services provided by any ETS operator other than their particular mobile network operator by dialling the relevant access code.