INTRODUCTION

We are one of the six primary providers of mobile voice and data communications services in Hong Kong. Our services range from mobile voice services, mobile data services and international call services to handset sales. We were the first among the six operators to commercially launch the PCS1800 mobile telephone services, based on the GSM1800 standard, in Hong Kong when we introduced our services under the brand name "Peoples" on 28 January 1997.

As at 31 December 2003, we had a total of approximately 1,050,000 subscribers. We have increased our market share in the Hong Kong mobile communications market from approximately 11.3 per cent. at the end of 2001 to approximately 14.6 per cent. as at 31 December 2003 in terms of the total number of pre-paid and post-paid mobile customers. As at 31 December 2003, we had a total of 618,744 post-paid customers and 430,203 pre-paid customers, representing 14.0 per cent. and 15.4 per cent. of the total number of post-paid and pre-paid customers respectively in Hong Kong according to OFTA. We attribute our success in increasing our market share in such a highly competitive market to our "best offer matching strategy", which involves two key components. Firstly, we offer our new customers tariff packages which match the lowest market offerings of our competitors provided that we do not expect the revenue per minute for such tariff package to be lower than our effective variable cost per minute of included airtime. Secondly, we proactively adjust the tariff plans of existing customers to match our latest matching offers if these are relevant to their existing packages. Given the current size of our customer base and the size of our revenue base in relation to our relatively low fixed costs which are driven by our prudent and effective cost control policy, we believe that we will be able to continue to pursue this strategy on a profitable basis. Furthermore, we are able to launch a matching offer typically within 24 hours from the launch of our competitors' offers. We believe that our success in building our reputation as the mobile communications service provider that offers one of the best tariff packages available in Hong Kong is mainly attributable to our best offer matching strategy.

We are committed to providing high-quality mass market mobile communications services with a primary focus on mobile voice and data communications services. Our mobile voice services are divided into post-paid services and pre-paid services, with a variety of value-added services attached to each. Our mobile data services include messaging services and infotainment services. We also offer international call services consisting of roaming, IDD and international call forwarding to our customers. Furthermore, we also sell handsets at all our retail outlets. Currently, we promote, sell and distribute our services and products through 46 strategically located outlets in Hong Kong, 34 of which are wholly owned and operated by us and the rest of which are owned and operated by our only post-paid distributor, Telepaging, which distributes exclusively for us.

Our PCS1800 network is based on the GSM standard using the 1800 MHz frequency band. As at 31 January 2004, we had 978 base stations, three MSCs and six BSCs. We are in the final stages of preparation for the launch of our EDGE enabled network in 2004, which enables the provision of data applications, such as video-streaming and web-browsing, to our customers at enhanced transfer rates.

Our turnover grew from HK$1,050.2 million in 2001 to HK$1,505.2 million and HK$1,642.3 million (US$211.0 million) in 2002 and 2003, respectively. We recorded a loss before tax of HK$98.7 million in 2001, and a profit before tax of HK$252.6 million and HK$326.0 million (US$41.9 million) in 2002 and 2003, respectively. While we recorded net losses of HK$98.7 million in 2001, we achieved net profits of HK$344.5 million in 2002 and HK$270.1 million (US$34.7 million) in 2003.

COMPETITIVE STRENGTHS

We believe our success in increasing our market share, subscriber base and operating profitability in Hong Kong's highly competitive mobile voice and data communications industry is primarily due to our ability to capitalise on the following key strengths:

- quick response to market changes;
- effective cost control;
- efficient and reliable network;
- strong brand identity and loyal customer base;
- extensive and effective sales force and distribution agents;
- strong support from our shareholders; and
- experienced senior management.

Quick Response to Market Changes

We offer a wide variety of tariff plans to meet the requirements of our customers. We have adopted our best offer matching strategy with respect to these tariff plans to assure our customers that they are enjoying one of the best offers available in the market. We are typically able to launch a matching offer within 24 hours from the launch of our competitors' offers. We believe that our ability to respond quickly to market dynamics is primarily attributable to our in-house IT and marketing capabilities and the close cooperation among members of our senior management, facilitated by the centralised location of all our management departments and our efficient internal information network. We believe this ability is a competitive advantage and enables us to maintain our existing subscriber base and increase our market share.

Effective Cost Control

We adopt a prudent and active cost control policy at all stages and aspects of our operations and management. We believe we are able to achieve effective cost control without compromising the quality of service to our customers. For example, we managed to maintain a stable number of employees despite substantial growth in our subscriber base during the Relevant Period as we were able to increase the efficiency of our operations through improvements in IT and active staff training. We closely monitor our operating expenses by requiring regular tenders for most of our purchases and adopt a cautious approach to all capital expenditure decisions, such as our decision not to apply for a 3G licence. By choosing to develop our network and services based on EDGE technology, we incurred relatively low incremental costs for network upgrades as compared to the capital expenditure required for the roll-out of 3G technology, thus reducing depreciation expenses and financing costs, whilst maintaining the ability to deliver data services which we believe will meet the requirements of our customers in the near to medium term. We also choose to compete on tariffs rather than through advertising, focusing only on tactical and targeted marketing, thereby avoiding costs of expensive marketing campaigns, whilst delivering tangible benefits to our customers. We have implemented a cost reduction scheme that involves careful planning of network configurations, sourcing network equipment through bidding processes, arranging direct interconnection with other networks wherever practicable to reduce transmission and interconnection costs, and carefully evaluating the cost-effectiveness of our outsourced tasks.

Efficient and Reliable Network

We offer our services through a PCS1800 network designed to provide reliable and high quality services to our subscribers. We have a relatively simple network consisting of three MSCs with two BSCs connected to each MSC. Our network is designed to be cost-efficient in terms of installation, operation, maintenance, scalability and interconnection, without compromising on performance. From January to December 2003, our monthly average call success rate was 99.83 per cent., monthly average blocked call rate was 0.72 per cent. and monthly average dropped call rate was 0.57 per cent., exceeding our PRS licence performance requirements in each case. Our network performance and end-to-end quality are monitored regularly by our technical department. This is conducted through call tests and analysing customer feedback and statistics generated by our operation support system on a daily basis. We proactively seek to utilise all these resources to improve our network quality and reliability.

Strong Brand Identity and Loyal Customer Base

We believe we have developed a strong brand identity and established a reputation as the mobile communications service provider that offers one of the best tariff packages available in the market. Our brand name "Peoples" embodies our philosophy of providing best value mobile telecommunications services to the mass market in Hong Kong. We have been selected to join the Superbrands of Hong Kong for the year of 2004. We believe that our strong brand identity gives us a competitive advantage in attracting new subscribers as well as retaining existing subscribers.

We offer our customers maximum flexibility by generally not binding them with any fixed term contract. We believe that we do not need such contracts to retain our customers because we have a strong brand identity and attractive tariff rates resulting from our best offer matching strategy, and we are able to meet customers' requirements through our emphasis on quality customer care. Despite intense competition, as at 31 December 2003, over 63 per cent. of our post-paid subscribers had been using our services for over 12 months, nearly a quarter of which have been with us for over 3 years.

Extensive and Effective Sales Force and Distribution Agents

We have an extensive network of experienced and effective sales force and distribution agents. We currently sell and distribute our services and products through 46 retail outlets which are strategically located across Hong Kong to cover districts with high consumer and retail traffic flow. Out of these 46 retail outlets, 34 are owned and operated by us and 12 are owned and operated by our only post-paid distributor, Telepaging, which distributes exclusively for us. Telepaging operates a paging business in Hong Kong and has substantial sales and distribution experience in the telecommunications market.

Each of the 46 retail outlets is a one-stop shop for our products and services. Furthermore, they also handle general customer enquiries, account maintenance as well as payment collection. As our retail outlets are either owned by us or Telepaging, we are able to closely monitor the operation of all retail outlets and maintain maximum flexibility in relocating or adjusting the resources of our retail outlets according to changes in market conditions and customer behaviour.

As at 31 December 2003, our sales and marketing team comprised 245 full-time staff members who work closely together to monitor market conditions and determine the most efficient and effective sales and marketing strategy in response to any change in market conditions.

Strong Support from Our Shareholders

The experience, background and financial strength of our shareholders have provided a strong foundation for the successful establishment of our business and operations. In particular, we believe we benefit from our affiliation with China Resources, which is the holding company of a major PRC conglomerate based in Hong Kong. In addition to an extensive business network in the PRC, China Resources has established its presence in Hong Kong for several decades, engaging in a wide variety of business activities, including trading, retail, services, finance, insurance and energy. We have benefited from our affiliation with China Resources in the conduct of our business and operations, including the availability of China Resources' distribution network for our pre-paid services through China Resources' department stores.

We also received assistance, including technical support, from Mobile Systems and Unisource N.V., in the initial period following our establishment, in obtaining our PRS licence, constructing our network and preparing for the launch of our mobile communications services. After Unisource N.V. transferred its shares in us to Telia Overseas AB and KPN, KPN, Telia Overseas AB (now known as Overseas Telecom AB) and Mobile Systems have continued to support us by providing technical and business advice regarding ideas for new services, latest market information and updates on technical advancements.

Experienced Senior Management

All members of our management team have extensive management experience and expertise in the telecommunications and related industries in Hong Kong. Our senior management have been engaged in the telecommunications industry for an average of over 15 years and employed by us for an average of over 5 years. We also maintain a simple management structure that facilitates a close working relationship among our general managers and enhances our ability to develop and implement strategies quickly in response to market changes in a competitive environment.

BUSINESS DEVELOPMENT STRATEGIES

We aim to increase shareholder value by building on and leveraging our competitive strengths and pursuing the following business development strategies:

- best offer matching and simple tariff structures;
- focusing on customer satisfaction;
- developing EDGE and data revenue growth; and
- developing opportunities in China.

Best Offer Matching and Simple Tariff Structures

We will continue to adopt a "best offer matching strategy" in respect of our tariff plans and services. Firstly, we offer our new customers tariff packages that match the lowest market offerings of our competitors provided that we do not expect the revenue per minute for such tariff package to be lower than our effective variable cost per minute of included airtime. Secondly, we proactively adjust the tariff plans of existing customers to match our latest matching offers if these are relevant to their existing packages. Given the current size of our customer base and the size of our revenue base in relation to our relatively low fixed costs which are driven by our prudent and effective cost control policy, we believe that we will be able to continue to pursue this strategy on a profitable basis. This strategy is designed to provide our customers with assurance that they are always enjoying one of the most competitive tariff plans available in the market. In addition, we plan to continue to offer our simple flat-rate per minute tariff structure without differentiating between peak and non-peak periods, which we believe will continue to appeal to many subscribers in the mass market.

Focusing on Customer Satisfaction

We believe that customer satisfaction is one of the key success factors enabling us to retain existing customers and attract new customers.

Having acquired an established customer base in a highly competitive market, we plan to increase our focus on retaining loyal and high spending customers and reducing the churn rate. Furthermore, we will continue to attract new customers by a combination of measures aimed at achieving customer satisfaction. Under our "We Care" strategy, we will focus on the provision of more customised, needs-based service packages and loyalty incentives such as building on our PEOPLES VIP CLUB loyalty program based on customer tenure. For further details regarding our existing customer services please refer to the section headed "Business — Marketing, Sales, Distribution and Customer Services" below.

We also strive to improve the quality of our services. We intend to continue to place strong emphasis on the training and development of our frontline staff. We will continue to develop our IT system, which provides us with a centralised data base of information relating to our services and products for easy access by all levels of frontline staff. We are committed to investing in products and services needed by our customers now and in the future.

Developing EDGE and Data Revenue Growth

We made a strategic decision to develop EDGE instead of 3G technology after a thorough evaluation of our business and service requirements. We believe EDGE, a 2.75G technology with an enhanced data transfer rate, will enable us to offer services that are sufficiently sophisticated for our customers' needs in the near to medium term whilst involving lower implementation risk and much lower capital expenditure requirements. For example, we are not required to make any additional payments to OFTA in the provision of our EDGE services, which is fully covered by our existing PRS license. 3G licence holders, on the other hand, are required to pay a minimum annual fee of at least HK$50 million for a period of 15 years.

We have commenced the implementation of our EDGE network after having successfully completed laboratory tests and field trials. Our implementation for EDGE is divided into four phases. Phase one, which we have commenced, and which is expected to be completed by around August 2004, will cover approximately 30 per cent. of our existing network, including 10 high data traffic areas within our existing network such as Central, Mongkok, Yau Ma Tei and Shatin and substantial coverage of the Mass Transit Railway and Kowloon-Canton Railway stations. The second, third and fourth phases of our implementation plan, which we currently envisage will be completed by around the end of 2005, involve the continuous roll-out of our EDGE network covering areas with medium to low data traffic, including shopping malls and rural and semi-rural areas, as we consider necessary, as well as capacity increases as the need arises.

We plan to launch our EDGE services in or around the third quarter of 2004 when we expect demand for mobile data services to increase due to the higher penetration of EDGE enabled handsets offering colour and high resolution display. We are currently collaborating with our handset vendors to evaluate the performance of their EDGE-enabled handsets in order to design appropriate services.

In addition to promoting and developing our EDGE services, we will continue to develop user-friendly and affordable wireless data applications as we believe that data services will provide the next growth opportunity within the mobile communications industry in Hong Kong. We plan to continue to develop multimedia data services by developing new applications and sourcing new content from content providers. In conjunction with such developments, we plan to encourage the usage level of our data service through our regular communication and marketing channels.

Developing Opportunities in China

We are exploring opportunities in the PRC telecommunications market in the wake of China's accession to the WTO and the signing of CEPA. We are currently applying for a CEPA certificate. The certificate will allow us, subject to complying with applicable PRC laws and regulations, to provide value-added telecommunications services including Internet access services, content services and store and forward services in the PRC, which we intend to pursue in a joint venture with our largest shareholder, China Resources. Although no agreement between China Resources and us has been reached, we contemplate that we will leverage the expertise of China Resources developed in the PRC and become its exclusive partner in the provision of VAS to customers in the PRC. As the penetration of Internet access is still relatively low in the PRC, we believe that there is room for market growth. Moreover, with our experience and expertise in technology, marketing, sales and customer service in the highly competitive telecommunications market in Hong Kong, we believe we have a good foundation to develop the PRC telecommunications market. We are currently providing our customers with a variety of multimedia mobile data contents with carrier class platform and infrastructure. With the CEPA certificate, we will be able to provide our mobile data content to the mobile communications market in the PRC, which is a much larger market than the Hong Kong market.

MOBILE COMMUNICATIONS BUSINESS

We offer a comprehensive range of services including:

- mobile voice services;
- mobile data services;
- international call services; and
- handset sales.

We have successfully developed a strong brand identity and a reputation for providing one of the best value mobile communications services in Hong Kong. We have been selected to join the Superbrands of Hong Kong for the year of 2004, having met the strict selection criteria of the Superbrands organisation based on factors such as market dominance, longevity, customer loyalty and overall market acceptability of our brand name. We believe the success of our best offer matching strategy has enabled us to increase our market share from approximately 11.3 per cent. as at 31 December 2001 to approximately 14.6 per cent. as at 31 December 2003 and expand our subscriber base by over 150 per cent. over the three years ended 31 December 2003.

Mobile Voice Services

Customer Base

Despite the intense competition in the Hong Kong mobile communications market, we have achieved notable growth in market share over the Relevant Period. As at 31 December 2003, we achieved an increase of 213,724 pre-paid customers and 30,445 post-paid customers since the beginning of 2003, which is equivalent to approximately 27.6 per cent. and 15.2 per cent. of the total increase in pre-paid and post-paid mobile customers in the market during the same period, respectively. The following table sets forth certain subscriber base information, which is based on the number of activated SIM cards, for the three years ended 31 December 2003:

	As at 31 December		
	2001	**2002**	**2003**
Total number of our customers	642,981	804,778	1,048,947
Total number of our post-paid customers	496,017	588,299	618,744
Total number of our pre-paid customers(2)	146,964	216,479	430,203
Total number of post-paid customers in Hong Kong(1)	4,256,422	4,207,465	4,407,569
Total number of pre-paid customers in Hong Kong(1)(2)	1,445,264	2,011,519	2,786,766
Total mobile customers in Hong Kong(1)	5,701,686	6,218,984	7,194,335
Our market share (per cent.)	11.3	12.9	14.6
Mobile penetration rate(3) (per cent.)	84.4	91.6	105.6

As at 29 February 2004, we had a total of 626,477 post-paid subscribers and 420,942 pre-paid subscribers.

Notes:

(1) *Source:* OFTA, 2003 data.

(2) This is based on the number of pre-paid SIM cards which have been sold and have not expired.

(3) Mobile penetration rate refers to the total number of mobile subscribers as a percentage of the total Hong Kong population. 2003 total Hong Kong population is based on provisional 2003 year-end data published by the Census and Statistics Department of the Government.

We attribute our success in significantly increasing our market share in such a highly competitive market to our best offer matching strategy. This strategy assures our new and existing customers that they are enjoying one of the best offers available in the market.

The following table illustrates our post-paid churn rates for the three years ended 31 December 2003:

	Year ended 31 December		
	2001	**2002**	**2003**
	(per cent.)	(per cent.)	(per cent.)
Average monthly churn rate(1)	5.0	3.7	3.8

Our average monthly churn rate for the two months ended 29 February 2004 was 3.2 per cent..

Note:

(1) Average monthly churn rate is calculated by dividing the sum of the monthly churn rate of the 12 months in the year by 12. The monthly churn rate is calculated by dividing the net churn by the sum of net churn and ending subscriber base for that month on a post-paid basis. Net churn is calculated by deducting the number of total re-connections from the number of gross disconnections on a post-paid basis.

We plan to attract new customers and retain existing customers by continuing to adopt proactive and reactive measures to enhance customer satisfaction. We proactively migrate tariff plans for existing customers to ensure that they match our latest market offers and offer loyalty programs that reward customers according to customer tenure and spending levels. We maintain a team of well trained customer service officers to address customer concerns, with particular emphasis on those customers who have indicated an intention to terminate our services. We also seek to improve our service and product offering and the user-friendliness and standards of our services based on customer feedback.

Our average monthly ARPU for the three years ended 31 December 2003 are set out in the table below:

	ARPU *(HK$)*		
	Post-paid[1]		**Pre-paid**[2]
Year ended 31 December	**Before Rebate**[3]	**After Rebate**[3]	
2001	265.6	156.7	37.6
2002	235.9	177.8	28.5
2003	226.0	171.2	27.9

Notes:

(1) ARPU for post-paid services is calculated by dividing the total post-paid voice and data revenue for the year in question by 12 and dividing the result by the average of the post-paid subscriber bases at the beginning and the end of the year concerned.

(2) ARPU for pre-paid services is calculated by dividing the total pre-paid revenue for the year in question by 12 and dividing the result by the average of the pre-paid subscriber bases at the beginning and end of the year concerned.

(3) Rebate primarily includes discounts on tariffs and VAS, and handset rebates.

Post-paid Service

As at 31 December 2003, our post-paid customers represented 14.0 per cent. of the total number of post-paid customers in Hong Kong according to OFTA. We offer a wide range of post-paid service plans targeted at customers with different usage needs, from casual to intensive users. In line with our best offer matching strategy, we believe that most of our post-paid service plans are among the most competitive offerings in each tariff and usage segment.

Customers of our post-paid services can choose from our different tariff plans, with fixed monthly fees charged for usage of up to a certain number of minutes of air-time. Currently, the monthly fees for our service plans offered to new customers range from HK$50 per month to HK$488 per month, for air-time ranging from 300 minutes to 6,500 minutes per month. If a subscriber's usage exceeds the fixed minutes of airtime provided by the relevant tariff plan, additional charges at rates currently ranging from HK$0.05 to HK$1.00 per minute are payable for the extra air-time used.

We offer our post-paid service customers maximum flexibility by generally not binding them to any fixed term contract. As part of our post-paid services package, we offer our customers a combination of value-added services and data services including caller number display, call forwarding, voicemail, SMS, call waiting and call hold, conference call, and incoming/outgoing call barring.

Pre-paid Service

We have offered pre-paid services in Hong Kong with both local and IDD call features since December 1998. With further VAS and data service enhancements, we believe we offer one of the most comprehensive pre-paid services in Hong Kong. Our pre-paid business has grown strongly during the Relevant Period. As at 31 December 2003, we have achieved a market share of 15.4 per cent. with 430,203 subscribers, as compared to a market share of 10.2 per cent. with 146,964 subscribers as at 31 December 2001.

To cater to different customer preferences, we are currently offering three pre-paid SIM cards: Peoples stored value local SIM card, Peoples stored value IDD and roaming SIM card, and "WeTalk" stored value SIM card. These pre-paid cards come with a fixed dollar amount of credit for using the services included in the relevant card. When this credit is used up, customers may purchase further credits in the form of refills. In order to attract our targeted pre-paid market subscribers, particularly the low usage and tourist subscribers, we lowered the initial cost for customers in September 2003 by introducing the HK$78 starter pack.

All our pre-paid SIM cards offer customers 24-hour flat rate on local calls in Hong Kong. Both the Peoples stored value SIM card and the Peoples stored value IDD and roaming SIM card allow customers to make local calls at a flat rate of HK$0.30 per minute. In addition to local calls, the Peoples stored value IDD and roaming SIM card allows customers to enjoy international roaming and IDD. Our "WeTalk" stored value SIM card is offered only to holders of overseas passports issued by certain countries and targets the Filipinos, Indonesians, Thais and Mainland Chinese who have a Hong Kong identity card and a valid Hong Kong employment contract. It offers a better local airtime rate (currently at HK$0.15 per minute) and better IDD rates for the Philippines and Indonesia as compared to our other stored value SIM card products. Our "WeTalk" stored value SIM card also offers international roaming service.

Our stored value SIM cards are valid for 180 days after activation. The validity period may be extended by purchasing credit refills within such period. We currently offer three refill options; HK$100, HK$200 and HK$300, for both the stored value SIM card and stored value IDD and international roaming SIM card. We offer two refills options of HK$50 and HK$100 for the "WeTalk" stored value SIM cards. Customers can enjoy bonus air time with these refills representing an effective discount of up to 30 per cent. as part of our promotional programme. If the credits in a stored value SIM card are used up but not refilled, the services associated with such SIM card will be disconnected after a 30-day grace period following the relevant validity period.

Our pre-paid customers also enjoy a bundle of value-added services and data services including call forwarding, international call forwarding, voice and fax mailbox, roaming services, SMS, ringtone/picture/logo download service, personalised ringback tone service and infotainment services. In addition, we also provide caller number display and missed call alert free of charge with our pre-paid services.

Value-added Services

Equipped with the latest technology, we provide a wide range of user-friendly value-added voice and data services to satisfy our customer's daily communication needs.

Some of our VASs are offered to our customers as part of their service package free of charge and these include call forwarding, voice and fax mailbox, caller number display, call waiting and call hold, conference call and incoming or outgoing call barring.

In addition, our customers can opt for other monthly chargeable services such as a dual number service, mobile fax service and built-in secretarial service in accordance with their individual needs.

Mobile Data Services

Our basic mobile voice services are complemented by a range of value-added data services designed to meet our customers' needs. Our value-added data services can be categorised into two groups:

- messaging services; and
- infotainment services.

Messaging Services

We have developed messaging services as one of our major sources of data revenue.

Inter-operator SMS/International SMS — We have supported SMS delivery to Hong Kong mobile operators and to international mobile operators since December 2001 when inter-operator SMS became commercially available in Hong Kong. With the significant increase in international SMS supported destinations to over 120 as at 31 December 2003, our international SMS revenue in December 2003 has increased more than 280 per cent. as compared to that of December 2002. To provide a user-friendly interface, we offer a message input interface on our web site together with customised template messages.

Multimedia Messaging Service (MMS)/Inter-operator MMS/International MMS — We launched MMS service in 2002. Our customers can send and receive multimedia messages incorporating text, pictures, sound clips and music to and from all Hong Kong mobile operators. Starting from 1 December 2003, our customers have also been able to send and receive MMS to and from customers of China Mobile in China. China Mobile is the first operator outside Hong Kong to support our international MMS service. We expect the number of overseas operators supporting our international MMS to continue to increase in 2004. To cater for those customers who do not have an MMS enabled cellular phone, we also provide a WAP and WEB interface for them to check their MMS after receiving a short message notification.

Corporate SMS — Corporate SMS allows our corporate customers to send an SMS broadcast to up to 100 recipients via a web site. Our corporate SMS customers are also entitled to enjoy a variety of service features, including message archiving, sub-accounts that enable shared corporate SMS packages and customised template messages.

Mobile Email — Mobile Email allows our customers to send and receive emails via our mobile email service using their WAP/GPRS handsets. Moreover, customers will receive SMS alerts for any new email received.

Infotainment Services

We offer a range of infotainment services including the following:

COLOR — Our WAP Portal Since the launch of our web portal *Wapeoples* in May 2000, our customers can access text based information and download services on *Wapeoples* using our GPRS service through their WAP/GPRS enabled handsets. With the increasing market penetration of colour screen handsets, we revamped our WAP portal and renamed it *COLOR* in July 2003. *COLOR* offers a variety of services including but not limited to ringtone, logo and picture downloads, real-time news, Java games and applications download, betting information, leisure information, chat services, messaging and customer services. Usage of our *COLOR* services has increased substantially in 2003, with monthly GPRS traffic generated by our customers increasing over 12 times between January 2003 and December 2003.

Download Service We launched our download service in April 2001. Our download service commenced with downloads of black and white logos, picture downloads and mono-ringtone downloads but has since been extended to include polyphonic ringtones, coloured wallpaper, customised template MMS, voice mail greetings, Nokia caller group logos and Java karaoke. In order to improve user experience and simplify marketing communications, we enhanced the user interface and synchronised the content and access channels to USSD, WAP, WEB and IVRS in November 2003.

Personalised RingBack Tone This service provides customers with personalised ringback tones consisting of music, songs, celebrity greetings or any other kind of sound clips. Other than ringback tone selection, we also offer additional features such as caller group profiles, time period dependent tones, do-it-yourself messages and tone management.

Mobile Betting Service With the introduction of football betting by the Hong Kong Jockey Club, we launched our mobile betting service in August 2003. Based on the SIM tool kit technology, our customers can place their bets for horse racing, football and Mark-Six lottery via SMS. Betting services are also enhanced by a range of betting information services available from various platforms. These services include a voice-based horse racing and football commentary, SMS-based football services providing instant score information and access to other information including real time news from our *COLOR* portal.

Information Services We provide a variety of information services to our customers. Through an interactive menu, our customers may request a variety of lifestyle related information, betting information, stock quotes, ringtone and logo downloads, and entertainment information to be sent to them via SMS. Customers subscribing to our *Information on Demand* service may also request information including news headlines, weather, traffic, horse racing tips, results and dividend and Mark-Six lottery results to be sent to them via SMS. We also offer voice-based services which provides information ranging from news, traffic reports, Mark-Six lottery results, lifestyle information, live horse racing broadcasts to financial information such as real-time stock quotes, foreign exchange quotes and information on the major indices. Such financial information may also be obtained via SMS by subscribing to our *Financial Information on Demand* service.

Mobile Data via GPRS We expect demand for mobile data to increase due to the higher penetration of colour displayed GPRS and MMS enabled handsets. Upon the introduction of EDGE which will offer an improved high speed transmission of data, we plan to launch video-streaming and other download applications.

International Call Services

IDD

We offer an IDD service which allows customers to make international calls through their handsets using the prefix "001" or "+". This IDD service enables our customers to make calls to 232 overseas destinations at our competitive IDD rates plus airtime used. Customers are charged on a 6-second basis, and pay a 24-hour flat IDD rate with no differential in peak and off-peak rates. Customers are currently required to deposit a refundable amount of HK$1,000 to activate this service. This deposit amount could be waived if customers opt to settle the full account payable by credit card on a recurring basis.

While travelling abroad and using our roaming service, a customer who has activated our IDD service can choose to make IDD calls to other countries or back to Hong Kong.

In March 2003, we enhanced our International Call Forward Service ("ICFS") to allow customers to forward all calls to an overseas fixed line or mobile number. Our ICFS provides a cost saving alternative for customers requiring roaming service.

Roaming

As at 31 December 2003, we had 164 overseas mobile operators as roaming partners. Our roaming service allows our customers to use roaming in 114 destinations worldwide. We also provide a handset rental service for customers who are travelling to non-GSM destinations, such as Japan and Korea. In 2002, we entered into agreements with mobile operators in South Korea and launched international interstandard roaming. This type of CDMA-GSM roaming allows customers to insert their GSM SIM card into their CDMA handset for the corresponding automatic roaming on the CDMA network.

At present, roaming is available to all our customers and unlike IDD, no deposit is required. Our customers are free to activate and de-activate the roaming functions according to their personal preference. Our deposit-free roaming service allows customers to make local calls, receive incoming calls and make use of the *138* CallBack service to call Hong Kong or other countries. The use of the *138* CallBack service enables our customers to enjoy substantial savings on the cost of their roaming call charges.

We also offer a wide range of value-added services to our customers when they are travelling overseas and enjoying our roaming service. We provide services for caller number display to customers travelling overseas for incoming calls from Hong Kong. Such service is currently available in over 33 destinations including Macau, Taiwan, Singapore, Philippines and Thailand. Through our Hong Kong ring-back tone services, our customers can maintain their privacy while travelling abroad as callers to our customers' mobile phones will hear Hong Kong's local ring tone, rather than a roaming ring tone. Further, our roaming voice mailbox service allows customers to retrieve all messages while travelling abroad.

We have extended GPRS service roaming to over 20 destinations in the Asia-Pacific and European regions, thereby enabling inbound and outbound roamers to access various information around the world. Furthermore, customers can also send and receive MMS using the GPRS roaming service available on networks of operators providing roaming connections to us.

Handset Sales

We sell handsets through our self-owned and operated retail outlets, retail outlets operated by our dealer, Telepaging, and our direct sales force. Our main handset suppliers are Motorola, Nokia, Samsung, Siemens and Sony Ericsson. We endeavour to provide a wide range of handset models and offer customers the most competitive price by matching the best offers in the market.

We generally aim to maintain our inventory of handsets at a level sufficient for approximately two to three weeks' supply. The volume and timing of our purchases are based primarily on roll-out of any new products by our handset suppliers and market demand. As disclosed in the section headed "Business — Relationship with China Resources and Existing Shareholders — Connected Transactions — (D) mVantage Handset Agreement", we sell our obsolete handsets and second hand handsets which we acquire from our customers as part of our trade-in or upgrade promotions to mVantage. We carry out yearly stocktakes of our inventory at all our distribution outlets as well as at our warehouses. Furthermore, we conduct routine sample stocktakes of our inventory at all our 34 self-owned retail outlets. Our stock provision policy is based on the lower of the cost of the stock or its realisable value. Our inventory turnover days for the three years ended 31 December 2003 were six days, four days and four days respectively. Such inventory days for a year in question is calculated by dividing (i) the product of our inventory of handsets and accessories as at the end of such year and 365 days by (ii) our turnover for such year.

In the period between 1 October and 31 December 2003, the sales of handset models with colour display, GPRS and MMS enabled functions accounted for approximately 42 per cent. of our total handset sales for that period.

MARKETING, SALES, DISTRIBUTION AND CUSTOMER SERVICES

Marketing

The primary objective of our marketing strategy is to establish and sustain a strong, well-recognised brand image and reputation as a mobile communications service provider that offers one of the best tariff packages and customer care in Hong Kong. In the short-term, our marketing strategy is to focus on maintaining our existing customer base. Our marketing strategy in the medium-to-long-term is to continue to establish customer loyalty and to increase customer usage of our services.

In addition to seasonal promotions and corporate milestone events, we launch marketing campaigns promptly in response to new packages introduced by our competitors as part of our best offer matching strategy. Our in-house design workshop can deliver tactical advertisements and our IT department can make changes to our billing systems quickly, enabling us to shorten the response time to market changes and exercise better cost control. Furthermore, we maintain close contact with our existing customers via monthly bill inserts, SMSs and telesales. We believe our best offer matching strategy and focus on customer care have strengthened our brand image and reputation.

Our principal marketing channels include advertisements in the press, SMS and inserts enclosed with monthly bills sent to our customers, posters, distribution of flyers and promotional material by our sales force, advertisements on radio and television, hosting or sponsoring charity or promotional functions and joint promotion programmes undertaken with other corporations including banks and insurance companies. All these marketing efforts facilitate effective communications with our existing and potential customers.

Sales and Distribution

The sales and distribution of our products and services is conducted through our retail network, our dealers' network and our direct sales team.

Our retail network comprises 46 outlets strategically located across Hong Kong covering the business, urban retail and residential centres with high consumer and retail traffic flow. The location of our stores, including street level stores and stores in shopping malls, are selected on the basis of traffic flow, visibility and competitors' presence. We have a greater number of retail outlets located in Kowloon, where the population density is higher, and the New Territories, where population growth is higher. Of our 46 retail outlets, 34 are owned and operated by us and 12 are owned and operated by our only post-paid services dealer, Telepaging. Telepaging has been distributing our communications services and products exclusively since our establishment, initially providing us with readily available retail outlets converted from its paging business. Currently, Telepaging operates all 12 retail outlets under the logo of Peoples. In addition, we have a team of direct sales personnel to serve corporations and hold roadshows in areas without retail shop coverage. We believe our retail distribution network is an effective means of distributing our services and products.

In 2003, the 34 retail outlets owned by us accounted for approximately 73 per cent. of all our post-paid service activations. The 12 retail outlets operated by Telepaging accounted for approximately 19 per cent. and the direct sales teams accounted for approximately 8 per cent. of the total number of our post-paid service activations. For details of our distributorship arrangement with Telepaging, please refer to the section headed "Business — Relationship with China Resources and Other Existing Shareholders" below.

We also sell and distribute our pre-paid stored value SIM cards and refill vouchers through our non-exclusive dealers. Our distribution network for such pre-paid services comprises over 70 non-exclusive dealers, including CRC Department Store Limited, Sai Cheong Businesses Limited, SCMP Retailing (HK) Limited, CM Concept (HK) Limited and other telecommunications dealers, with more than 200 retail outlets in aggregate. Our pre-paid services are distributed through these non-exclusive dealers either on a consignment, credit or cash on delivery basis. We provide a trading discount to these non-exclusive dealers but these dealers are responsible for their own costs of operations.

We also plan to enlarge and diversify our distribution/refill channels for our pre-paid services. One such example is the electronic credit refill service available at recharge terminals operated by Ricsson Enterprises (Hong Kong) Limited at designated shops including certain photo processing shops, which we recently launched in November 2003. In a further attempt to enhance customer convenience and services, we also offer a real-time refilling service whereby our customers can call our designated hotlines to refill their accounts by charging the payment to their credit cards.

We operate a commission-based fee structure within our own shops and direct sales team to incentivise our sales force in the sale of both pre-paid and post-paid services as well as handsets. We also provide incentives to Telepaging and other independent dealers by implementing a commission programme based on the number of pre-paid product sales and connections achieved by each dealer. Our post-paid services distributor, Telepaging, receives an additional commission of 5 per cent. of the total monthly bill of each customer enlisted by Telepaging, and this commission is payable from the second to the thirty-sixth month following activation. We also provide marketing support and undertake joint promotions with our dealers.

Customer Service

We aim to provide the best quality customer service in order to satisfy customer needs under our "We Care" strategy. Our approach to customer service is based on four fundamental principles: customers' convenience, customers' care, reliability and responsiveness.

We have established a well-structured customer service department to deliver effective and high quality customer care. The major points of initial contacts include our 24-hour customer care hotline which provides instant enquiry services, as well as a customer care centre in one of the most populated areas in Hong Kong and 46 strategically located retail outlets. We also have different teams to focus on different levels of customer care. We have (i) a strategic customer relations team that focuses on retaining customers through proactive and reactive means; (ii) a customer care team that responds to customer feedback and works with concerned departments in the Company to encourage service improvements; (iii) a customer administration team that supports the back office process to ensure all after sales changes are processed on time; and (iv) a professional training department that ensures all staff members are instilled with our service culture and are well equipped to meet our high quality service standards.

We believe it is essential for all of our staff to have product knowledge and customer relations skills so as to meet our high standards of service. This will maximise our ability to draw customer feedback, proactively and reactively respond to customer concerns, and maintain our existing customer base. We provide regular training to our staff and utilise our IT systems for more effective internal communication to ensure that our required standard of customer service can be met. Such standards are measured and controlled closely by us through internal service monitoring and periodic "mystery shopper" programs to conduct spot-checks on the performance of our frontline staff at various points of customer contacts.

In addition, we have established our PEOPLES VIP CLUB in January 2003 to enhance customer satisfaction. Customers are classified according to their respective service tenure into "Gold", "Platinum" and "Diamond" members enjoying different benefit such as discounts and service package rebates.

PRODUCT DEVELOPMENT

Our product development department and our marketing department work closely together to identify the needs of our customers in order to design new services and fine-tune our existing pre-paid, post-paid and international call services. We aim to offer our customers the most comprehensive and best value services in Hong Kong. As a result, we may from time to time launch new service packages to better meet our customers' requirements or to respond to latest market developments. We are able to stay current with the latest mobile content and application technology by exchanging ideas with other industry operators at international exhibitions, congresses and user groups.

We strive to keep ourselves at the forefront of mobile technology. We were amongst the first operators in the world to test EDGE in 2003. With the launch of our EDGE services in 2004 we believe that we will be able to offer more services to our customers such as video-downloading and video-streaming. We are currently collaborating with our handset vendors to evaluate the performance of their EDGE-enabled handsets, some of which are expected to be commercially available later in 2004.

We believe the success of our value-added services will depend on our collaboration with partners in different industries including other telecommunications service providers, research institutions, media and mobile content providers. We sponsored a location based user positioning project undertaken by the Hong Kong Wireless Industry Association and we currently sponsor Hong Kong Wireless Development Centre by providing technical support. We also co-operate with over 50 major data content and applications suppliers globally in providing mobile data services to our customers.

IT, BILLING AND SUBSCRIBERS MANAGEMENT

IT Systems

We adopt a strategic approach in relation to IT investment, which includes a balanced investment in off-the-shelf packages and in-house developed applications. In addition to enhancing customer service, operational efficiency and the delivery of innovative products and services, we believe our IT system offers us an effective competitive advantage. As mentioned above, our IT system is designed to enable timely changes to our billing system, which is critical to the implementation of our best offer matching strategy and a fast response to market changes.

Our IT data network links our back offices, sales outlets and data centres with a full redundancy structure. Disaster recovery for the billing system is set up on a remote site.

Apart from billing and customer care system development, support and operations, our IT department works closely with our product development, engineering, marketing and sales team to develop and implement services that are commercially viable and attractive to our customers. Such services include WAP services, MMS services, SMS download services, mobile emails and Internet SMS.

We have certain core IT team members who have been with us since we commenced operations. This facilitates the necessary continuity and familiarity with our existing IT systems and business requirements to enable a quick response to market changes.

Billing Systems

The current billing system was implemented in 1997 when we launched our PCS 1800 service. Customisations and enhancements have been made to the system to increase its flexibility and to meet the specific requirements of the Hong Kong mobile communications market. The billing system was provided and integrated by Cap Gemini Sverige AB. The mediation system, installed in 2000, was developed and integrated by EHPT Sweden AB (which was later acquired by Ericsson). This system can handle traditional voice, data, GPRS CDRs and other IP based CDR consolidation. The service provisioning system was developed in-house and we believe this allows real-time service activation and enables efficient changes to our subscribers' service profiles.

To supplement the core billing system, we have developed in-house point of sales, customer service, rebate, credit control and debt collection systems that are customised for our business. We also developed our electronic bill presentation and payment system in November 1999. Our customers are offered a choice of various bill settlement methods ranging from cash or credit card payments at our retail shops and electronic payment via our web-site to postal payment by cheque.

We have also implemented a bill printing process capable of integrating bill printing with segmented marketing, credit control and debt collection functions. This is provided through selective bill insertion and flexible marketing and payment reminder templates. We introduced our new mail insertion machine from Pitney Bowes Hong Kong Ltd. in July 2003. This machine can handle a high volume of mail inserts per hour, which accelerates the whole billing process.

The billing system runs on five servers and storage area network system. The whole billing and customer care system is scaleable and flexible. This enables us to effect our best offer matching strategy typically within 24 hours from the launch of a competitor's new offer, with the matching offer reflected in the next bill sent to each existing customer.

Credit Management

We adopt various credit control policies and procedures to address credit risk and bad debt losses. We categorise our customers into different groups based on tenure and usage level for careful risk monitoring. The credit term for our customers is 18 days from the date of invoice. We apply a series of payment reminder procedures to remind customers to settle the outstanding bills before termination of service. These specially designed procedures help to speed up bill settlement as well as to avoid unnecessary involuntary churn. We use both the Small Claims Tribunal in Hong Kong and debt collection agencies for debt collection. Our hybrid collection method has enabled us to reduce our allowances for bad debt from 3.5 per cent. of our invoiced revenues in 2000 to around 2.5 per cent. of our invoiced revenues in 2003. This is expected to further improve with the stabilised churn rate. Depending on the business environment and subject to approval by the Chief Financial Officer of our Company, the percentage of allowance for bad and doubtful debts is subject to adjustments from time to time. Our bad and doubtful debts are provided as a percentage of billing receivables per accounting month. Our historical provision for bad debt expenses in 2001 varied between 2.5 per cent. and 3.5 per cent., and was 2.5 per cent. for each of 2002 and 2003. Our debtor's turnover days for each of 2001, 2002 and 2003 were 21 days, 18 days and 18 days, respectively.

We also adopt measures to check the creditworthiness of our pre-paid dealers before any credit terms are granted. Credit terms are subject to periodic review based on individual sales performance and settlement status. Our close relationship with Telepaging, our only post-paid dealer, facilitates prompt and full recovery of one of our major receivables.

Fraud Management

We have a full-time fraud control team that investigates abnormal calling patterns and exceptionally high usage, and conducts verification calls to protect our customers' interests. The team has close links with our roaming partners, telecommunication operators, police and other relevant government bodies to share information on the latest trends in fraud management and to combat instances of fraud. Our losses in the three years ended 31 December 2003 due to fraud were HK$134,465, HK$361,852 and HK$473,336, respectively.

NETWORK OPERATIONS AND DEVELOPMENT

Details of our PCS network are set out below:

	Year ended 31 December		
	2001	**2002**	**2003**
MSC	3	3	3
MSC capacity effective subscriber[(1)]	600,000	739,500	773,000
BSC	6	6	6
BSC capacity effective subscriber[(1)]	563,000	720,000	731,500
Cells	1,200	1,429	1,805
Sites	719	809	971
Transceivers	2,676	3,551	4,838
Traffic per subscriber (mE)	17.5	22.5	24.0

Note: (1) The number of effective subscribers is calculated by applying the following formula:

post-paid subscribers + (activated pre-paid subscribers x traffic per activated pre-paid subscriber/traffic per post-paid subscriber).

Network Capacity and Coverage

Our network design enables us to ensure that the available capacity matches our subscribers' demands. Our marketing department regularly updates our Engineering and Operations Division on changes in subscribers' demands to formulate our network growth projections, based on which we plan our network expansion. Our network utilisation rate is currently approximately 85 per cent.. We generally keep the remaining approximately 15 per cent. of our capacity free to cope with any unexpected increase in subscriber demand and to cater for the lead time associated with equipment expansion.

Rapid growth in subscribers and traffic requires highly efficient utilisation of available resources and in particular the radio frequency spectrum. We provide comprehensive outdoor and indoor coverage through our 978 base stations as at 31 January 2004. We also have the flexibility to activate or deactivate and/or relocate transceivers at different times of the day or at different geographical locations in accordance with the usage patterns of our customers.

Network Services

By adopting Ericsson's software releases, we are able to offer the latest services and fully utilise the advanced operation and maintenance features to maintain our network quality. We will deploy EDGE technology to provide high-speed data access. Our field tests show that EDGE technology enables average speeds of up to 40Kbps per timeslot. Multiple timeslots can be used concurrently to increase data transfer speed. The maximum speed available to a user depends on the number of timeslots available on a particular handset and the number of time-slots available in the radio network. EDGE's performance is a significant improvement on GPRS and will provide faster download or transmission speed for the vast majority of applications including MMS and video-streaming. This improvement in transmission speed will also provide significant capacity gains for our radio network.

Network Efficiency, Performance and Availability

We strongly believe that we have achieved a high level of operational and commercial efficiency with our network architecture and associated cost of operations. We actively monitor the quality of our network by undertaking regular field measurements and evaluation of statistics. We believe that our network performance is comparable to all established mobile network operators in Hong Kong.

The radio and switching network components are constructed using modern and highly scaleable infrastructure providing the latest technology for improved speech quality and performance. For the year ended 31 December 2003, our monthly average call success rate was 99.83 per cent., monthly average blocked call rate was 0.72 per cent. and monthly average dropped call rate was 0.57 per cent.. Our service availability for the year 2003 for base stations was 99.95 per cent. and for Switching Nodes was 99.99 per cent..

Network Architecture

We purchase our core switching and radio network infrastructure from a single supplier, Ericsson, thereby eliminating compatibility and integration problems. Quality infrastructure design and equipment from Ericsson has enabled high capacity, scaleable and reliable network platforms that can easily be expanded to cater for subscriber and traffic growth through the addition of modules and service nodes. Ongoing development by Ericsson enhances our ability to offer the latest services and utilise the most efficient operation and maintenance procedures.

For our core network, we operate two independent switching centres that are provided with multiple back-up in terms of power and transmission diversity. We have three fully inter-meshed MSCs, all with active and stand-by configuration. As at the Latest Practicable Date, we had six BSCs, all with active and standby configuration. A seventh BSC is planned for the second quarter of 2004. We also have one fully duplicated high capacity HLR/AUC. We have a fully duplicated combined GPRS service node supplied by Ericsson.

For our radio network, Ericsson supplies our base stations and their high capacity compact design of the latest models require minimal space and operational expenses. As at 31 January 2004 our 978 base stations are deployed to provide extensive coverage and capacity utilising both macro/micro sites. Our right to place our BTS at the base station sites is based on leases and licence agreements. Although we are not aware of any claims or disputes with respect to such right, if our right to place our BTS on any of our base station sites cannot be enforced or is otherwise challenged, we can generally relocate the affected BTS without causing any material disruption to our operations.

EDGE functionality can be provided to each base station by installing an additional, or replacing an existing transceiver with, an EDGE enabled transceiver. We believe the existing capacity of the network will be maintained by the addition of a small incremental percentage in the number of TRUs and there will be no loss of traffic associated with the EDGE implementation. There is no need for frequency retuning or modifications to the cell plan. The replaced transceiver will be available for reuse in the network to enhance the capacity on other sites wherever necessary.

The ongoing roll-out of our base stations will be undertaken to enhance coverage for newly developed areas (indoor and outdoor) and to provide for capacity expansions as required.

Interconnection and Transmission

Our base station connections to BSC's are linked exclusively through E1/T1 landlines.

The inter-switch connections between switching centres are landline T3 circuits with redundant links to provide for operational security. Inter-operator connections providing direct connection to other mobile network operators are landline E1/T3 circuits with overflow provision through PCCW. The majority of our transmission links are leased from PCCW. The IDD SCCP links are leased from Reach Network Hong Kong Limited. Regular tender processes are conducted among suppliers to ensure that we are achieving the most competitive pricing.

Value Added Service Platforms

We have two SMS platforms (both with active/standby configuration) supplied by LogicaCMG Limited and Comverse Limited. We also have one voice mail platform (with active/standby configuration) developed by Comverse Technology Inc.. Our fully duplicated pre-paid service node is supplied by IVRS (International) Limited. Our MMSC is supplied by Ericsson.

We also maintain a fully duplicated gateway number database to facilitate mobile number portability.

Maintenance & Operations

Our Engineering and Operations Division has significant engineering expertise and works in close partnership with our vendors and shareholders to examine recent global developments. New products and features are carefully scrutinised to determine their suitability and effectiveness in terms of functionality and efficiency gains.

Our ongoing radio network design and optimisation caters for capacity expansion and coverage enhancement. This work is carried out exclusively by our in-house staff who have been involved in the network since inception.

Core network optimisation is also carried out in-house with a view towards continually maximising the capacity in the most efficient manner. We monitor radio and switching networks in real time to ensure high availability and high quality. We arrange for our staff to be available around the clock to attend to any faults and provide remedial actions.

CUSTOMERS

The Company's top five customers collectively accounted for less than 30 per cent. of the Company's turnover for each of the three years ended 31 December 2003. None of the Directors or their associates or any shareholder, who to the knowledge of the Directors hold more than 5 per cent. of our issued share capital, has any interests in any of these customers, except for Telepaging, which was our largest customer during the Relevant Period. Under the terms of the dealership agreement with Telepaging, Telepaging will purchase each handset from the Company before selling the same to a customer and therefore Telepaging has been classified as a customer of the Company. For further details of the dealership arrangement between the Company and Telepaging, please refer to the section headed "Business — Relationship with China Resources and Existing Shareholders — (A) Dealership Agreement with Telepaging ("Telepaging Dealership Agreement")" of this prospectus. Mr. Leung Kai Hung, Michael and Mr. Huang Zhi Jian, who are our Directors, are also directors of Telepaging.

SUPPLIERS

We believe it is essential to build close working relationships with all of our suppliers. We regularly attend and host strategic meetings with our suppliers. These meetings help both our suppliers and us to understand each other's strategic directions and challenges. We believe that only through close communication with our suppliers can the challenges and issues facing both of us be addressed and resolved. The top five suppliers together accounted for approximately 61.2 per cent., 50.2 per cent. and 46.2 per cent., respectively, of the total purchases of the Company for each of the three years ended 31 December 2003. The largest supplier in each of the three years ended 31 December 2003 accounted for 19.8 per cent., 20.3 per cent. and 15.1 per cent., respectively, of the total purchases of the Company. None of the Directors or their associates, or any shareholder, who to the knowledge of the Directors holds more than 5 per cent. of our issued share capital, has any interests in any of these suppliers.

Network Components

Our longest standing network components supplier relationship is with Ericsson. Ericsson supplies all of our major PCS 1800 MHz cellular infrastructure components including our MSCs, BSCs and BTSs ancillary equipment. Our close relationship with Ericsson stems back to 1995 when we installed a trial system supplied by Ericsson as part of the PRS license bid. This trial system enabled us to meet the strict license requirements and ultimately put us on track to a fast network launch. Ericsson has since continued to supply us with all our major network component upgrades and general maintenance work on the network components under a technical support agreement. Ericsson also supplies our GPRS/EDGE components, multi-media service center and WAP functionality, which are enablers for data applications.

Our other network component suppliers include IVRS (International) Ltd, who supplies us with our pre-paid platform and gateway number database functionality; Comverse Limited, who supplies us with our voice mail and SMS equipment; Cap Gemini Ernst & Young Hong Kong Limited, who is our system integrator for our billing system and who provides us with support and customisation services; and Hewlett Packard, who provides us with hardware for our billing system. The payment terms for our purchases of our network components vary from payment within 15 days against invoice to 150 days' credit term.

Handsets

We have built up close relationships with our handset suppliers. Nokia, SonyEricsson, Motorola, Samsung and Siemens are amongst our major handsets suppliers. The payment terms for our purchases of handsets are either cash on delivery or payment within 7 to 35 days against invoice.

Leased Lines and IDD Carriers

We have enjoyed a long term relationship with PCCW since 1996. PCCW has provided us with E1 and T1 lines thereby enabling us to achieve a fast roll-out of our base stations. PCCW is our major supplier for our leased lines. PCCW supplies E1, T1 and T3 lines between the switching centres and PSTN, base stations, other mobile operators and IDD carriers. Hutchison Global Communication, New World Telephone and Wharf T&T Limited also supply our leased lines. We carry out daily quality checks on all our major IDD routes daily. Our major IDD carriers are Reach Networks Hong Kong Limited, World Navigation Limited and China Motion Netcom (Asia) Ltd. The payment terms of our purchases of leased lines and IDD carriers vary from payment within 10 days against invoice to 60 days credit term.

COMPETITION

According to OFTA, Hong Kong had a mobile penetration rate of 105.6 per cent. as at the end of December 2003, representing one of the highest mobile penetration rates in the world. There are six mobile operators in Hong Kong, all of which obtained PRS licences to operate a GSM1800 network in Hong Kong in 1996. Three of these operators, Hutchison, CSL and SmarTone, first entered the mobile communications market in 1995, 1993 and 1993, respectively, each with a PMRS licence to operate a GSM900 network; and they have, since obtaining their respective PRS licences in 1996, become dual band GSM900/1800 operators. The six operators compete on price, network coverage and quality, customer service, technology and the range of value-added and data services offered.

The mobile communications market in Hong Kong is highly competitive and has experienced price wars from time to time, the most recent examples of which occurred in July and November 2003. While each operator structures their tariff packages differently, an operator would typically respond to a competing new offer by reducing tariff prices, adding free airtime minutes to existing tariff plans, offering free prepaid SIM cards or handset rebates as incentives, or providing free additional value-added services.

In October 2001, the Government awarded a 15-year 3G mobile licence to each of CSL, Hutchison 3G, SmarTone 3G and Sunday 3G under a royalty payment scheme. Hutchison 3G launched its 3G services in Hong Kong on 27 January 2004 and has since employed aggressive marketing techniques to aggressively promote such services. We made a strategic decision not to bid for a 3G licence and plan to launch a network system based on EDGE technology in or around the third quarter of 2004 in order to meet the increasing demand for mobile data services. EDGE offers data transmission rates and capacity up to three times of those achievable with GPRS assuming the same resources are utilised. We believe that EDGE will enable us to offer data services such as video-streaming and other download applications at enhanced transfer rates. This will enable us to provide our customers with services sufficiently sophisticated to meet their requirements in the near to medium term whilst avoiding the high implementation risk and capital expenditure associated with a 3G technology roll-out. EDGE can be implemented with a relatively small incremental cost to our existing network involving a software upgrade and provision of one EDGE enabled transceiver for each site. No new cell planning or modification is required.

We have successfully completed laboratory tests and field trials to verify EDGE performance for network wide deployment. Our implementation for EDGE is divided into four phases. Phase one, which we have commenced, and which is expected to be completed by around August 2004, will cover approximately 30 per cent. of our existing network, including 10 high data traffic areas within our existing network such as Central, Mongkok, Yau Ma Tei and Shatin and substantial coverage of the Mass Transit Railway and Kowloon-Canton Railway stations. The second, third and fourth phases of our implementation plan, which we currently envisage will be completed by around the end of 2005, involve the continuous roll-out of our EDGE network covering areas with medium to low data traffic, including shopping malls and rural and semi-rural areas, as we consider necessary, as well as capacity increases as the need arises.

In the long run, we will consider the provision of 3G services according to our customers' demands if required. We believe we will have the capacity to deliver 3G services to our customers, even though we do not currently hold a 3G licence, through an application for a PNETs (MVNO) licence. The four 3G licensees are obliged to make available up to 30 per cent. of their 3G network capacity to non-affiliated MVNOs on a non-discriminatory basis under a mandatory open network regime pursuant to the terms of their 3G licences. However, there can be no assurance that we will have access to any 3G network capacity at economically viable terms or at all.

In addition to our core mobile communications services, our IDD service faces competition from certain other ETS, fixed carrier and EFTNS licensees. OFTA reported that there were 223 ETS licensees in Hong Kong as at 2 February 2004.

EMPLOYEES

Employees and Management Team

We maintained a stable number of permanent employees over the Relevant Period despite the growth of our subscriber base and market share. This was achieved through improvements in IT and active staff training to increase the efficiency of our operations. The table below sets forth the number of employees by category for the three years ended 31 December 2003:

Staff description	Number of employees as at 31 December					
	2001		2002		2003	
	Full-time	Part-time	Full-time	Part-time	Full-time	Part-time
Executive Office	14	—	13	—	16	—
Sales & Marketing	230	18	222	11	245	28
Customer Care	137	53	142	45	138	42
Engineering	100	5	88	6	91	3
Technology Management	57	2	56	3	61	3
Finance, Legal, Human Resources & Administration	53	4	58	10	56	8
Sub-total	591	82	579	75	607	84
Total	673		654		691	

We strive to be one of the best employers in Hong Kong and have been focusing on improving our organisational capability during the past few years. We have a relatively small but stable team of efficient and committed employees. We believe the increasing level of loyalty and commitment amongst our staff and management is demonstrated by the reduction in our staff turnover rate from 26.7 per cent. in 2001 to 10.3 per cent. in 2003.

Our Human Resources Policies

Our human resources policies are regularly updated with the objective of encouraging the continuous development of our staff in both aptitude and efficiency. We seek to cultivate and maintain employee satisfaction. We believe that our financial performance in recent years, comprehensive training programme and the stability of our workforce have attracted many talented individuals from both within and outside the telecommunications industry to join and stay with us. To reward our employees' contributions to our business, we have a reward system of salary increments and bonuses based on performance. We also regularly review our salaries and benefits against the market rate to ensure our competitiveness.

Our employees are not represented by any collective bargaining unit, and we have never experienced any industrial disputes that have interfered with our operations. We believe that we have an excellent relationship with our employees.

We provide various forms of training for our employees. Our training team designs and organises training programs for our employees. The training team also arranges in-house training and external development programs provided by our vendors for our employees.

We focus on cultivating a customer service culture in all of our employees to ensure that they deliver a consistently high quality of service to our customers at all points of contacts with us.

INTELLECTUAL PROPERTY RIGHTS

We protect our intellectual property rights mainly through registration of trade marks. We conduct our business under our trademark , the registration for which is in process, and our registered trademarks and 萬眾電話. We are also applying for registration of our five other trademarks. Further information relating to the trade marks mentioned above is set out in "Statutory and General Information" in Appendix V to this prospectus. We have not been subject to any intellectual property rights infringement claims during the Relevant Period, except for an allegation of copyright infringement in relation to materials provided by one of our advertising agents in the publication of an advertisement. We obtained an indemnity from such advertising agent for all claims for damages in relation to such copyright infringement. No legal proceedings have been instituted against us in respect of such infringement allegation. We have also been notified of a potential patent infringement by one of our content providers and have immediately ceased distributing such application to our customers. No claim has been made against us for patent infringement and, in any event, such content provider agreed under the relevant licence agreement to bear the costs and expenses in defending any proceedings against us arising from any allegation of infringement of third party's intellectual property rights in connection with its services.

PROPERTIES

As at 31 January 2004, we leased 38 properties in Hong Kong which we use as offices, retail shops, care centre and warehouses and to house base stations.

We own six properties to accommodate the switching centres, data centre and base stations. Valuations of the properties owned and leased and occupied by us have been undertaken by CB Richard Ellis Limited as at 31 January 2004 and the texts of their valuation letter dated 22 March 2004 and their valuation certificates are set out in Appendix II to this prospectus.

As at 31 January 2004, we also leased or licensed approximately 966 base stations located at various places throughout Hong Kong (the "Sites"). These Sites typically take up very small areas on roof tops of buildings or at various building sites and are used by us to house radio transmitters and receivers required for our business operations. Although the Sites form a part of the Company's network infrastructure, the Sites are directly connected via BSCs to MSCs. All the BSCs and MSCs are located at the switching centres owned or leased by the Company, the details of which are included in the property valuation report set out in Appendix II to this prospectus.

We consider the BSCs and MSCs more important for the proper functioning of our network than the Sites as the areas of coverage of the Sites overlap so that the shutting down or malfunction of any of the Sites would not be critical for our network or cause any material interruption to our operations. Moreover, as alternative locations nearby existing Sites are available, the Sites could be readily replaced.

Each of paragraphs 34(2) and 34(3) of the Third Schedule of the Companies Ordinance and rules 5.01, 5.06(1) and 5.06(2) and practice note 16 ("PN16") of the Listing Rules requires, amongst other things, that this prospectus includes the text of a valuation report which contains all the relevant specified particulars of our interest in land or buildings. The Directors are of the view that it will be unduly burdensome for us to comply strictly with the relevant provisions of the Companies Ordinance and the Listing Rules for the reasons summarised as follows:

(A) information in relation to our network infrastructure and the location of the Sites is highly confidential;

(B) information in relation to the valuation of the leases relating to the Sites (which are of no commercial value and are not attributed any value in our financial statements) would not be material to investors in deciding whether to invest in our Company or not; and

(C) we will have to conduct a full valuation of all Sites in order to comply with the relevant provisions in the Companies Ordinance and the Listing Rules. Since the total number of base stations involved is exceptionally large, it will involve considerable extra time and expense on our part to provide such valuation report, particularly given that no commercial value would be attributed to the Sites and that the Company can generally replace any Site without material disruption to its operations.

As such, we have applied for and have been granted (a) by the Securities and Futures Commission of Hong Kong, a certificate of exemption pursuant to section 38A(1) of the Companies Ordinance from compliance with the requirements of paragraphs 34(2) and 34(3) of the Third Schedule of the Companies Ordinance and (b) by the Stock Exchange, a waiver from strict compliance with rules 5.01, 5.06(1) and 5.06(2) and PN16 of the Listing Rules, so that this prospectus only includes a valuation report with respect to all of our interests in the 44 properties, being the 38 leased properties and 6 owned properties, set out in Appendix II to this prospectus and that a valuation report or summary with respect to our interest in the Sites is not required for inclusion in this prospectus or submission to the Stock Exchange or public inspection.

The Directors are not aware of any defects in the title of any property which is the subject matter of the property valuation report set out in Appendix II to this prospectus.

LEGAL PROCEEDINGS AND ENVIRONMENTAL COMPLIANCE

Our policy is to recover overdue service charges via the Small Claims Tribunal in Hong Kong. We have not been involved in any litigation, arbitration or administrative proceedings that could individually or if taken as a whole, have a materially adverse effect on or threaten our financial condition or results of operations.

Since our date of incorporation, we have not violated any environmental laws, ordinances or regulations.

INSURANCE

We have insurance coverage with various insurance providers to cover risks incurred in the ordinary course of our business including damage to property, inventory, stock, switching equipment, base station equipment, computer equipment, and motor vehicles. We also have public liability insurance for claims in respect of personal injury or property damage arising from accidents relating to our operations.

We have also taken out the following types of insurance for our employees, including employees compensation insurance, medical insurance, personal accident insurance, and life insurance.

We do not have insurance coverage for business interruption or key-man insurance as we believe that our business contingency and disaster recovery measures flexibility in our organisation structure are adequate to ensure continuity of our business. We believe that our insurance coverage for our business is adequate. We have not recorded any material insurance claim in the past.

BUSINESS CONTINGENCY AND DISASTER RECOVERY

We devised business contingency and disaster recovery plans to cover the situation of any breakdown or accidental damage to our equipment. We also have issued guidelines in relation to the emergency actions to be taken in the event of an epidemic such as SARS. We update our comprehensive disaster recovery plans for the switching and radio networks as well as the billing and IT networks from time to time.

We have a regular maintenance procedure for all of our equipment in the core network and service platforms. In the event of a breakdown of equipment, alarms will be generated in the network operation and maintenance centres and backed up with paging calls to the nominated staff. We keep spare parts in multiple locations. Most of our equipment has redundancy provisioned with active and standby arrangements.

We have entered into a higher level of technical design and development support and other support agreements with all of our major suppliers. These suppliers provide assistance on an around-the-clock standby basis and they have secure and remote access to our equipment.

Our infrastructure components, MSCs and BSCs are located in two separate switching centres connected by dedicated optical fibre transmission circuits. Each MSC is linked to the PSTN by diversified routes using services of PCCW. We have two physically separated switching centres, each provided with multiple back up for provision of power and services.

The configuration of our billing system is designed to enable continuous operation over a prolonged period of time, with back-up equipment to protect subscribers' data. We have all our customers' activation and modification data backed up for future records so as to prevent interruptions of our services to them. In case of unexpected shut down of our data centre, we believe we can promptly set up and restore the billing system in a remote site which can maintain and support the basic operation of our business.

During the SARS outbreak, we took the initiative of setting up backup staff positions away from our main office building. These backup positions had remote access terminals ready for staff to take over in case of office contamination. Other measures, as part of an overall health care contingency plan, were put into place in order to reduce the risk of contamination from the disease.

We have not experienced any material outage or major breakdown of, or accidental damages to, our network systems or operations to date.

RELATIONSHIP WITH CHINA RESOURCES AND EXISTING SHAREHOLDERS

Upon completion of the Global Offering, the Capitalisation Issue and the Conversion, China Resources will be interested in approximately 47.5 per cent. of our issued share capital (assuming that the Over-allotment Option is not exercised). None of China Resources and the Directors has any interest in any business apart from the Company's business which competes or is likely to compete, either directly or indirectly, with the Company's business.

CONNECTED TRANSACTIONS

Following the completion of the Global Offering, there will be continuing transactions between the Company and each of the entities referred to in paragraphs (i) to (iv) below. These transactions will constitute connected transactions of the Company, details of which are set out below.

According to the Listing Rules, the following entities will be regarded as connected persons of the Company:

(i) China Resources Group Companies, each an associate (as defined under the Listing Rules) or subsidiary of China Resources, the controlling shareholder of the Company;

(ii) Telepaging, which is approximately 33.3 per cent. owned by Leung Kai Hung, Michael and approximately 33.3 per cent. owned by China Resources;

(iii) mVantage, which is controlled by the spouse of Leung Ka On, Charlotte, a Director of the Company; and

(iv) Onwel Group Companies, each controlled by Leung Kai Hung, Michael save for Million Capital Group Limited, a company which is jointly controlled by both Leung Kai Hung, Michael and Leung Ka On, Charlotte.

Non-exempt Continuing Connected Transactions

(A) *Dealership Agreement with Telepaging ("Telepaging Dealership Agreement")*

In relation to its business, the Company has appointed Telepaging as its dealer for the purpose of:

(i) the selling of mobile telephone handsets and accessories;

(ii) the selling of the Company's tariff plans;

(iii) the selling of the Company's VAS;

(iv) the selling of the Company's pre-paid SIM cards; and

(v) the collection of service fees or tariffs on behalf of the Company and providing customer service support.

The Telepaging Dealership Agreement was entered into on 14 March 2004 and will expire on 31 December 2006. The agreement is automatically renewable for further periods of three years unless terminated by either party giving at least three months' notice. Under the terms of the Telepaging Dealership Agreement, the Company will make handsets available to Telepaging for sale to its customers. Telepaging will purchase each handset from the Company before selling the same to a customer. All handsets are sent from the Company to Telepaging on a consignment basis where ownership does not pass to Telepaging until the moment before a sale is made by Telepaging to the customer. The handsets are sold by the Company to Telepaging at the same prices as those charged by Telepaging to its customers. After the sale, Telepaging receives a commission of HK$120 for each handset sold.

The Telepaging Dealership Agreement also provides that the Company will pay activation and monthly usage commissions to Telepaging. The activation commission consists of a one-off amount which varies depending on the particular tariff plan selected by the customer. The monthly usage commission is 5 per cent. of the total monthly billing of each customer enlisted by Telepaging, and this commission is payable from the second to the thirty-sixth month following activation, assuming the customer continues subscribing to the Company's services.

Under the Telepaging Dealership Agreement, the Company will also pay commission to Telepaging for the sale of pre-paid cards and other miscellaneous products. The Telepaging Dealership Agreement also provides for the Company to reimburse Telepaging for certain expenses incurred for the purposes of conducting marketing and promotional activities with the Company's prior approval. The Telepaging Dealership Agreement provides that Telepaging will not perform similar services for any person or company other than the Company.

The Company believes that the commission it pays to Telepaging for the sale of handsets, as well as the activation and monthly and other commissions are comparable to what it would need to pay to a third party dealer, taking into account the following:

(1) scope of the Telepaging distribution network and location of the Telepaging shops;

(2) Telepaging shops are operated to sell exclusively the Company's services;

(3) Telepaging provides after-sales services and other customer services such as bill payment to the Company free of charge.

The total amount attributable to the sales of handsets and accessories by Telepaging for the three years ended 31 December 2003 are HK$38,821,347, HK$52,167,777 and HK$47,022,239, respectively (representing 10.3 per cent., 23.1 per cent. and 16.3 per cent. of total sales of handsets and accessories for the immediate preceding financial year, respectively). The total amount of commissions paid to Telepaging for the three years ended 31 December 2003 are HK$33,059,372, HK$41,917,619 and HK$43,542,183, respectively (representing 3.1 per cent., 2.8 per cent. and 2.7 per cent. of total turnover, respectively).

(B) *Dealership Agreement with China Resources Group Companies*

Prior to 2003, the Company had been selling its pre-paid cards through a number of China Resources Group Companies. Since 2003, pre-paid cards have only been sold through CRC Department Store Limited, which is a China Resources Group Company. CRC Department Store Limited is entitled to 15 per cent. of the face value of each card sold as commission. This commission is comparable to the commission payable to similar dealers. The China Resources Dealership Agreement was entered into on 15 March 2004 and will expire on 31 December 2006. The agreement is automatically renewable for further periods of three years unless terminated by either party giving at least one month notice. CRC Department Store Limited is only one of the Company's pre-paid card distributors.

The total amount of commissions under the Dealership Agreement with China Resources Group Companies for the three years ended 31 December 2003 are HK$99,953, HK$28,276 and HK$65,219, respectively (representing less than 0.1 per cent. of total turnover for each of the three years ended 31 December 2003).

(C) *mVantage Consultancy Agreement*

The Company has appointed mVantage to provide management support for the formulation and implementation of its mobile VAS strategy. The Company entered into the mVantage Consultancy Agreement on 15 March 2004, which will expire on 31 December 2006. The agreement is automatically renewable for further periods of three years unless terminated by either party giving at least three months' notice. The Company believes that the mVantage Consultancy Agreement is entered on normal commercial terms and that the fees payable to mVantage are comparable to market rates.

The total amount of consultancy fees paid to mVantage for the three years ended 31 December 2003 are HK$500,000, HK$1,150,000 and HK$1,200,000, respectively (representing 0.1 per cent. of total turnover for each of the three years ended 31 December 2003).

(D) *mVantage Handset Agreement*

From time to time, the Company will acquire secondhand handsets from customers as part of trade-in or upgrade promotions. As part of its inventory, the Company may also be holding obsolete handsets for which there is no market demand. The Company has in the past sold such secondhand and obsolete handsets to mVantage at prices which are generally comparable to those which the Company could obtain by selling to independent third parties trading in such handsets. The Company entered into the mVantage Handset Agreement on 15 March 2004, which will expire on 31 December 2006. The agreement is automatically renewable for three years unless terminated by either party giving at least three months' notice.

The total amount attributable to the sales of secondhand and obsolete handsets to mVantage for the two years ended 31 December 2003 are HK$2,289,275 and HK$9,319,010, respectively (representing 0.2 per cent. and 0.6 per cent. of total turnover of the relevant year, respectively).

(E) *China Resources Base Station Agreements*

The performance of the Company's network is dependent on the strategic positioning of its base stations. As at 31 January 2004, the Company had 978 base stations, 18 of which are situated on sites belonging to various China Resources Companies. In relation to this, the Company has entered into leases or licence agreements, as the case may be, with each of the relevant China Resources Group Companies. These leases and licence agreements, or the China Resources Base Station Agreements, typically provide for the Company to have use of a particular site or area.

The total amount of rent payable to China Resources Group Companies for the three years ended 31 December 2003 are HK$3,306,980, HK$4,085,670 and HK$4,596,982, respectively (representing 0.3 per cent. of total turnover for each of the three years ended 31 December 2003).

CB Richard Ellis, an independent property valuer of the Company, has confirmed that the rental and license fees paid by the Company under the leases and licences with China Resources Group Companies were fair and reasonable and reflect prevailing market rates as at the commencement dates of the respective leases or licences.

(F) *Insurance Brokerage Service provided by China Resources Insurance Consultants Limited*

As part of its normal operations, the Company purchases insurance policies covering property, car, computer, public liability and other matters. In connection with this, it would usually seek to obtain quotations from various insurance brokers, including those of China Resources Insurance Consultants Limited, a China Resources Group Company. These quotations are made on the basis that the relevant insurance policy is issued by an authorised insurer and that the Company does not need to pay any additional commission or fee to the broker apart from that as set out in the quotation. After receiving such quotations, the Company would choose and decide the optimal plan.

In relation to this, the Company has purchased a number of general insurance policies through China Resources Insurance Consultants Limited in 2003. None of these insurance policies were issued by a China Resources Group Company. The Company expects to purchase or renew general insurance policies through China Resources Insurance Consultants Limited after the listing of the Shares on the Stock Exchange.

The total amount of consideration paid to China Resources Insurance Consultants Limited for the year ended 31 December 2003 was HK$665,818 (representing less than 0.1 per cent. of turnover for the relevant year).

Exempt Continuing Connected Transactions

(A) *Provision of Information Services by Telepaging*

To broaden the range of VAS offered by the Company to its customers, Telepaging has been providing information and content relating to weather forecast, Mark-Six results and stock prices to the Company's subscribers. In return for the provision of such information and content, Telepaging charges the Company a pre-determined fixed monthly fee, depending on the type and nature of the information and content provided during the month. The fee does not vary with the number of subscribers accessing such information or their usage.

The Company currently engages several other information services providers besides Telepaging. The Company believes that the information services arrangement with Telepaging are on normal commercial terms and the fee it pays to Telepaging is comparable to that paid to other information and content providers in Hong Kong.

The total amount of fees paid to Telepaging under the Telepaging information services arrangement for the three years ended 31 December 2003 are HK$1,696,710, HK$634,313 and HK$659,953, respectively (representing 0.2 per cent., 0.0 per cent. and 0.0 per cent. of total turnover of the relevant year, respectively).

The provision of information services by Telepaging is an exempt continuing connected transaction as the annual consideration paid to Telepaging by the Company is not expected to exceed the higher of HK$1,000,000 or 0.03 per cent. of our net tangible assets as at 31 December 2003.

(B) *Returned mail services provided by Telepaging*

Since 2003, the Company has engaged Telepaging to provide administrative and logistical support in following up with returned mail received from its customers. In return for a fee paid by the Company, Telepaging will contact such customers directly and update the Company on their contact details. Prior to 2003, the Company had employed part time employees to handle such services and the fees paid to such employees on a per man hour basis is similar to that currently charged by Telepaging.

Based on the Company's own experience in employing part-time employees to handle such services, the Company believes that the fee it pays to Telepaging is comparable to that paid to other third parties in Hong Kong providing similar services. The Company is also of the view that the returned mail arrangements are conducted on normal commercial terms.

The total fee paid to Telepaging for the year ended 31 December 2003 was HK$101,623 (representing less than 0.1 per cent. of total turnover for each of the three years ended 31 December 2003).

The returned mail services provided by Telepaging is an exempt continuing connected transaction as the annual consideration to be paid to Telepaging by the Company is not expected to exceed the higher of HK$1,000,000 or 0.03 per cent. of our net tangible assets as at 31 December 2003.

(C) *Onwel Group Agreements*

The Company has leased certain properties from Onwel Group Companies as a result of its business needs. These include the storage of equipment, installation of base stations and advertisements. The Company has also sublet its rented premises to Onwel Strategic Holdings Limited and Telepaging as it is not able to fully utilise the premises which it has rented for its base stations. The leases or license agreements typically provide for the Company to have use of a particular site or area. The rent or license fees payable under these leases or licence agreements, or the Onwel Group Agreements, are payable monthly or quarterly, as the case may be, in arrears.

The total amount of rent paid to Onwel Group Companies for the three years ended 31 December 2003 are HK$452,859, HK$439,600 and HK$451,100, respectively (representing less than 0.1 per cent. of total turnover for each of the three years ended 31 December 2003). The total amount of rent received from Onwel Group Companies for each of the two years ended 31 December 2003 are HK$12,000 and HK$18,000, respectively (representing less than 0.1 per cent. of total turnover for each of the two years ended 31 December 2003).

CB Richard Ellis, an independent property valuer of the Company, has confirmed that the rental and license fees paid and received by the Company under the Onwel Group Agreements were fair and reasonable and reflect prevailing market rates as at the commencement dates of the respective leases or licences.

The Onwel Group Agreements are exempt continuing connected transactions as the annual consideration to be paid to the Onwel Group Companies by the Company is not expected to exceed the higher of HK$1,000,000 or 0.03 per cent. of our net tangible assets as at 31 December 2003.

Waivers from the Stock Exchange

Scope of Waivers

Following completion of the Hong Kong Public Offering, the Company will continue the transactions described above.

The Directors (including the independent non-executive Directors) are of the opinion that the transactions set out above have been entered into and will be carried out in the ordinary and usual course of business of the Company and on normal commercial terms which are fair and reasonable so far as the interests of the shareholders of the Company are concerned.

Such transactions will constitute connected transactions for the Company under the Listing Rules once the Shares are listed on the Stock Exchange.

Pursuant to the Listing Rules, the provision of information services by Telepaging, the returned mail services provided by Telepaging and the Onwel Group Agreements are exempted under Rule 14.24(5).

Waiver from Disclosure Requirements

The expected annual consideration for each of the Dealership Agreement with China Resources Group Companies, the mVantage Consultancy Agreement, the China Resources Base Station Agreements and insurance brokerage services provided by China Resources Insurance Consultants Limited for the period between commencement of dealings in the Shares on the Stock Exchange and 31 December 2006 is less than the higher of HK$10,000,000 or 3.0 per cent. of the book value of our latest published net tangible assets. In accordance with Listing Rule 14.25(1), such transactions would normally require disclosure in the form of an announcement and publication in the annual reports and accounts of the Company for so long as such transactions are in place. In particular, even though the total amounts of consideration paid under the Dealership Agreement with China Resources Group Companies and for the insurance brokerage services provided by China Resources Group Companies, respectively, were below the threshold of the higher of HK$1,000,000 or 0.03% of the book value of our latest published net tangible assets requiring no disclosure under Listing Rule 14.24(5), it is possible that the threshold will be exceeded during the Relevant Period. Unless we comply with the disclosure requirement or obtain a wavier therefrom we will have to limit the number of new post-paid customers should the China Resources Group Companies to be able to sell more pre-paid cards, or be restricted from obtaining our insurance through China Resources Consultants Limited even though it may offer the most competitive quotes to us. The Directors consider that the issue of announcements would be burdensome and add administrative costs to the Company. Accordingly, the Company has applied for a waiver from disclosure so that details of these transactions as required under Listing Rules 14.25(1) are not required to be the subject of any announcement but are published in our annual report and accounts for so long as such transactions are in place, subject to the following conditions:

(A) *Arms' Length Basis*

The conditions referred to above are that the transactions, and the respective agreements (if any) governing such transactions, shall be:

(i) entered into by the Company in the ordinary and usual course of its business; and

(ii) either:

(a) on normal commercial terms; or

(b) where there is no available comparison to judge whether they are on normal commercial terms, on terms no less favourable than those available to or from independent third parties; and

(c) on terms that are fair and reasonable so far as the shareholders of the Company are concerned;

(d) have been entered into in accordance with the terms of the relevant agreements governing the transactions; and

(e) if applicable, with the annual aggregate value of each category of connected transactions not exceeding the relevant annual caps.

(B) *Disclosure*

The Company shall disclose brief details of the transactions in each year as required by Rule 14.25(1)(A) to (D) of the Listing Rules, i.e.:

- the date or period of the transaction;
- the parties thereto and a description of their connected relationship;
- a brief description of the transaction and the purpose of the transaction;
- the total consideration and the terms; and
- the nature and extent of the interest of the connected person in the transaction,

in the Company's annual report and accounts for the relevant year.

(C) *Independent Directors' Review*

The independent non-executive Directors of the Company shall review annually the transactions and confirm, in the Company's annual report and accounts for the year in question, that such transactions have been conducted in the manner stated in condition (A) above.

(D) *Auditors' Review*

The auditors of the Company shall carry out review procedures annually on the transactions and shall confirm to the Directors in writing (with a copy to the Stock Exchange at least 10 business days prior to the bulk print of the Company's annual report) whether, based on those procedures, the transactions:

(i) received the approval of the Company's Directors;

(ii) have been entered into in accordance with the pricing policies of the Company if the transactions involve the provision of goods or services by the Company;

(iii) have been entered into in accordance with the terms of the relevant agreements governing the transactions.; and

(iv) have not exceeded the caps specified in paragraph (E) below.

Where, for whatever reason, the auditors decline to accept the engagement, or are unable to provide the auditors' letter referred to above, the Directors shall contact the Stock Exchange promptly.

(E) *Caps*

The aggregate annual value of each category of such transactions shall not exceed the higher of HK$10.0 million or 3.0 per cent. of the latest published net tangible assets of the Company.

(F) *Undertaking from other parties*

China Resources and mVantage shall have undertaken to the Stock Exchange to provide the Company's auditors with access to their accounting records, as well as (where possible) those of their subsidiaries and associates for the purpose of the auditors' review referred to in paragraph (D) above.

Waiver from Shareholders' Approval and Disclosure Requirements

The Telepaging Dealership Agreement and the mVantage Handset Agreement would normally require full disclosure and prior approval by independent shareholders in accordance with Listing Rule 14.26. The Directors consider that disclosure and shareholders' approval of these two transactions in full compliance with the Listing Rules would be impracticable and. in particular, be burdensome and add administrative costs to the Company. Accordingly, the Company has applied for a waiver for the period of three financial years expiring on 31 December 2006 from strict compliance with the relevant requirements of the Listing Rules in relation to the Telepaging Dealership Agreement and the mVantage Handset Agreement, subject to the following conditions:

(A) *Arms' Length Basis*

The conditions referred to above are that the transactions, and the respective agreements (if any) governing such transactions, shall be:

(i) entered into by the Company in the ordinary and usual course of its business; and

(ii) either:

(a) on normal commercial terms; or

(b) where there is no available comparison to judge whether they are on normal commercial terms, on terms no less favourable than those available to or from independent third parties; and

(c) on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and

(d) have been entered into in accordance with the terms of the relevant agreements governing the transactions; and

(e) if applicable, with the annual aggregate value of each category of connected transactions not exceeding the relevant annual caps.

(B) *Disclosure*

The Company shall disclose brief details of the transactions in each year as required by Rule 14.25(1)(A) to (D) of the Listing Rules, i.e.:

- the date or period of the transaction;
- the parties thereto and a description of their connected relationship;
- a brief description of the transaction and the purpose of the transaction;
- the total consideration and the terms; and
- the nature and extent of the interest of the connected person in the transaction,

in the Company's annual report and accounts for the relevant year.

(C) *Independent Directors' Review*

The independent non-executive Directors of the Company shall review annually the transactions and confirm, in the Company's annual report and accounts for the year in question, that such transactions have been conducted in the manner stated in condition (A) above.

(D) *Auditors' Review*

The auditors of the Company shall carry out review procedures annually on the transactions and shall confirm to the Directors in writing (with a copy to the Stock Exchange at least 10 business days prior to the bulk print of the Company's annual report) whether, based on those procedures, the transactions:

(i) received the approval of the Company's Directors;

(ii) have been entered into in accordance with the pricing policies of the Company if the transactions involve the provision of goods or services by the Company;

(iii) have been entered into in accordance with the terms of the relevant agreements governing the transactions; and

(iv) have not exceeded the caps specified in paragraph (E) below.

Where, for whatever reason, the auditors decline to accept the engagement, or are unable to provide the auditors' letter referred to above, the Directors shall contact the Stock Exchange promptly.

(E) *Cap*

The aggregate annual value for each financial year of the Company in each category of connected transactions shall not exceed the relevant annual caps set out below:

Transaction	Proposed Annual Cap
Telepaging Dealership Agreement (sale of handsets and accessories)	25.0 per cent. of the aggregate sales of handsets and accessories of the Company for the immediately preceding financial year.
Telepaging Dealership Agreement (commission)	HK$50.0 million, HK$55.0 million and HK$61.0 million for the three years ended 31 December 2006.
mVantage Handset Agreement	HK$11.0 million, HK$13.0 million and HK$15.0 million for the three years ended 31 December 2006

(F) *Undertaking from other parties*

Telepaging and mVantage shall have undertaken to the Stock Exchange to provide the Company's auditors with access to their accounting records, as well as (where possible) those of their subsidiaries and associates for the purpose of the auditors' review referred to in paragraph (D) above.

The following table sets out the non-exempt continuing connected transactions and exempt continuing connected transactions discussed above and the relevant waiver sought.

Non-exempt Continuing Connected Transactions

Transaction	Applicable Listing Rule	Waiver Sought	Proposed Annual Cap
1. Telepaging Dealership Agreement	14.26	A waiver from shareholders' approval and disclosure requirements is sought on the basis that the transaction is subject to a cap referred above.	
(A) Sale of handsets and accessories			(A) 25.0 per cent. of the aggregate sales of handsets and accessories of the Company for the immediately preceding financial year
(B) Commission			(B) HK$50.0 million, HK$55.0 million and HK$61.0 million for the three years ended 31 December 2006

Transaction		Applicable Listing Rule	Waiver Sought	Proposed Annual Cap
2.	China Resources Dealership Agreement	14.25(1)	A waiver from disclosure requirements is sought.	the higher of HK$10.0 million and 3.0 per cent. of the latest published net tangible assets of the Company
3.	mVantage Consultancy Agreement	14.25(1)	A waiver from disclosure requirements is sought.	the higher of HK$10.0 million and 3.0 per cent. of the latest published net tangible assets of the Company
4.	mVantage Handset Agreement	14.26	A waiver from shareholders' approval and disclosure requirements is sought on the basis that the transaction is subject to a cap referred to above.	HK$11.0 million, HK$13.0 million and HK$15.0 million for the three years ended 31 December 2006
5.	China Resources Base Station Agreements	14.25(1)	A waiver from disclosure requirements is sought.	the higher of HK$10.0 million and 3.0 per cent. of the latest published net tangible assets of the Company
6.	Insurance Brokerage Service provided by China Resources Insurance Consultants Limited	14.25(1)	A waiver from disclosure requirements is sought.	the higher of HK$10.0 million and 3.0 per cent. of the latest published net tangible assets of the Company

Exempt Continuing Connected Transaction

Transaction		Applicable Listing Rule	Waiver Sought	Proposed Annual Cap
7.	Provision of information services by Telepaging	14.24(5)	No waiver is sought.	—
8.	Returned mail services provided by Telepaging	14.24(5)	No waiver is sought.	—
9.	Onwel Group Agreements	14.24(5)	No waiver is sought.	—

Cap

In arriving at the cap for payment to Telepaging for the sale of handsets and accessories under the Telepaging Dealership Agreement, the Company has taken into consideration the historical value of such transaction for the three years ended 31 December 2003. For each of the three years ended 31 December 2003 the Telepaging handsets sales accounted for approximately 10.3, 23.1 and 16.3 per cent. of aggregate sales of handsets and accessories for the immediately preceding financial year of the Company, respectively. The Company considers that an annual cap of 25.0 per cent. is reasonable after factoring in the potential for future growth and reflecting the proportion of our retail shops operated by Telepaging to the total number of our shops. With respect to the cap on the commission payable to Telepaging, the Company considered both the historical value of the transaction for the three years ended 31 December 2003 and the potential growth of the Company's business.

The Company arrived at the cap for the mVantage Handset Agreement based on the historical values of such transaction. There was significant growth in the value of its sales to mVantage, which increased 307.0 per cent. from approximately HK$2.3 million for the twelve months ended 31 December 2002 to approximately HK$9.3 million for the twelve months ended 31 December 2003. Further, its sales to mVantage increased 15 per cent. from approximately HK$1.9 million for the three months ended 30 September 2003 to approximately HK$2.2 million for the three months ended 31 December, 2003. We have determined the proposed caps of HK$11.0 million, HK$13.0 million and HK$15.0 million on the basis of an estimated increase of 15 per cent. in the Company's sales of handsets to mVantage in each of the three years ending 31 December 2006, which we believe will provide the Company with sufficient flexibility for future transactions with mVantage.

The Directors, including the independent non-executive Directors, consider that the proposed caps set out above are fair and reasonable.

For the historical amounts with respect to each of the connected transactions, please refer to the relevant descriptions provided above.

Confirmation from the Sponsor

Based on the documents, information and historical figures provided by the Company and confirmation from CB Richard Ellis that the rental and licence fees payable by the Company to China Resources Group Companies under the China Resources Base Station Agreements are fair and reasonable and relying upon the representations and confirmations by the Directors that the transactions mentioned above are: (i) on normal commercial terms; (ii) in the ordinary and usual course of the business of the Company and the relevant parties concerned; (iii) on terms that are fair and reasonable as far as the Company's shareholders as a whole are concerned; and (iv) the caps being sought are fair and reasonable, the Sponsor is of the view that the transactions set out above for which waivers from strict compliance with Rules 14.25(1) and 14.26 of the Listing Rules are required from the Stock Exchange are in the ordinary course of the Company's business and such transactions and the respective proposed annual caps therefor are fair and reasonable as far as the Company's shareholders as a whole are concerned.

It should be noted that: (i) the Sponsor has assumed and relied upon the accuracy and completeness of the documentation, information, historical figures, representations and confirmations provided to it and reviewed by it for the purposes hereof; (ii) no independent valuations or appraisals of the assets and liabilities of the Company have been performed by the Sponsor nor has it been furnished with any such appraisals; and (iii) the view of the Sponsor referred to above represents its view as at the date of this prospectus and such view is necessarily based on, and assumes no change in, economic, market and other conditions in effect on, and the information made available to it for the purposes hereof and as at, the date of this prospectus.