

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations should be read in conjunction with our audited financial statements as at the end of and for 2001, 2002 and 2003, including the notes thereto, included elsewhere in this prospectus. We have prepared our financial statements in accordance with accounting principles generally accepted in Hong Kong, which differ in certain material respects from generally accepted accounting principles in other jurisdictions, including the United States.

This prospectus contains translations of certain amounts into U.S. dollars at specified rates solely for the convenience of the reader. All translations from HK dollars to U.S. dollars in this prospectus were made (unless otherwise indicated) at HK\$7.7845 to US\$1.00, being the noon buying rate in New York City for cable transfers payable in HK dollars as certified for customs purposes by the Federal Reserve Bank of New York on 27 February 2004. No representation is made that the HK dollar or U.S. dollar amounts referred to herein could have been or could be converted into U.S. dollars or HK dollars, as the case may be, at any particular rate.

Overview

We are a mobile communications provider in Hong Kong. We were incorporated in June 1994 and we introduced our PCS 1800 mobile telephone services in January 1997. We strive to provide high quality mobile communications services to the mass market at the most competitive prices. Our subscriber base, determined based on the number of our SIM cards, grew from 412,232 subscribers at the beginning of 2001 to 1,048,947 subscribers at the end of 2003. Our turnover grew from HK\$1,050.2 million in 2001 to HK\$1,642.3 million (US\$211.0 million) in 2003.

While we recorded net losses of HK\$98.7 million in 2001, we achieved net profit of HK\$344.5 million in 2002 and HK\$270.1 million (US\$34.7 million) in 2003. Although we have been generating positive cash flows from operating activities since 2000, we were not profitable and were accumulating losses prior to 2002, during which period our subscriber base did not at any time reach the critical mass that would enable us to generate sufficient revenues to cover our fixed and variable costs and expenses. While we turned profitable in 2002 and 2003, as shown in the Accountants' Report as set out in Appendix I to this prospectus, we still had accumulated losses of approximately HK\$368.4 million (US\$47.3 million) remaining as at the end of 2003. Intense competition or certain other risk factors set out elsewhere in this prospectus may impact our profitability in the future.

Operating Environment

The mobile communications market in Hong Kong is highly developed. With a population of approximately 6.8 million, Hong Kong had mobile subscribers (based on the number of SIM cards) of 5.7 million, 6.2 million and 7.2 million at the end of 2001, 2002 and 2003, respectively based on the total number of subscribers reported by the mobile operators to OFTA. This represents a penetration rate of 84.4 per cent., 91.6 per cent. and 105.6 per cent. as at the end of 2001, 2002 and 2003, respectively.

The mobile communications market in Hong Kong is also highly competitive. There are six primary mobile operators in Hong Kong: CSL, Hutchinson, New World, SmarTone, our Company, and Sunday. According to OFTA, our market share was 11.3 per cent., 12.9 per cent. and 14.6 per cent. as at the end of 2001, 2002 and 2003, respectively, based on the number of our subscribers as a percentage of the mobile subscriber population in Hong Kong. There have been periods of intense price competition or "price wars" among the mobile operators in Hong Kong, the most recent example of which occurred in July and November 2003. For more information on the price wars and their effect on our business, please refer to the section headed "Business — Competition" in this prospectus. While we did not initiate any of the price

FINANCIAL INFORMATION

cuttings in this increasingly competitive market, we have been employing our “best offer matching strategy” (please refer to the section headed “Business — Introduction”) to provide our subscribers with the tariff plans that match the best offers in the market, to the extent that we do not expect such offers to be loss-making.

Factors Affecting Our Financial Condition and Results of Operations

Our turnover and our ability to continue to generate profits are substantially affected by a number of factors, including the following principal factors:

- our ability to attract and retain subscribers, including our ability to deliver services based on the EDGE technology to our subscribers;
- competition on tariffs;
- subscriber usage levels;
- growth in data services;
- our ability to manage and control operating costs;
- our capital expenditure requirements;
- changes in the regulatory environment;
- spectrum availability and allocation; and
- fees for interconnection amongst telecommunication operators.

Components of Turnover

Our turnover consists of revenues generated by (i) airtime and service charges and (ii) sales of handsets and accessories.

Airtime and Service Charges

Airtime and service charges constituted 78.5 per cent., 80.8 per cent. and 81.9 per cent. of our turnover in 2001, 2002 and 2003, respectively. Airtime and service charges are comprised of revenues generated by our post-paid voice services, pre-paid services and post-paid data services.

The table below sets out the breakdown of our airtime and service charges for the period indicated:

	Year ended 31 December					
	2001		2002		2003	
	HK\$'000	<i>per cent. of Turnover</i>	HK\$'000	<i>per cent. of Turnover</i>	HK\$'000	<i>per cent. of Turnover</i>
Post-paid Voice Services	766,312	73.0	1,106,266	73.5	1,162,828	70.8
Pre-paid Services	52,860	5.0	62,050	4.1	108,285	6.6
Post-paid Data Services	5,089	0.5	48,538	3.2	73,743	4.5
Airtime and Services Charges	824,261	78.5	1,216,854	80.8	1,344,856	81.9

Post-paid Voice Services

Revenues derived from our post-paid voice services constituted 73.0 per cent., 73.5 per cent. and 70.8 per cent. of our turnover in 2001, 2002 and 2003, respectively. The principal components of our post-paid voice revenues are airtime income and roaming income.

Airtime income accounted for approximately three quarters of our post-paid voice revenues in 2001, 2002 and 2003. Our airtime income consists of revenues generated by (i) the monthly fees we charge our post-paid subscribers for the fixed monthly airtime minutes in their tariff plans; (ii) the extra airtime fees we charge our post-paid subscribers for the airtime used in excess of the fixed monthly minutes; and (iii) the upfront fees and SIM connection fees we charge our new post-paid subscribers for connection to our network. We deduct from our airtime income certain rebates that we provide to our post-paid subscribers which include (i) certain plan discounts provided to post-paid subscribers as a marketing device; (ii) VAS rebates; and (iii) handset rebates, applied as deductions to the monthly service fees, that we provide to the purchasers of certain models of our handsets if the handset purchasers also subscribe to our tariff plans.

Roaming income accounted for at least 12.1 per cent. of our post-paid voice revenues in 2001, 2002 and 2003. Such income consists of revenues generated by charges for inbound roaming calls and outbound roaming calls. Inbound roaming calls are made on our network by subscribers of other mobile communications operators, typically operators that are located outside of Hong Kong. Outbound roaming calls are made by our subscribers on the network of other mobile communications operators, typically made while our subscribers are outside of Hong Kong.

Pre-paid Services

Revenues derived from our pre-paid services constituted 5.0 per cent., 4.1 per cent. and 6.6 per cent. of our turnover in 2001, 2002 and 2003, respectively. Our pre-paid revenues are comprised of revenues generated by the sales of our “starter packs” and “refill cards”. Pre-paid subscribers connect to our network by purchasing and activating our starter packs, comprising a SIM card that contains a new mobile telephone number and a fixed amount of credits. A pre-paid subscriber may increase the credits associated with a SIM card by purchasing and activating our refill cards.

Our pre-paid subscribers may apply the outstanding credits on their pre-paid SIM cards on local, IDD or roaming calls, as well as on certain fee based value-added services and mobile data services.

Unused credits on a SIM card have a validity period of 180 days after the activation of the SIM card or the most recent refill. A pre-paid SIM card and the associated mobile number is cancelled 30 days after the end of the validity period.

Post-paid Data Services

Subscribers to our post-paid voice services are eligible to receive access to our post-paid data services on either an automatic or a subscription basis. We consider data services an important component of our service offerings and a potential growth area, although revenues generated by our data services only constituted 3.2 per cent. and 4.5 per cent. of our turnover in 2002 and in 2003, respectively. Such revenues are principally comprised of revenues derived from our SMS services and infotainment services. SMS services enable our subscribers to send and receive short text messages to other mobile telephone users on our network or on the networks of other operators. Revenues from SMS services were initially generated by charges for the short messages sent to both the intra-network and inter-network recipients. Since June 2003,

FINANCIAL INFORMATION

we have started to provide intra-network SMS services free of charge to our post-paid service subscribers. Revenues for infotainment services are principally generated by charges for downloading ringtones, pictures or chat services by our post-paid subscribers.

Composition and Quality of Our Subscriber Base

Our airtime and service charges are driven by the size, composition and quality of our subscriber base, which we measure by number of subscribers, average revenue per user (“ARPU”), average minutes of usage per post-paid subscriber (“MOU”), and average monthly churn rate of post-paid subscribers.

The following table sets forth the selected operating data relating to our subscriber base:

	As at and for the year ended		
	31 December		
	2001	2002	2003
Number of subscribers:			
Post-paid ¹	496,017	588,299	618,744
Pre-paid ²	146,964	216,479	430,203
Average monthly ARPU:			
Post-paid before rebate	HK\$265.6	HK\$235.9	HK\$226.0
Post-paid after rebate	HK\$156.7	HK\$177.8	HK\$171.2
Pre-paid	HK\$37.6	HK\$28.5	HK\$27.9
Average monthly MOU per active subscriber:			
Post-paid	372.6	494.5	591.1
Total number of usage minutes (<i>in millions</i>):			
Post-paid	1,804	3,303	4,299
Average monthly churn rate (<i>expressed as a percentage</i>):			
Post-paid	5.0	3.7	3.8

1. The number of our post-paid subscribers is computed by subtracting the cumulative number of disconnected and terminated post-paid SIM cards from the cumulative number of our post-paid SIM cards sold.

2. The number of our pre-paid subscribers is computed by subtracting the cumulative number of disconnected and terminated pre-paid SIM cards from the cumulative number of our pre-paid SIM cards sold.

FINANCIAL INFORMATION

Recent post-paid voice performance

The following table sets forth selected monthly operating data relating to our postpaid subscriber base for the twelve months of 2003 and the first two months of 2004:

	January	February	March	April	As at and for the month ended 2003							As at and for the month ended 2004		
					May	June	July	August	September	October	November	December	January	February
Number of Post-paid Subscribers	595,879	599,569	601,757	601,561	602,030	602,693	606,044	610,568	612,405	614,348	616,379	618,744	622,168	626,477
Post-paid ARPU after rebate (HK\$)	184.4	180.8	174.7	176.9	169.9	172.1	168.7	168.6	164.8	166.0	162.6	158.5	160.8	160.0
MOU per active post-paid subscriber	544.0	482.9	568.6	533.2	569.8	565.3	614.1	634.6	636.4	662.6	625.3	656.0	643.6	635.0

We had a total of 626,477 post-paid subscribers and 420,942 pre-paid subscribers as of 29 February 2004.

ARPU

We compute the average post-paid ARPU for each month by dividing the revenues generated by our post-paid voice and data services for the month in question by the average of the number of post-paid subscribers at the beginning and the end of the month concerned. We compute the average monthly post-paid ARPU for a year by dividing the revenue generated by our post-paid voice and data services for the year in question by 12 and then dividing this result by the average of our post-paid subscriber bases at the beginning and the end of the year concerned. The after rebate ARPU for our post-paid services decreased by 3.7 per cent. to HK\$171.2 in 2003 compared to HK\$177.8 in 2002 and the before rebate ARPU also decreased by 4.2 per cent. to HK\$226.0 in 2003 compared to HK\$235.9 in 2002, notwithstanding a 19.5 per cent. increase in the MOU, primarily due to a reduction in our average tariffs as a result of a “price war” in the mobile communications industry in Hong Kong and a reduction in the roaming revenues during the SARS epidemic outbreak. The after rebate ARPU for our post-paid services increased by 13.5 per cent. from HK\$156.7 in 2001 to HK\$177.8 in 2002, while the before rebate ARPU for our post-paid services decreased by 11.2 per cent. from HK\$265.6 in 2001 to HK\$235.9 in 2002. The increase in our after rebate ARPU and the decrease in our before rebate ARPU for our post-paid services in 2002 were primarily due to a reduction in the rebates for our handset sales, which were provided to our post-paid subscribers as deductions to their monthly airtime charges, and the discontinuance of the free extra airtime offer.

We compute the average pre-paid ARPU for each month by dividing the pre-paid revenues generated during the month in question by the average of the number of pre-paid subscribers at the beginning and the end of the month concerned. We compute the average monthly pre-paid ARPU for a year by dividing the revenue generated by our pre-paid voice and data services for the year in question by 12 and then dividing this result by the average of our post-paid subscriber bases at the beginning and the end of the year concerned. The ARPU for our pre-paid services decreased by 2.1 per cent. from HK\$28.5 in 2002 to HK\$27.9 in 2003. The ARPU for our pre-paid services decreased by 24.2 per cent. from HK\$37.6 in 2001 to HK\$28.5 in 2002. The decrease in the ARPU for our pre-paid services in 2002 was primarily due to reductions in the average price of starter packs and the average number of refill cards purchased by each pre-paid subscriber. The reduction in the average number of refill cards purchased by each subscriber was primarily a result of more credits included in each refill card sold at face value.

MOU

We compute average post-paid MOU for each month by dividing the total airtime used by our post-paid service subscribers for the month in question by the average of the number of post-paid subscribers at the beginning and the end of the month concerned. We compute the average monthly post-paid MOU for a

year by dividing the aggregate of our MOUs for each month in the year concerned by 12. The MOU for our post-paid services increased by 19.5 per cent. from 494.5 in 2002 to 591.1 in 2003. The MOU for our post-paid services increased by 32.7 per cent. from 372.6 in 2001 to 494.5 in 2002. The year-to-year sequential growth in the MOU of our post-paid services was primarily a result of decreasing tariffs and the addition of data services.

Average Monthly Churn Rate

Average monthly churn rate is calculated by dividing the sum of the monthly churn rate of the 12 months in the year by 12, whereas the monthly churn rate is calculated by dividing net churn for the month in question by the sum of net churn and ending post-paid subscriber base for that month. We determine our net churn for the month in question by subtracting the total number of subscriber re-connections from the total number of subscriber disconnections during such month on a post-paid basis.

A subscriber that voluntarily disconnects from our post-paid services becomes a churner on the date of disconnection. Additionally, a post-paid service subscriber that is delinquent on their payment is deemed to become a churner on the 87th day of non-payment following the date of invoice. The average monthly churn rate for our post-paid services decreased from 5.0 per cent. in 2001 to 3.7 per cent. in 2002, primarily due to an industry-wide increase in the cost to subscribers associated with churning between mobile operators. This elevated switching cost was subsequently removed in early 2003, but our churn rate for post-paid services stayed relatively stable at 3.8 per cent. in 2003 compared to 3.7 per cent. in 2002, despite intensifying price competition amongst mobile operators during those periods as further described in the section headed “Business — Competition” in this prospectus.

Sales of Handsets and Accessories

Sales of handset and accessories are an integral part of our business and it is also essential to the sales of our post-paid and pre-paid services. Revenues generated by the sales of our handsets and accessories comprised approximately 21.5 per cent., 19.2 per cent. and 18.1 per cent. of our turnover in 2001, 2002 and 2003, respectively.

Cost of Goods Sold and Services Provided

The principal components of our cost of goods sold and services provided are interconnection costs and the cost of handsets and accessories. Interconnection costs accounted for approximately 39.9 per cent., 39.9 per cent. and 40.7 per cent. of our cost of goods sold and services provided in 2001, 2002 and 2003, respectively. Cost of handsets and accessories accounted for approximately 60.1 per cent., 60.1 per cent. and 59.3 per cent. of our cost of goods sold and services provided in 2001, 2002 and 2003, respectively.

Interconnection costs are principally comprised of (i) local interconnection costs; (ii) outbound roaming call charges; (iii) international interconnection costs; (iv) inter-operator SMS fees; and (v) infotainment service charges.

Local interconnection costs and outbound roaming call charges jointly constituted more than 70 per cent. of our total interconnection costs in 2001, 2002 and 2003. Local interconnection costs are the charges paid by us to other operators for the interconnection of calls from our network to the networks of fixed-line operators, primarily PCCW, the dominant fixed-line services provider in Hong Kong. Outbound roaming charges consist of the charges paid by us to the roaming providers for our outbound roaming traffic. In general, the interconnection costs are a function of the volume of traffic on our network.

Operating Expenses

The principal components of operating expenses are (i) network maintenance costs, (ii) depreciation and amortisation, (iii) sales and marketing costs, (iv) salary, wages and other benefits, (v) administrative expenses and (vi) allowances for bad and doubtful debts. Network maintenance costs, depreciation and amortisation, sales and marketing costs, salary, wages and other benefits and allowances for bad and doubtful debts accounted for more than 84 per cent. of our operating expenses in 2001, 2002 and 2003.

Network maintenance costs comprised approximately 31.9 per cent., 32.1 per cent. and 30.7 per cent. of our operating expenses in 2001, 2002 and 2003, respectively. Such expenses primarily consist of the rental payments paid by us in connection with the leasing of our base station sites and the leased E1 lines. As at the end of 2001, 2002 and 2003, we had 719, 809 and 971 base stations, respectively.

Depreciation and amortisation comprised approximately 21.7 per cent., 22.8 per cent. and 23.9 per cent. of our operating expenses in 2001, 2002 and 2003, respectively. Such expenses primarily consist of the depreciation of our network equipment.

Sales and marketing costs comprised approximately 13.7 per cent., 11.5 per cent. and 11.0 per cent. of our operating expenses in 2001, 2002 and 2003. Such expenses primarily consist of the commissions or royalties paid to our dealers, including Telepaging.

Salary, wages and other benefits comprised approximately 19.4 per cent., 18.6 per cent. and 18.8 per cent. of our operating expenses in 2001, 2002 and 2003, respectively. Such expenses primarily consist of the salaries and wages, allowances and contributions to employees retirement fund scheme.

Provision for bad and doubtful debts comprised approximately 2.5 per cent., 3.5 per cent. and 3.9 per cent. of our operating expenses in 2001, 2002 and 2003, respectively. The provision for bad and doubtful debts amounted to HK\$17.2 million, HK\$25.5 million and HK\$30.9 million (US\$4.0 million) in 2001, 2002 and 2003, respectively.

Significant Accounting Policies

Revenue Recognition

We recognise post-paid service revenues upon the issuance of invoices to our post-paid subscribers, except that we recognise certain fees and amounts paid by our post-paid service subscribers for connection to our network (including the upfront payments and SIM connection fees) upon payment. While the monthly fees and certain other fees are invoiced in advance, the charges for extra airtime, roaming, IDD calls, SMS usages, infotainment usages and certain other services are invoiced in arrears.

We recognise pre-paid revenues upon sales of starter packs or refill cards.

We recognise revenues for sales of handsets and accessories upon the occurrence of sales.

Fixed Assets and Depreciation

We state our fixed assets, including our network assets (together with the costs and expenses associated with the construction and installation of the network assets) in the balance sheet at cost less accumulated depreciation and impairment losses. Subsequent expenditures relating to the fixed assets that have already been recognised are added to the carrying amount of the assets when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing assets, will flow to the company. All other subsequent expenditures are recognised as expenses in the period in which

FINANCIAL INFORMATION

they are incurred. Gains or losses arising from the retirement or disposal of the fixed assets are determined as the difference between the estimated net disposal proceeds and the carrying amount of the assets and are recognised in the income statement on the date of such retirement or disposal.

We provide for depreciation and amortisation to write off the cost of fixed assets on a straight-line basis over their estimated useful lives, commencing from the date of commercial launch of services. We have determined that the estimated useful life for our network equipment is 5 to 10 years, which we believe to be appropriate. Leasehold land is amortised on a straight-line basis over the terms of the leases. Buildings are depreciated on a straight-line basis at rates calculated to write off costs of the buildings over their estimated useful lives of 40 years or the remaining lease periods of the land on which they are situated, whichever is shorter.

Bad and Doubtful Debts

We make provisions for payment failures by our post-paid subscribers by charging an allowance for bad and doubtful debts as an operating expense. For each month, we recognise an allowance in the amount of 2.5 per cent. of the invoiced revenues. Depending on the business environment and subject to approval by our Chief Financial Officer, the percentage of allowance we charge for bad and doubtful debts are subject to change from time to time. We conduct quarterly reviews of the bad and doubtful debts allowances to assess the adequacy of the provisions and make adjustments to the provisions accordingly.

Provisions for bad and doubtful debt and a corresponding amount in the billing receivables account may be written off, subject to approval by both our Chief Executive Officer and our Chief Financial Officer, when a delinquent subscriber has been disconnected from our post-paid services for a period of nine months. According to our disconnection policy, a subscriber who fails to pay our bill will be disconnected from our services immediately after the subscriber's bill has not been paid for 57 days from the date of invoice. During this period, we use a range of methods in an attempt to recover the overdue amount.

Deferred Taxation

Deferred tax assets and liabilities arise from deductible and taxable temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax bases, respectively. Deferred tax assets also arise from unused tax losses and unused tax credits.

All deferred tax liabilities and deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided that those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The amount of deferred tax provided is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

FINANCIAL INFORMATION

Results of Operations

The following table sets forth our results of operations and as a percentage of our turnover for 2001, 2002 and 2003.

	2001		For the year ended 31 December				2003	
	HK\$'000	%	HK\$'000	%	HK\$'000	US\$'000	%	
Airtime and service charges								
Pre-paid services	52,860	5%	62,050	4%	108,285	13,910	7%	
Post-paid voice services	766,312	73%	1,106,266	74%	1,162,828	149,377	71%	
Post-paid data services	5,089	0%	48,538	3%	73,743	9,473	4%	
Sales of handsets and accessories	<u>225,962</u>	<u>22%</u>	<u>288,301</u>	<u>19%</u>	<u>297,445</u>	<u>38,210</u>	<u>18%</u>	
Total turnover	1,050,223	100%	1,505,155	100%	1,642,301	210,970	100%	
Interconnection costs	(135,792)	(13%)	(175,533)	(11%)	(186,568)	(23,967)	(11%)	
Cost of handsets and accessories	<u>(204,787)</u>	<u>(19%)</u>	<u>(263,883)</u>	<u>(18%)</u>	<u>(271,517)</u>	<u>(34,879)</u>	<u>(17%)</u>	
Total cost of goods sold and services provided	<u>(340,579)</u>	<u>(32%)</u>	<u>(439,416)</u>	<u>(29%)</u>	<u>(458,085)</u>	<u>(58,846)</u>	<u>(28%)</u>	
Gross profit	709,644	68%	1,065,739	71%	1,184,216	152,124	72%	
Network maintenance costs	(220,725)	(21%)	(233,525)	(16%)	(245,066)	(31,481)	(15%)	
Sales and marketing costs	(94,732)	(9%)	(83,740)	(5%)	(87,910)	(11,293)	(5%)	
Administrative expenses	(53,261)	(5%)	(53,213)	(3%)	(51,290)	(6,589)	(3%)	
Other operating expenses	(38,256)	(4%)	(56,429)	(4%)	(73,594)	(9,454)	(4%)	
Depreciation and amortisation	(150,042)	(14%)	(166,284)	(11%)	(190,508)	(24,473)	(12%)	
Salary, wages and other benefits	<u>(134,122)</u>	<u>(13%)</u>	<u>(135,165)</u>	<u>(9%)</u>	<u>(149,952)</u>	<u>(19,263)</u>	<u>(9%)</u>	
Total operating expenses	<u>(691,138)</u>	<u>(66%)</u>	<u>(728,356)</u>	<u>(48%)</u>	<u>(798,320)</u>	<u>(102,553)</u>	<u>(48%)</u>	
Operating profit/(loss) before other revenue and net income	18,506	2%	337,383	23%	385,896	49,571	24%	
Bank interest income	1,007	—	613	—	882	113	—	
Commission income	305	—	137	—	136	17	—	
Sundry income	252	—	1,514	—	2,885	371	—	
Exchange gain	<u>182</u>	<u>—</u>	<u>165</u>	<u>—</u>	<u>705</u>	<u>91</u>	<u>—</u>	
Other revenue and net income	<u>1,746</u>	<u>—</u>	<u>2,429</u>	<u>—</u>	<u>4,608</u>	<u>592</u>	<u>—</u>	
Operating profit/(loss) after other revenue and net income	20,252	2%	339,812	23%	390,504	50,163	24%	
Interest on bank and other loans repayable	(28,644)	(3%)	(14,043)	(1%)	(2,248)	(289)	—	
Interest on shareholders' loan	(75,949)	(7%)	(58,619)	(4%)	(47,807)	(6,141)	(3%)	
Dividend on Preference Shares	(7,706)	(1%)	(7,706)	(1%)	(7,706)	(990)	—	
Redemption premium on Preference Shares	(7,706)	—	(7,706)	—	(7,706)	(990)	—	
Less: Borrowing costs capitalised	<u>1,062</u>	<u>—</u>	<u>853</u>	<u>—</u>	<u>951</u>	<u>122</u>	<u>—</u>	
Total finance costs	<u>(118,943)</u>	<u>(11%)</u>	<u>(87,221)</u>	<u>(6%)</u>	<u>(64,516)</u>	<u>(8,288)</u>	<u>(4%)</u>	
(Loss)/profit before taxation	<u>(98,691)</u>	<u>(9%)</u>	<u>252,591</u>	<u>17%</u>	<u>325,988</u>	<u>41,875</u>	<u>20%</u>	
Income taxation	<u>—</u>	<u>—</u>	<u>91,955</u>	<u>6%</u>	<u>(55,912)</u>	<u>(7,182)</u>	<u>(3%)</u>	
Net (loss)/profit	<u>(98,691)</u>	<u>(9%)</u>	<u>344,546</u>	<u>23%</u>	<u>270,076</u>	<u>34,693</u>	<u>16%</u>	

FINANCIAL INFORMATION

Year Ended 31 December 2003 Compared to Year Ended 31 December 2002

Turnover

Our turnover increased by 9.1 per cent. from HK\$1,505.2 million in 2002 to HK\$1,642.3 million (US\$211.0 million) in 2003. The increase in our turnover was primarily due to a 10.5 per cent. increase in the airtime and service charges from HK\$1,216.9 million in 2002 to HK\$1,344.9 million (US\$172.8 million) in 2003. The increase in the airtime and service charges was primarily a result of a 5.1 per cent. increase in the post-paid voice service revenues from HK\$1,106.3 million in 2002 to HK\$1,162.8 million (US\$149.4 million) in 2003. The increase in the post-paid voice service revenues was primarily due to an increase in the airtime income. The increase in the airtime income was primarily a result of an increase in our average monthly subscriber base, which was partially offset by a decrease in our after rebate ARPU for our post-paid services. Our post-paid subscriber base increased from 588,299 as at the end of 2002 to 618,744 as at the end of 2003.

Our pre-paid services revenues increased by 74.5 per cent. from HK\$62.1 million in 2002 to HK\$108.3 million (US\$13.9 million) in 2003. The increase in pre-paid service revenues was primarily due to an increase in the refill revenues. The increase of refill revenue was primarily due to an increase in the number of refill cards sold as a result of a 98.7 per cent. increase in the subscriber base for our pre-paid services from 216,479 pre-paid subscribers as at the end of 2002 to 430,203 pre-paid subscribers as at the end of 2003.

Revenues generated by our post-paid data services increased by 51.9 per cent. from HK\$48.5 million in 2002 to HK\$73.7 million (US\$9.5 million in 2003). The increase in the post-paid data revenues was primarily a result of an increase in SMS volumes, partially offset by a decrease in the per SMS charges.

Our sales of handsets and accessories increased by 3.2 per cent. from HK\$288.3 million in 2002 to HK\$297.4 million (US\$38.2 million) in 2003. The increase in sales of handsets and accessories was primarily a result of an increase in the number of handsets sold, which was partially offset by a reduction in the average price of handsets sold.

Cost of Goods Sold and Services Provided

Our cost of goods sold and services provided increased by 4.2 per cent. from HK\$439.4 million in 2002 to HK\$458.1 million (US\$58.8 million) in 2003. This increase in cost of goods sold and services provided was primarily due to an increase in interconnection costs and an increase in the cost of handsets and accessories.

The interconnection costs increased by 6.3 per cent. from HK\$175.5 million in 2002 to HK\$186.6 million (US\$24.0 million) in 2003. The increase in interconnection costs was primarily a result of an increase in the traffic for interconnections with local and international fixed-line service providers and the traffic for our outbound roaming calls, which was partially offset by a decrease in the unit charges for interconnections and outbound roaming calls.

The cost of handsets and accessories increased by 2.9 per cent. from HK\$263.9 million in 2002 to HK\$271.5 million (US\$34.9 million) in 2003. The increase in the cost of handsets and accessories was primarily due to an increase in the number of handsets sold in 2003 compared to 2002. The gross margin for the sales of handsets and accessories increased from 8.5 per cent. in 2002 to 8.7 per cent. in 2003.

FINANCIAL INFORMATION

Gross Profit and Gross Margin

Gross profit increased by 11.1 per cent. from HK\$1,065.7 million in 2002 to HK\$1,184.2 million (US\$152.1 million) in 2003. Gross margin improved to 72.1 per cent. in 2003 compared to 70.8 per cent. in 2002.

Operating Expenses

Our operating expenses increased by 9.6 per cent. from HK\$728.4 million in 2002 to HK\$798.3 million (US\$102.5 million) in 2003.

Our network maintenance costs increased by 4.9 per cent. from HK\$233.5 million in 2002 to HK\$245.1 million (US\$31.5 million) in 2003. The increase in the network maintenance costs was primarily a result of the increased rental payments in connection with the addition of 162 new base stations in 2003.

Our sales and marketing costs increased by 5.0 per cent. from HK\$83.7 million in 2002 to HK\$87.9 million (US\$11.3 million) in 2003. The largest contributor to the increase in the sales and marketing costs was a 6.3 per cent. increase in the commission expenses from HK\$42.1 million in 2002 to HK\$44.7 million (US\$5.7 million) in 2003, primarily due to an increase in prepaid sales.

Our administrative expenses decreased by 3.6 per cent. from HK\$53.2 million in 2002 to HK\$51.3 million (US\$6.6 million) in 2003.

Our other operating expenses increased by 30.4 per cent. from HK\$56.4 million in 2002 to HK\$73.6 million (US\$9.5 million) in 2003. The increase in the other operating expenses was primarily due to an increase in our bad and doubtful debt allowance and the OFTA licence fees. Our bad and doubtful debt allowance increased by 21.1 per cent. from HK\$25.5 million in 2002 to HK\$30.9 million (US\$4.0 million) in 2003, primarily as a result of the increased post-paid revenues. Our OFTA licence fees increased by 33.7 per cent. from HK\$14.2 million in 2002 to HK\$19.0 million (US\$2.4 million) in 2003, primarily a result of our increased post-paid and pre-paid subscriber base.

Our depreciation and amortisation expenses increased by 14.6 per cent. from HK\$166.3 million in 2002 to HK\$190.5 million (US\$24.5 million) in 2003, which was primarily a result of equipment acquisition in connection with the addition of new base stations in 2003.

Our salary, wages and other benefits increased by 10.9 per cent. from HK\$135.2 million in 2002 to HK\$150.0 million (US\$19.3 million) in 2003. The increase in our salary, wages and other benefits was primarily due to an increase in the number of part-time workers from 75 as at the end of 2002 to 84 as at the end of 2003, and also an increase in the number of our permanent workers from 579 as at the end of 2002 to 607 as at the end of 2003.

Other Revenue and Net Income

Our other revenue and net income, comprising bank interest income, commission income, sundry income and exchange gain, increased 89.7 per cent. from HK\$2.4 million in 2002 to HK\$4.6 million (US\$0.6 million) in 2003.

FINANCIAL INFORMATION

Operating Profit After Other Revenue and Net Income

As a result of the factors discussed above, our profit from operations after other revenue and net income increased by 14.9 per cent. from HK\$339.8 million in 2002 to HK\$390.5 million (US\$50.2 million) in 2003.

EBITDA

Our earnings before interest expenses, taxation, depreciation and amortisation expenses increased by 14.8 per cent. from HK\$506.1 million in 2002 to HK\$581.0 million (US\$74.6 million) in 2003, primarily due to an 11.1 per cent. increase in our gross profit.

Finance Costs

Our finance costs decreased by 26.0 per cent. from HK\$87.2 million in 2002 to HK\$64.5 million (US\$8.3 million) in 2003. The interest on bank and other loans repayable decreased by 84.0 per cent. from HK\$14.0 million in 2002 to HK\$2.2 million (US\$0.3 million) in 2003. The interest on shareholders' loans decreased by 18.4 per cent. from HK\$58.6 million in 2002 to HK\$47.8 million (US\$6.1 million) in 2003. Dividend accrued and redemption premium on the Preference Shares amounted to HK\$7.7 million each (US\$1.0 million) in each of 2002 and 2003. The decrease in interest expenses was primarily due to the repayment of shareholders' loans and vendor financing loan in 2003.

Taxation

We paid no Hong Kong profits tax in 2002 and 2003 as the accumulated tax losses brought forward from previous years exceeded the estimated assessable profits for the year.

The net deferred tax credit/(charge) in respect of the benefits from previously unrecognised tax losses after taking into account of the deferred tax liabilities arising from deductible and taxable temporary differences recognised in the income statement amounted to HK\$92.0 million in 2002 and HK\$(55.9 million) (US\$(7.2 million)) in 2003.

Net profit

As a result of the factors described above, our net profit decreased by 21.6 per cent. from HK\$344.5 million in 2002 to a net profit of HK\$270.1 million (US\$34.7 million) in 2003.

Year Ended 31 December 2002 Compared to Year Ended 31 December 2001

Turnover

Our turnover increased by 43.3 per cent. from HK\$1,050.2 million in 2001 to HK\$1,505.2 million in 2002. The increase in our turnover was primarily due to a 47.6 per cent. increase in the airtime and service charges from HK\$824.3 million in 2001 to HK\$1,216.9 million in 2002. The increase in the airtime and service charges was primarily a result of a 44.4 per cent. increase in the post-paid voice service revenues from HK\$766.3 million in 2001 to HK\$1,106.3 million in 2002.

FINANCIAL INFORMATION

The increase in the post-paid voice service revenues was primarily due to an increase in the airtime income and a decrease in the rebates for local airtime. The increase in the airtime income was primarily a result of a 18.6 per cent. increase in the subscriber base for our post-paid voice services from 496,017 post-paid subscribers as at the end of 2001 to 588,299 post-paid subscribers as at the end of 2002. Decrease in rebates for local airtime was primarily a result of reduction in the handset sales rebate.

Our pre-paid revenues increased by 17.4 per cent. from HK\$52.9 million in 2001 to HK\$62.1 million in 2002. The increase in pre-paid service revenues was primarily due to an increase in the refill revenues. The increase in refill revenues was primarily due to an increase in the number of refill cards sold as a result of a 47.3 per cent. increase in the subscriber base for our pre-paid services from 146,964 pre-paid subscribers as at the end of 2001 to 216,479 pre-paid subscribers as at the end of 2002.

Our total post-paid data revenues were HK\$5.1 million for the year ended 31 December 2001 and HK\$48.5 million in 2002.

Our sales of handsets and accessories increased by 27.6 per cent. from HK\$226.0 million in 2001 to HK\$288.3 million in 2002. The increase in sales of handsets and accessories was primarily a result of an increase in the number of handsets sold, which was partially offset by a reduction in the average price of handsets sold.

Cost of Goods Sold and Services Provided

Our cost of goods sold and services provided increased by 29.0 per cent. from HK\$340.6 million in 2001 to HK\$439.4 million in 2002. This increase in cost of goods sold and services provided was primarily due to an increase in interconnection costs and an increase in the cost of handsets and accessories.

The interconnection costs increased by 29.3 per cent. from HK\$135.8 million in 2001 to HK\$175.5 million in 2002. The increase in interconnection costs was primarily a result of an increase in the traffic for interconnections with local and international fixed-line service providers and the traffic of our outbound roaming calls, which was partially offset by a decrease in the unit charges for interconnections and outbound roaming calls.

The cost of handsets and accessories increased by 28.9 per cent. from HK\$204.8 million in 2001 to HK\$263.9 million in 2002. The increase in the cost of handsets and accessories was primarily due to an increase in the number of handsets sold in 2002 compared to 2001. The gross margin for the sales of handsets and accessories decreased from 9.4 per cent. in 2001 to 8.5 per cent. in 2002.

Gross Profit and Gross Margin

Gross profit increased by 50.2 per cent. from HK\$709.6 million in 2001 to HK\$1,065.7 million in 2002. Gross margin improved to 70.8 per cent. in 2002 compared to 67.6 per cent. in 2001.

Operating Expenses

Our operating expenses increased by 5.4 per cent. from HK\$691.1 million in 2001 to HK\$728.4 million in 2002.

Our network maintenance costs increased by 5.8 per cent. from HK\$220.7 million in 2001 to HK\$233.5 million in 2002. The increase in the network maintenance expenses was primarily a result of the increased rental payments in connection with the addition of 90 new base stations in 2002.

FINANCIAL INFORMATION

Our sales and marketing costs decreased by 11.6 per cent. from HK\$94.7 million in 2001 to HK\$83.7 million in 2002. The largest contributor to the reduction in the sales and marketing expenses was a 61.3 per cent. decrease in the media cost from HK\$9.7 million in 2001 to HK\$3.7 million in 2002.

Our administrative expenses remained relatively unchanged at HK\$53.3 million in 2001 and HK\$53.2 million in 2002.

Our other operating expenses increased by 47.5 per cent. from HK\$38.3 million in 2001 to HK\$56.4 million in 2002. The increase was mainly due to a 48.6 per cent. increase in our allowance for bad and doubtful debts from HK\$17.2 million in 2001 to HK\$25.5 million in 2002 due to increased post-paid revenues and a 50.0 per cent. increase in the OFTA licence fees from HK\$9.5 million in 2001 to HK\$14.2 million in 2002 primarily a result of our increased post-paid subscriber base and the newly imposed licence fees on pre-paid services, which were declared effective by OFTA in September 2002.

Our depreciation and amortisation expenses increased by 10.8 per cent. from HK\$150.0 million in 2001 to HK\$166.3 million in 2002, which was primarily a result of equipment acquisition in connection with the addition of new base stations in 2002.

Our salary, wages and other benefits increased by 0.8 per cent. from HK\$134.1 million in 2001 to HK\$135.2 million in 2002. The increase in our salary, wages and other benefits was primarily due to annual salary increment and the introduction of the special performance bonuses for outperforming staff.

Other Revenue and Net Income

Our other revenue and net income, comprising bank interest income, commission income, sundry income and exchange gain, increased by 39.1 per cent. from HK\$1.7 million in 2001 to HK\$2.4 million in 2002.

Operating Profit After Other Revenue and Net Income

As a result of the factors discussed above, our profit from operations after other revenue and net income increased 1,577.9 per cent. from HK\$20.3 million in 2001 to HK\$339.8 million in 2002.

EBITDA

Our earnings before interest expenses, taxation, depreciation and amortisation expenses increased by 197.2 per cent. from HK\$170.3 million in 2001 to HK\$506.1 million in 2002, primarily due to a 50.2 per cent. increase in our gross profit.

Finance Costs

Our finance costs decreased by 26.7 per cent. from HK\$118.9 million in 2001 to HK\$87.2 million in 2002. The interest on bank and other loans repayable decreased by 51.0 per cent. from HK\$28.6 million in 2001 to HK\$14.0 million in 2002. The interest on shareholders' loans decreased by 22.8 per cent. from HK\$75.9 million in 2001 to HK\$58.6 million in 2002. The decrease in interest expenses was primarily due to the decrease in interest rate of bank loans and shareholders' loans in 2002.

Taxation

We paid no Hong Kong profits tax 2002 as the losses brought forward from previous years exceeded the estimated assessable profits for the year. We had no taxable profits in 2001.

FINANCIAL INFORMATION

The Company recognised net deferred tax assets in respect of benefit from previously unrecognised tax losses after taking into account of the deferred tax liabilities arising from deductible and temporary timing differences of HK\$92.0 million in 2002. The Company has tax losses available to carry forward at 31 December 2002 which will be available to set off against future available profits.

Net profit

As a result of the factors described above, we had a net loss of HK\$98.7 million in 2001 and a net profit of HK\$344.5 million in 2002.

Practice Note 19 to the Listing Rules

The Directors have confirmed that as at the Latest Practicable Date, they are not aware of any circumstances which would give rise to a disclosure requirement under Practice Note 19 to the Listing Rules.

On 10 March 2004, we entered into a HK\$300.0 million facility in order to partially fund the repayment of our shareholders' loans and accrued interest thereon. An event of default under the HK\$300.0 million facility will be triggered if, among other things, China Resources ceases either (a) to be our single largest shareholder or (b) to hold 30.0 per cent. or more of our Shares. For further details, please refer to the section headed "Financial Information — Indebtedness" in this prospectus.

Directors' confirmation on no material adverse change

The Directors confirm that there has been no material adverse change in the financial or trading positions or prospects of the Company since 31 December 2003, the date on which latest audited financial statements of the Company were made up.

Our Directors confirm that they have performed sufficient due diligence on our Company to ensure that, up to the date of this prospectus, there has been no material adverse change in our financial or trading position or prospects since 31 December 2003, the date on which the latest audited financial statements of the Company were made up, and there is no event since 31 December 2003 which would materially affect the information shown in the Accountants' Report, the text of which is set out in Appendix I to this prospectus.

FINANCIAL INFORMATION

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

The following table summarises our cash flows for the period indicated:

	Year ended 31 December			
	2001	2002	2003	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>US\$'000</i>
Net cash from operating activities	188,760	523,333	528,339	67,871
Net cash used in investing activities	(236,188)	(217,241)	(206,444)	(26,520)
Net cash from/(used in) financing activities	<u>19,352</u>	<u>(207,139)</u>	<u>(400,583)</u>	<u>(51,459)</u>
Net (decrease)/increase in cash and cash equivalents	(28,076)	98,953	(78,688)	(10,108)
Cash and cash equivalents at 1 January	<u>53,932</u>	<u>25,856</u>	<u>124,809</u>	<u>16,033</u>
Cash and cash equivalents at 31 December ¹	<u><u>25,856</u></u>	<u><u>124,809</u></u>	<u><u>46,121</u></u>	<u><u>5,925</u></u>

1 In addition to the cash and cash equivalents set forth in the table above, we also have HK\$2.6 million, HK\$2.6 million and HK\$70.9 million (US\$9.1 million) cash in secured deposits as at 31 December 2001, 2002 and 2003, respectively.

Our primary sources of liquidity have been capital contributions from our shareholders, proceeds of borrowings from our shareholders, vendors or banks, and cash flow from operations, which represents net income adjusted for changes in working capitals and non-cash items, primarily depreciation and amortisation.

We had positive operating cash flow in each of 2001, 2002 and 2003. The 1.0 per cent. increase in net cash from operating activities in 2003 compared to 2002 was primarily due to a 29.1 per cent. increase in profit before taxation before adjustment for interest income/expenses, non-cash items and changes in working capital from HK\$252.6 million in 2002 to HK\$326.0 million (US\$41.9 million) in 2003, which was offset by a negative adjustment for a HK\$68.3 million (US\$8.8 million) increase in secured deposits in 2003. The 177.2 per cent. increase in net cash provided by operating activities in 2002 compared to 2001 was primarily due to an improvement in profit before taxation before adjustment for interest income/expenses, non-cash items and changes in working capital from a net loss of HK\$98.7 million in 2001 to a net profit of HK\$252.6 million in 2002, which was partially offset by a HK\$22.9 million increase in the amounts due from shareholders in 2002, compared to a HK\$4.3 million decrease in the amounts due from shareholders in 2001.

Cash used in investing activities has been used primarily to make capital expenditure purchases for the expansion of our communications network and purchase of IT systems, non-network equipment and improvements to leasehold premises. The 5.0 per cent. decrease in net cash used in investing activities in 2003 compared to 2002 was primarily due to a 41.8 per cent. decrease in payment for purchase of fixed assets from HK\$130.1 million in 2002 to HK\$75.7 million (US\$9.7 million) in 2003 and a 66.9 per cent. increase in payment for purchase of construction in progress from HK\$73.4 million in 2002 to HK\$122.5 million (US\$15.7 million) in 2003. The 8.0 per cent. decrease in net cash used in investing activities in 2002 compared to 2001 was primarily due to a 20.5 per cent. decrease in payment for purchase of fixed assets from HK\$163.6 million in 2001 to HK\$130.1 million in 2002, which was partially offset by an increase in payment for purchase of intangible assets from HK\$3.0 million in 2001 to HK\$14.0 million in 2002.

FINANCIAL INFORMATION

The 93.4 per cent. increase in net cash used in financing activities in 2003 compared to 2002 was primarily due to a 72.5 per cent. increase in repayment of vendor financing loan, shareholders' loan and other interest-bearing borrowings from HK\$240.2 million in 2002 to HK\$414.4 million (US\$53.2 million) in 2003, which was partially offset by proceeds from a HK\$21.0 million draw down of a letter of credit facility. The HK\$226.5 million change from a net cash from financing activities in 2001 to a net cash used in financing activities in 2002 was primarily due to a 69.9 per cent. decrease in proceeds from other loans from HK\$160.2 million in 2001 to HK\$48.2 million in 2002 and a 112.1 per cent. increase in repayment of bank and other interest-bearing borrowings from HK\$113.3 million in 2001 to HK\$240.2 million in 2002.

Our principal sources of cash provided by financing activities were borrowings from shareholders, vendors, banks and other sources, as well as capital contributions from our shareholders. Prior to the Relevant Period, we had borrowed HK\$824.9 million from our shareholders. Two repayments of principal in respect of the shareholder loans in the amount of HK\$100.0 million each were made by us in 2003. During the Relevant Period, we also arranged a HK\$20.0 million facility from Onwel Strategic Holdings Limited, a company controlled by Mr. Leung Kai Hung, Michael, of which we borrowed HK\$12.0 million in August 2001 and HK\$5 million in January 2002. We have repaid all outstanding amounts under such facility prior to the end of May 2002. During the Relevant Period, Ericsson had provided us with a vendor financing facility in the aggregate amount of US\$27.0 million in connection with the sales of its telecommunications equipment to us. We had repaid all borrowings and had no outstanding amounts under this vendor financing facility as at the end of 2003. During the Relevant Period, we had also arranged a number of bank loans or letters of credit/trust receipt facilities to satisfy our financing needs. Prior to the Relevant Period, we had arranged two bank facilities in the amount of HK\$56.0 million and US\$28.8 million, respectively, the outstanding amounts under both of which had been repaid by the end of April 2002. As at 31 December 2003, we also had a letter of credit/trust receipt facility from CITIC Ka Wah Bank in the aggregate amount of HK\$152.6 million, the outstanding principal amount under which was HK\$151.2 million on the same day. For further details of our debt financing, please see the section headed "Financial Information — Indebtedness" in this prospectus. All capital contributions from our shareholders were made prior to the Relevant Period.

Working capital, financial resources and capital structure

At 31 December 2003, the net current liabilities of the Company amounted to HK\$1,162.5 million (US\$149.3 million), compared to HK\$612.2 million as at 31 December 2002. This was primarily due to an increase in the total current liabilities from HK\$926.7 million as at 31 December 2002 to HK\$1,461.6 million (US\$187.8 million) as at 31 December 2003. The increase in the total current liabilities was primarily a result of reclassifying the outstanding shareholders' loans, in the amount of HK\$624.9 million (US\$80.3 million), from non-current liabilities to the current portion of interest-bearing borrowings as at the end of 2003 in anticipation of the repayment of such loans following the Global Offering even though the shareholders' loans are not, according to its terms, due to be repaid in the next year. Current assets of the Company comprised inventories of HK\$18.9 million (US\$2.4 million), amounts due from shareholders and fellow subsidiaries of HK\$20.9 million (US\$2.7 million), secured deposits of HK\$69.3 million (US\$8.9 million), trade and other receivables of HK\$143.9 million (US\$18.5 million) and cash and cash equivalents of HK\$46.1 million (US\$5.9 million). Our cash and cash equivalents as at the end of 2003 decreased by 63.0 per cent. from HK\$124.8 million as at the end of 2002 primarily due to the repayment of shareholders' loans in the amount of HK\$200 million in 2003. In addition to the reclassification of shareholder loans from non-current liabilities to current portion of interest-bearing borrowings, our current liabilities comprised of trade and other payables of HK\$618.6 million (US\$79.5 million), amounts due to shareholders of HK\$3.6 million (US\$0.5 million) and Preference Shares of HK\$214.5 million (US\$27.6 million).

FINANCIAL INFORMATION

The inventory turnover 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. Our inventory turnover days decreased from 6 days as at 31 December 2001 to 4 days as at 31 December 2002, primarily due to an increase in our turnover in 2002 as compared to 2001. Our inventory turnover days remained relatively stable at 4 days as at the end of 2003 as compared to 2002.

The debtors' turnover days for a year in question is calculated by dividing (i) the product of our trade receivables, net of the provision for bad and doubtful debts as at end of such year and 365 days by (ii) the turnover for such year. Our debtors' turnover days decreased from 21 days as at 31 December 2001 to 18 days as at 31 December 2002, primarily due to an increase in our turnover, partially offset by an increase in our trade receivables net of the provision for bad and doubtful debts. Our debtors' turnover days remained relatively stable at 18 days as at the end of 2003 as compared to 2002.

The creditors' turnover days for a year in question is calculated by dividing (i) the product of our trade payables as at end of such year and 365 days by (ii) the turnover for such year. Our creditor's turnover days decreased from 36 days as at 31 December 2001 to 32 days as at 31 December 2002, primarily due to the increase in our turnover, partially offset by an increase in our trade payables. Our creditor's turnover days decreased from 32 days as at 31 December 2002 to 21 days as at 31 December 2003, primarily due to a decrease in our year-end trade payables, which in turn was primarily a result of repayment of the trade payables owed to Ericsson.

The Directors are of the opinion that, taking into account the financial resources available to the Company, including internally generated funds, the estimated net proceeds from the Global Offering and the HK\$300.0 million facility to be drawn down, the Company has sufficient working capital for its present requirements.

On 3 February 2004, each of the Preference Shareholders gave an undertaking to the effect that, conditional upon the closing of the Global Offering and the Capitalisation Issue taking effect (which is expected to be immediately after the closing of the Global Offering but before the commencement of dealings in the Shares on the Stock Exchange on 31 March 2004), they will convert their respective Preference Shares into fully paid Shares. Please see the section headed "1. Further Information about the Company — C. Resolutions of the shareholders of the Company" in Appendix V to this prospectus for further details of the Capitalisation Issue and the section headed "Share Capital" of this prospectus for further details of the Conversion.

Capital expenditures

Our business requires significant capital investments. From our date of incorporation to December 2003, we made gross capital expenditure totalling HK\$2,068.5 million, of which HK\$1,754.7 million represented capital expenditure on our network.

We incurred capital expenditures (including the costs attributable to the cost of construction and installation of the network) on fixed assets, construction in progress and intangible assets in the aggregate amounts of approximately HK\$236.5 million, HK\$217.9 million and HK\$296.9 million (US\$38.1 million) in 2001, 2002 and 2003, respectively. We made these capital expenditures primarily to develop, optimise and expand our wireless network. We have historically financed our capital requirements substantially with capital contributions from our shareholders, proceeds from borrowings from our shareholders, banks and vendors, and cash flows from our operations.

FINANCIAL INFORMATION

As at the end of 2003, we had capital commitments contracted for in the amount of HK\$34.2 million (US\$4.4 million). We plan to make capital expenditures of approximately HK\$275.5 million (US\$35.4 million) in 2004, including expenditures relating to the addition of new base stations and the associated switching equipment, roll-out of our EDGE network (approximately HK\$50.0 million) and upgrade and maintenance of our existing network. There will be fewer new base stations added in 2004 compared to 2003, during which year we accelerated the roll-out of new base stations.

We plan to fund our capital expenditures in 2004 primarily with cash flows from our operations, proceeds from secured and unsecured bank credit facilities and the net proceeds from the Global Offering remaining after the partial repayment of shareholders' loan and interest thereon.

In future years, we will direct capital expenditure requirements towards the ongoing expansion and upgrade of our network combined with anticipated outlays for the introduction of new services, including our EDGE services. In addition, we may require working capital from time to time to finance purchases of materials for our maintenance and other overhead. We plan to use our cash generated from operations to meet our capital expenditure requirements, repay our debts and meet our other commitments. To the extent these sources are insufficient, we plan to borrow additional funds or issue additional equity or debt securities.

Operating lease commitments

At 31 December 2003, the Company had future minimum lease payments under non-cancellable operating leases in respect of property rentals of approximately HK\$123.2 million (US\$15.8 million) within 1 year and HK\$54.0 million (US\$6.9 million) after 1 year but within 5 years.

Other commitments

At 31 December 2003, the Company had commitments in respect of outstanding forward exchange contracts in the ordinary course of business amounting to approximately HK\$98.4 million (US\$12.6 million).

INDEBTEDNESS

As at the close of business on the Latest Practicable Date for the purpose of this indebtedness statement, the Company had outstanding unsecured shareholders' loans of approximately HK\$624.9 million (US\$80.3 million) and interest accrued on such shareholders' loans in the amount of approximately HK\$300.6 million (US\$38.6 million). Such shareholders' loans, together with interest accrued thereon, will be repaid on or within three business days after the day on which dealings in the Shares commence on the Stock Exchange. In anticipation of the repayment the outstanding amount of the shareholders' loans were reclassified to the current interest bearing borrowings which is repayable within one year.

As a result, we had no outstanding long-term borrowings as at the Latest Practicable Date. We do not expect to receive additional capital contributions from our current shareholders to finance our future capital contribution requirements. Save as aforesaid or as otherwise disclosed herein, and except for a finance lease obligation of HK\$283,500, our Company did not have, at the close of business on the Latest Practicable Date, outstanding liabilities or any mortgages, charges, debentures or other loan capital, bank overdrafts, loans, liabilities under acceptance (other than normal trade bills) or other similar indebtedness or any guarantees or other material contingent liabilities.

Credit facilities

In October 2003, we obtained from CITIC Ka Wah Bank a letter of credit facility in the aggregate amount of HK\$152.6 million. As at 31 December 2003, we had drawn down HK\$151.2 million of the facility. The outstanding amount was secured by the combination of cash deposits in the aggregate amount of HK\$69.3 million and certain real properties of the Company. This facility also contains certain covenants requiring that, among other things, (i) certain levels of net profit and net worth be maintained and (ii) China Resources remains the single largest shareholder of our Company with a shareholding of no less than 30.0 per cent. in our Company.

On 10 March 2004 we entered into an unsecured HK\$300.0 million facility with CITIC Ka Wah Bank in order to partially fund the repayment of the shareholders' loans and accrued interest thereon. The interest rate on the loan facility is determined relative to the Hong Kong Inter-bank Offer Rate and is currently lower than that on the shareholders' loans. We will fully draw down HK\$300.0 million on the day on which dealings in the Shares commence on the Stock Exchange. Depending on the time we receive those funds and allowing time for final settlement of repayment logistics, including requisite documentation, notification and confirmation of receipt of funds, we may not be able administratively to use those funds to repay the shareholders' loans and accrued interest thereon on the same day. We will, however, apply those funds towards the repayment of shareholders' loans and accrued interest thereon within three business days thereafter. The HK\$300.0 million facility is repayable in four equal instalments on 10 July 2004, 10 March 2005, 10 September 2005 and 10 March 2006, respectively. Commencing on 10 March 2005, we will have the right to repay the principal outstanding under the loan facility earlier than the initial repayment schedule. An event of default under the HK\$300.0 million facility will be triggered if, among other things, (i) certain levels of net profit and net worth are not maintained, (ii) ratios relating to liabilities to net worth, current assets to current liabilities or interest coverage are breached, (iii) certain limits on capital expenditure are exceeded, or (iv) China Resources ceases either (a) to be our single largest shareholder or (b) to hold 30.0 per cent. or more of our issued shares. Upon the occurrence of an event of default, unless waived by CITIC Ka Wah Bank, the repayment of any outstanding amount under the HK\$300.0 million facility, together with all accrued interest thereon, may be accelerated.

The completion of the Global Offering and the transfer of funds to us under the HK\$300.0 million facility are conditional upon each other. If funds are not transferred to us under the HK\$300.0 million facility, the Global Offering will lapse. If the Global Offering lapses, we will not have the right to receive funds under the HK\$300.0 million facility. It is currently expected that completion of the Global Offering and the transfer of funds to us under the HK\$300.0 million facility will take place simultaneously on 31 March 2004 before dealings in our Shares commence on the Stock Exchange.

We will repay the remaining amount of shareholders' loans and accrued interest thereon from the net proceeds of the Global Offering accrued to us. Any proceeds remaining after the full repayment of the shareholders' loans and accrued interest thereon will be used as general working capital.

MARKET RISK

We currently are, in the normal course of business, exposed to the following principal types of market risks:

Interest Rate Risk

Our exposure to market risk for changes in interest rates relates primarily to our long-term debt obligations. We currently do not have any long-term variable interest rate debts, nor do we use any financial instrument to hedge our exposures to the interest rate risk.

FINANCIAL INFORMATION

Exchange Rate Risk

Our revenues and expenditures are primarily transacted in Hong Kong dollars and United States dollars.

In the normal course of business, the Company is exposed to fluctuations in foreign currencies on purchase of equipment and services, which are billed in foreign currencies.

These exposures are managed, sometimes with derivative financial instruments, by the Finance Department with the approval of our Chief Financial Officer and an executive Director. As at 31 December 2003, the Company had commitments in respect of outstanding forward exchange contracts in the ordinary course of business amounting to approximately HK\$98.4 million.

Derivative financial instruments are used solely for financial risk management purposes and the Company does not hold or issue derivative financial instruments for trading purposes. The Company monitors its foreign exchange exposure and market conditions to determine if any further hedging is required. Our currency exposure is not currently material to our financial conditions or performance. The Company does not anticipate any significant foreign exchange losses as long as the Hong Kong Government's policy to peg the Hong Kong dollar to the US dollar remains in effect.

ADJUSTED NET TANGIBLE ASSETS

The following statement of adjusted net tangible assets of the Company is based on the net tangible assets as at 31 December 2003 contained in the Accountants' Report in Appendix I to this prospectus and adjusted as described below:

	Based on Offer Price of	
	HK\$4.55	HK\$5.65
	<i>HK\$'000</i>	
	<i>(except per share data)</i>	
Audited net tangible assets as at 31 December 2003 ⁽¹⁾	33,743	33,743
Less: Deficit arising on the valuation of our attributable interests in the properties as set out in the Property Valuation Report as at 31 January 2004 ⁽²⁾	<u>(13,450)</u>	<u>(13,450)</u>
	20,293	20,293
Add: Unaudited profit after taxation for the period ended 29 February 2004 based on management accounts of the Company	39,835	39,835
Add: Conversion of Preference Shares ⁽³⁾	<u>216,505</u>	<u>216,505</u>
Estimated net proceeds from the issue of New Shares ⁽⁴⁾	<u>642,998</u>	<u>803,283</u>
Adjusted net tangible assets	<u>919,631</u>	<u>1,079,916</u>
Adjusted net tangible assets per Share ⁽⁵⁾	<u>1.24</u>	<u>1.45</u>

FINANCIAL INFORMATION

Notes:

- 1 Net tangible assets of the Company as of 31 December 2003 represented:

	<i>HK\$'000</i>
Net assets as set out in the Accountants' Report in Appendix I	64,590
Less: Intangible assets	<u>(30,847)</u>
Net tangible assets	<u><u>33,743</u></u>

Intangible assets are excluded from net tangible assets of the Company as they are identifiable non-monetary assets without physical substance. Deferred tax assets of HK\$36,043,000 as at 31 December 2003 are included in net tangible assets as the realisation of future economic benefits from the deferred tax assets will be in the form of reductions in future tax liabilities. Therefore, deferred tax assets are considered to be tangible assets for the purposes of this calculation.

- 2 The revaluation deficit of the Company's properties as at 31 January 2004 will not be incorporated in the financial statements of the Company for the year ending 31 December 2004. It is the Company's accounting policy to state its fixed asset at cost less accumulated depreciation and any impairment loss in accordance with Statement of Standard Accounting Practice No.17, rather than at revalued amounts. The impairment reviews performed by the Company as at 31 December 2003 indicated there was no requirement to book any impairment loss for these properties, in accordance with HK GAAP. Had the revaluation deficit been incorporated in the Company's financial statements, the decrease in the annual depreciation charge will amount to HK\$356,278.
- 3 On 3 February 2004, each of the Preference Shareholders signed an irrevocable undertaking to the effect that conditional on, among other things, the Capitalisation Issue taking effect (which is expected to be immediately after the closing of the Global Offering but before the Shares commence dealings on the Stock Exchange), the Preference Shareholders will convert their respective Preference Shares into fully paid Shares at the conversion rate of one Share for every one Preference Share upon the terms of the Articles of Association, provided that fractions of Shares arising from such conversion will not be allotted to the relevant Preference Shareholders. The Preference Shareholders have also irrevocably undertaken not to redeem any of their Shares in the meantime. Please see "Share Capital — Preference Shares" and "Share Capital — Capitalisation Issue" of this prospectus for further details.

The increase in net tangible assets, calculated based on the figures to 29 February 2004, is as follows:

	<i>HK\$'000</i>
Reduction in par value of Preference Shares pursuant to Capital Reduction on 17 February 2004	80,145
Conversion of Preference Shares	73,980
Release of redemption premium	30,905
Capitalisation Issue relating to cumulative preference dividend	<u>31,475</u>
	<u><u>216,505</u></u>

4. No account has been taken of the Shares which may be issued pursuant to any exercise of the Over-allotment Option. If the Over-allotment Option is exercised in full, the adjusted net tangible asset value per Share will be increased and the earnings per Share will be diluted correspondingly.
- 5 The adjusted net tangible assets per Share is arrived at based on 742,874,857 Shares expected be in issue immediately following the completion of the Global Offering (assuming no exercise of the Over-allotment Option), Capitalisation Issue and Conversion.