

*The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the independent reporting accountants, KPMG, Certified Public Accountants, Hong Kong. As described in the section headed "Documents Delivered to the Registrar of Companies and Available for Inspection — Documents available for inspection" in Appendix VI to this prospectus, a copy of the Accountants' Report is available for inspection.*



8th Floor  
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10 Chater Road  
Hong Kong

The Directors  
China Resources Peoples Telephone Company Limited  
UBS AG

22 March 2004

Dear Sirs

We set out below our report on the financial information relating to China Resources Peoples Telephone Company Limited (the "Company"), including the income statements, the statements of changes in equity and the statements of cash flows of the Company for each of the three years ended 31 December 2003 (the "relevant period") and the balance sheets of the Company as of 31 December 2001, 31 December 2002 and 31 December 2003 and the notes thereto (the "Financial Information"), for inclusion in the prospectus of the Company dated 22 March 2004 (the "Prospectus") in connection with the initial listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

The Company was incorporated in Hong Kong on 28 June 1994 under the Hong Kong Companies Ordinance. We have acted as auditors of the Company throughout the relevant period.

We have examined the audited financial statements of the Company for the relevant period in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" issued by the Hong Kong Society of Accountants. We have not audited any financial statements of the Company in respect of any period subsequent to 31 December 2003.

### **Basis of preparation**

The Financial Information has been prepared by the Directors of the company based on the audited financial statements of the Company.

### **Responsibility**

The Directors of the Company are responsible for the preparation of Financial Information which gives a true and fair view. In preparing the Financial Information which gives a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion on the Financial Information.

**Opinion**

In our opinion, for the purpose of this report, and on the basis of presentation set out in Section A below, all adjustments considered necessary have been made and the Financial Information set out below gives a true and fair view of the results and cash flows of the Company for the relevant period and of the financial position of the Company as at 31 December 2001, 31 December 2002 and 31 December 2003.

**A BASIS OF PRESENTATION**

The Financial Information relating to the income statements and cash flows of the Company for the relevant period comprise the results of the Company for each of the three years from 1 January 2001 to 31 December 2003. The balance sheets of the Company as at 31 December 2001, 31 December 2002 and 31 December 2003 have been prepared to present the assets and liabilities of the Company as at those dates.

The Financial Information has been prepared in accordance with the accounting policies set out in section C, note 1.

The measurement basis used in the preparation of the Financial Information is historical cost.

## B FINANCIAL INFORMATION

## 1. Income statements

The income statements of the Company for the relevant period, prepared on the basis set out in Section A above, are set out below.

	Note	Year ended 31 December		
		2001 HK\$'000	2002 HK\$'000	2003 HK\$'000
<b>Turnover</b>	2	1,050,223	1,505,155	1,642,301
Direct cost of goods sold and services provided				
— Cost of handsets and accessories		(204,787)	(263,883)	(271,517)
— Interconnection cost		<u>(135,792)</u>	<u>(175,533)</u>	<u>(186,568)</u>
		709,644	1,065,739	1,184,216
Other revenue	4	1,564	2,264	3,903
Other net income	4	182	165	705
Network maintenance costs		(220,725)	(233,525)	(245,066)
Sales and marketing costs		(94,732)	(83,740)	(87,910)
Administrative expenses		(53,261)	(53,213)	(51,290)
Staff costs		(134,122)	(135,165)	(149,952)
Depreciation and amortisation		(150,042)	(166,284)	(190,508)
Other operating expenses		<u>(38,256)</u>	<u>(56,429)</u>	<u>(73,594)</u>
<b>Profit from operations</b>		20,252	339,812	390,504
<b>Finance costs</b>	5	<u>(118,943)</u>	<u>(87,221)</u>	<u>(64,516)</u>
<b>(Loss)/profit from ordinary activities before taxation</b>	5	(98,691)	252,591	325,988
<b>Income tax</b>	8	<u>—</u>	<u>91,955</u>	<u>(55,912)</u>
<b>(Loss)/profit from ordinary activities after taxation</b>		(98,691)	344,546	270,076
<b>Accumulated losses brought forward</b>		<u>(884,341)</u>	<u>(983,032)</u>	<u>(638,486)</u>
<b>Accumulated losses carried forward</b>		<u>(983,032)</u>	<u>(638,486)</u>	<u>(368,410)</u>
<b>(Loss)/Earnings per share (in HK\$)</b>				
— Basic	10	(0.23)	0.80	0.62
— Diluted	10	—	0.61	0.49

The accompanying notes form part of the Financial Information.

## 2. Balance sheets

The balance sheets of the Company at 31 December 2001, 31 December 2002 and 31 December 2003, prepared on the basis set out in Section A above, are set out below.

	Note	At 31 December		
		2001 HK\$'000	2002 HK\$'000	2003 HK\$'000
<b>Non-current assets</b>				
Fixed assets				
— Property, plant and equipment	11	981,775	1,032,544	1,149,770
Construction in progress	12	16,325	18,443	8,762
Secured deposits	13	2,563	2,563	1,631
Intangible assets	14	40,653	38,691	30,847
Deferred tax assets	15	—	91,955	36,043
		<u>1,041,316</u>	<u>1,184,196</u>	<u>1,227,053</u>
<b>Current assets</b>				
Inventories	16	17,613	17,805	18,932
Amounts due from shareholders	21	15,793	38,735	20,595
Amounts due from fellow subsidiaries	21	147	227	330
Secured deposits	13	—	—	69,252
Trade and other receivables	17	121,831	132,925	143,946
Cash and cash equivalents	18	<u>25,856</u>	<u>124,809</u>	<u>46,121</u>
<b>Total current assets</b>		<u>181,240</u>	<u>314,501</u>	<u>299,176</u>
<b>Current liabilities</b>				
Trade and other payables	19	(374,247)	(479,396)	(618,619)
Current portion of interest-bearing borrowings	20	(210,742)	(240,897)	(624,869)
Amounts due to fellow subsidiaries	21	(1,050)	(306)	—
Amounts due to shareholders	21	(3,249)	(7,014)	(3,610)
Convertible preference shares	24	<u>(183,715)</u>	<u>(199,129)</u>	<u>(214,541)</u>
<b>Total current liabilities</b>		<u>(773,003)</u>	<u>(926,742)</u>	<u>(1,461,639)</u>
<b>Net current liabilities</b>		<u>(591,763)</u>	<u>(612,241)</u>	<u>(1,162,463)</u>
<b>Total assets less current liabilities</b>		449,553	571,955	64,590
<b>Non-current liabilities</b>				
Interest-bearing borrowings	20 & 22	(174,716)	(52,572)	—
Shareholders' loans	22 & 23	<u>(824,869)</u>	<u>(724,869)</u>	<u>—</u>
<b>Net (liabilities)/assets</b>		<u>(550,032)</u>	<u>(205,486)</u>	<u>64,590</u>
<b>Capital and reserves</b>				
Share capital	25	433,000	433,000	433,000
Accumulated losses		<u>(983,032)</u>	<u>(638,486)</u>	<u>(368,410)</u>
		<u>(550,032)</u>	<u>(205,486)</u>	<u>64,590</u>

The accompanying notes form part of the Financial Information.

**3. Statements of changes in equity**

The statements of changes in equity of the Company for the relevant period, prepared on the basis set out in Section A above, are set out below.

	<b>Year ended 31 December</b>		
	<b>2001</b>	<b>2002</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Shareholders' equity at 1 January	(451,341)	(550,032)	(205,486)
(Loss)/profit for the year	<u>(98,691)</u>	<u>344,546</u>	<u>270,076</u>
Shareholders' equity at 31 December	<u><u>(550,032)</u></u>	<u><u>(205,486)</u></u>	<u><u>64,590</u></u>

*The accompanying notes form part of the Financial Information.*

## 4. Cash flow statements

The cash flow statements of the Company for the relevant period, prepared on the basis set out in Section A above, are set out below.

	Year ended 31 December		
	2001	2002	2003
	HK\$'000	HK\$'000	HK\$'000
<b>Operating activities</b>			
(Loss)/profit from ordinary activities before taxation	(98,691)	252,591	325,988
Adjustments for:			
Depreciation	132,470	150,281	174,464
Amortisation of intangible assets	17,572	16,003	16,044
Finance costs	118,943	87,221	64,516
Interest income	(1,007)	(613)	(882)
Loss on sales of fixed assets	529	411	6,658
<b>Operating profit before changes in working capital</b>	169,816	505,894	586,788
Increase in secured deposits	—	—	(68,320)
Decrease/(increase) in inventories	1,167	(192)	(1,127)
Decrease/(increase) in amounts due from shareholders	4,269	(22,942)	18,140
Decrease/(increase) in amounts due from fellow subsidiaries	87	(80)	(103)
Increase in trade and other receivables	(21,663)	(11,094)	(11,021)
Increase/(decrease) in trade and other payables	30,257	48,113	6,810
Increase/(decrease) in amounts due to fellow subsidiaries	1,023	(744)	(306)
Increase/(decrease) in amounts due to shareholders	2,797	3,765	(3,404)
<b>Cash generated from operations</b>	187,753	522,720	527,457
Interest received	1,007	613	882
<b>Net cash from operating activities</b>	188,760	523,333	528,339

*The accompanying notes form part of the Financial Information.*

	Year ended 31 December		
	2001	2002	2003
	HK\$'000	HK\$'000	HK\$'000
<b>Investing activities</b>			
Payment for purchase of fixed assets	(163,550)	(130,054)	(75,742)
Payment for purchase of construction in progress	(69,937)	(73,391)	(122,506)
Payment for purchase of intangible assets	(3,005)	(14,040)	(8,200)
Proceeds from sales of fixed assets	<u>304</u>	<u>244</u>	<u>4</u>
<b>Net cash used in investing activities</b>	<u>(236,188)</u>	<u>(217,241)</u>	<u>(206,444)</u>
<b>Financing activities</b>			
Proceeds from other loans	160,183	48,200	20,909
Repayment of bank and other interest-bearing borrowings	(113,250)	(240,190)	(214,378)
Repayment of shareholders' loan	—	—	(200,000)
Interest paid	<u>(27,581)</u>	<u>(15,149)</u>	<u>(7,114)</u>
<b>Net cash from/(used in) financing activities</b>	<u>19,352</u>	<u>(207,139)</u>	<u>(400,583)</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>	(28,076)	98,953	(78,688)
<b>Cash and cash equivalents at 1 January</b>	<u>53,932</u>	<u>25,856</u>	<u>124,809</u>
<b>Cash and cash equivalents at 31 December</b>	<u>25,856</u>	<u>124,809</u>	<u>46,121</u>

*The accompanying notes form part of the Financial Information.*

## C NOTES TO THE FINANCIAL INFORMATION

### 1. Significant accounting policies

#### (a) *Statement of compliance*

The Financial Information has been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which includes all applicable Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. The Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited as applicable to Accountants' Reports included in listing documents. A summary of the significant accounting policies adopted by the Company is set out below.

#### (b) *Basis of preparation*

The measurement basis used in the preparation of the Financial Information set out in this report is historical cost.

#### (c) *Revenue recognition*

Revenue is recognised when it is probable that the economic benefits will accrue to the Company and when the revenue can be measured reliably on the following basis:

- (i) Invoiced value of goods are recognised when the significant risks and rewards of ownership have been transferred to the buyer.
- (ii) Telecommunications service is recognised, net of discounts and rebates, when the service is rendered to the customers on the basis of the usage of the company's digital mobile radio telephone network and facilities.
- (iii) Interest income is accrued on a time-apportioned basis by reference to the principal outstanding and at the rate applicable.

#### (d) *Fixed assets and depreciation*

- (i) Fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 1(g)). The cost of the computer, billing, office and telephone equipment, and network and testing equipment comprises network assets and equipment purchased at cost, together with direct payroll and overheads attributable to the cost of construction and installation of the network.
- (ii) Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Company. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.
- (iii) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the income statement on the date of retirement or disposal.
- (iv) Depreciation is calculated to write off the cost of fixed assets on a straight-line basis over their estimated useful lives as follows:

Network and testing equipment	10%–20%
Computer, billing, office and telephone equipment	10%–25%
Leasehold improvements	10%–50%
Motor vehicles	20%
Office furniture and fixtures	20%



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 the 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 the shorter.

(e) *Construction in progress*

Construction in progress represents that part of the digital mobile radio telephone network under construction, the related equipment, interest and personnel costs thereon, and is stated at cost.

(f) *Intangible assets*

Intangible assets comprise the initial licence fee for the provision of Personal Communication Services (“PCS”) and the access fee for the utilisation of a distributed communication system.

Intangible assets are stated at cost less accumulated amortisation and impairment losses (see note 1(g)). Initial licence fee is amortised on a straight line basis over the remaining period of the PCS licence. Access fee is amortised on a straight line basis over their estimated useful lives in accordance with the lease period of the base stations.

(g) *Impairment of assets*

Internal and external sources of information are reviewed at each balance sheet date to identify indications that fixed and intangible assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset’s recoverable amount is estimated. For intangible assets that are not yet available for use, or are amortised over more than 20 years from the date when the asset is available for use, the recoverable amount is estimated at each balance sheet date. An impairment loss is recognised in the income statement whenever the carrying amount of such asset exceeds its recoverable amount.

(i) *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its selling price and value in use. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

(ii) *Reversals of impairment losses*

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of impairment losses is limited to the asset’s carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

(h) *Inventories*

Inventories are stated at the lower of cost and net realisable value.

Cost is calculated on the weighted average cost formula basis and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated sales proceeds in the ordinary course of business less the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(i) *Translation of foreign currencies*

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses on foreign currency translation are dealt with in the income statement.

(j) *Operating leases*

Where the Company has the use of assets under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

(k) *Provisions and contingent liabilities*

Provisions are recognised for liabilities of uncertain timing or amount when the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(l) *Deferred taxation*

- (i) 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.
- (ii) 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.
- (iii) 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.
- (iv) 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.

(m) *Employee benefits*

- (i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Company of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Company. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.
- (ii) Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance are recognised as an expense in the income statement as incurred.
- (iii) Long service payments are accrued when the Company becomes liable for payment to employees eligible under the Employment Ordinance on termination of their employment.
- (iv) Termination benefits are recognised when, and only when, the Company demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(n) *Borrowing costs*

Borrowing costs are expensed in the income statement in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

(o) *Related parties*

For the purposes of this report, parties are considered to be related to the Company if the Company has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Company and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(p) *Cash and cash equivalents*

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the company's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(q) *Segment reporting*

A segment is a distinguishable component of the Company that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

(r) *Off balance sheet financial instruments*

Off-balance sheet financial instruments undertaken by the Company comprise derivatives arising from forward transactions in the foreign exchange market, undertaken as part of the management of asset and liability portfolios.

Derivatives that qualify as hedges are valued on an equivalent basis to the underlying assets, liabilities or net positions which they are hedging. Any profit or loss is recognised on the same basis as that arising from the related assets, liabilities or net positions.

A hedging relationship exists where:

- at the inception of the hedge there is formal documentation of the hedge;
- the hedge is expected to be highly effective;
- the effectiveness of the hedge can be reliably measured;
- the hedge is highly effective throughout the reporting period; and
- for hedges of a forecasted transaction, the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect net profit or loss.

Gains and losses on the revaluation and maturity of spot and forward foreign exchange contracts used for hedging purposes are recorded in the income statement and are offset against gains and losses arising from the foreign exchange transactions and revaluation of foreign currency denominated assets and liabilities which these contracts are hedging.

## 2. Turnover

The principal activity of the Company is the provision of telecommunication services.

Turnover represents the value of goods sold and airtime and service charges to subscribers, net of returns and discounts:

	Year ended 31 December		
	2001	2002	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Sales of handsets and accessories	225,962	288,301	297,445
Airtime and service charges	<u>824,261</u>	<u>1,216,854</u>	<u>1,344,856</u>
	<u><u>1,050,223</u></u>	<u><u>1,505,155</u></u>	<u><u>1,642,301</u></u>

## 3. Segment reporting

No segment information is presented in respect of the Company's business and geographical segments. Throughout the relevant period, the Company's turnover and operating profit were primarily attributable to its mobile communications operations in the Special Administrative Region of Hong Kong.

## 4. Other revenue and other net income

	Year ended 31 December		
	2001	2002	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Other revenue</b>			
Bank interest income	1,007	613	882
Commission income	305	137	136
Sundry income	<u>252</u>	<u>1,514</u>	<u>2,885</u>
	<u><u>1,564</u></u>	<u><u>2,264</u></u>	<u><u>3,903</u></u>
<b>Other net income</b>			
Exchange gain	<u>182</u>	<u>165</u>	<u>705</u>

## 5. (Loss)/profit from ordinary activities before taxation

(Loss)/profit from ordinary activities before taxation is arrived at after charging/(crediting):

	Year ended 31 December		
	2001	2002	2003
	HK\$'000	HK\$'000	HK\$'000
<b>(i) Finance costs:</b>			
Interest on bank and other loans repayable within five years	28,644	14,043	2,248
Interest on shareholders' loans	75,949	58,619	47,807
Dividend on convertible preference shares	7,706	7,706	7,706
Redemption premium on convertible preference shares	7,706	7,706	7,706
	120,005	88,074	65,467
Less: Borrowing costs capitalised*	(1,062)	(853)	(951)
	<u>118,943</u>	<u>87,221</u>	<u>64,516</u>
<b>(ii) Staff costs:</b>			
Retirement costs	6,267	6,898	7,434
Salaries, wages and other benefits	149,497	152,249	169,113
	155,764	159,147	176,547
Less: Staff costs capitalised (Note 11)	(21,642)	(23,982)	(26,595)
	<u>134,122</u>	<u>135,165</u>	<u>149,952</u>
<b>(iii) Other items:</b>			
Depreciation	132,470	150,281	174,464
Amortisation of intangible assets	17,572	16,003	16,044
	<u>150,042</u>	<u>166,284</u>	<u>190,508</u>
Auditors' remuneration	326	381	330
Cost of inventories sold	204,787	263,883	271,517
Loss on disposals of fixed assets	529	411	6,658
Operating lease rentals in respect of properties	160,471	166,030	175,079
Provision for bad and doubtful debts	17,177	25,522	30,895

\* The borrowing costs attributable to the construction of assets have been capitalised at a rate of 2.26 per cent.–7 per cent. (2002: 2.43 per cent.–7.13 per cent., 2001: 4.24 per cent.–11.50 per cent.) per annum and are included under network and testing equipment, computer, billing, office and telephone equipment and construction in progress.

## 6. Directors' remuneration

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	Year ended 31 December		
	2001	2002	2003
	HK\$'000	HK\$'000	HK\$'000
Fees	—	—	—
Salaries, allowances and benefits in kind	—	—	—
Retirement benefits	—	—	—
Bonuses	—	—	—

Included in directors' remuneration were the above fees paid to the independent non-executive directors during the relevant period. An analysis of the directors' emoluments by number of directors and emolument ranges is as follows:

	Year ended 31 December		
	2001	2002	2003
	HK\$'000	HK\$'000	HK\$'000
HK\$Nil — HK\$1,000,000	—	—	—

There was no inducement, compensation or waiver of any emoluments by the Directors during the relevant period.

Save as disclosed herein, no remuneration has been paid or is payable in respect of the relevant period to the Directors of the Company.

## 7. Senior management remuneration

Details of emoluments of the five highest paid individuals are as follows:

	Year ended 31 December		
	2001	2002	2003
	HK\$'000	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	8,882	9,802	10,877
Retirement benefits	820	905	1,004
Bonuses	1,762	1,777	1,974
	<u>11,464</u>	<u>12,484</u>	<u>13,855</u>

An analysis of the senior management's emoluments by number of employees and emolument ranges is as follows:

	Year ended 31 December		
	2001	2002	2003
	HK\$'000	HK\$'000	HK\$'000
HK\$Nil — HK\$1,000,000	—	—	—
HK\$1,000,001 — HK\$2,000,000	3	3	2
HK\$2,000,001 — HK\$3,000,000	1	1	2
HK\$3,000,001 — HK\$4,000,000	—	—	—
HK\$4,000,001 — HK\$5,000,000	1	1	—
HK\$5,000,001 — HK\$6,000,000	—	—	1

There was no inducement, compensation or waiver of any emoluments by senior management during the relevant period.

## 8. Taxation

- (a) Hong Kong Profits Tax is calculated at 17.5 per cent. (31 December 2002: 16.0 per cent., 31 December 2001: 16.0 per cent.) on the estimated assessable profits, if any, for each of the relevant periods. No provision for Hong Kong Profits Tax has been made for the year ended 31 December 2001 as the Company had no assessable profits for the year. No provision for Hong Kong Profits Tax has been made for the years ended 31 December 2002 and 31 December 2003 as the Company had sufficient tax losses brought forward to offset the assessable profits for the year.

(b) Income tax expenses represents:

	At 31 December		
	2001	2002	2003
	HK\$'000	HK\$'000	HK\$'000
<i>Current year expenses</i>			
Tax for the year	—	46,031	44,516
Benefit of previously unrecognised tax losses	—	(46,031)	—
Benefit of unused tax losses brought forward	—	—	(44,516)
	-----	-----	-----
<i>Deferred tax</i>			
Benefit of previously unrecognised tax losses now recognised	—	(91,955)	—
Origination and reversal of temporary differences	—	—	64,533
Effect of increase in tax rate on deferred tax balances at 1 January	—	—	(8,621)
	-----	-----	-----
Total income tax (credit)/expense	<u>—</u>	<u>(91,955)</u>	<u>55,912</u>

(c) Reconciliation between tax expense and accounting profit at applicable tax rates

	At 31 December		
	2001	2002	2003
	HK\$'000	HK\$'000	HK\$'000
(Loss)/profit before tax	<u>(98,691)</u>	<u>252,591</u>	<u>325,988</u>
Notional tax on (loss)/profit before tax, calculated at 17.5 per cent. (2002 & 2001: 16.0 per cent.)	—	40,414	57,047
Tax effect of non-deductible expenses	—	7,252	7,486
Tax effect of non-taxable revenue	—	(85)	—
Tax effect of unused tax losses recognised	—	(130,833)	—
Tax effect of provision for bad debts recognised	—	(8,703)	—
Effect on opening deferred tax balances resulting from an increase in tax rate during the year	—	—	(8,621)
Actual tax (credit)/expense	<u>—</u>	<u>(91,955)</u>	<u>55,912</u>

In March 2003, the Hong Kong Government announced an increase in the Profits Tax rate applicable to the Company's operations in the Special Administrative Region of Hong Kong from 16.0 per cent. to 17.5 per cent. This increase is taken into account in the preparation of the Company's financial statements for the relevant period.

## 9. Dividends

The Company did not declare or pay any dividends during the relevant period.

## 10. Basic and diluted earnings / (loss) per share

(a) *Basic earnings/(loss) per share*

The calculation of basic earnings / (loss) per share for each year is based on the profit / (loss) attributable to shareholders for each respective year and on the 433,000,000 shares of the Company in issue during the relevant period.

(b) *Diluted earnings/(loss) per share*

The calculation of diluted earnings per share is based on the profit/(loss) attributable to ordinary shareholders of HK\$285,488,821 as at 31 December 2003 (31 December 2002: HK\$359,959,673, 31 December 2001: HK\$(83,279,212)) and the weighted average number of ordinary shares of 587,125,000 shares as at 31 December 2003 (31 December 2002: 587,125,000 shares) after adjusting for the effects of all dilutive potential ordinary shares. There were no dilutive potential ordinary shares in existence for the year ended 31 December 2001.

(c) *Reconciliation*

	At 31 December		
	2001	2002	2003
	<i>Number of shares</i>	<i>Number of shares</i>	<i>Number of shares</i>
Weighted average number of ordinary shares used in calculating basic earnings per share	433,000,000	433,000,000	433,000,000
Deemed conversion of preference shares	—	154,125,000	154,125,000
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>433,000,000</u>	<u>587,125,000</u>	<u>587,125,000</u>

The calculation of basic and diluted earnings/(loss) per share has not taken into account the shares which will or may be issued pursuant to the initial public offering of the shares of the Company.

11. **Fixed assets**

AT 31 DECEMBER 2001

	Network and testing equipment <i>HK\$'000</i>	Computer, billing, office and telephone equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Leasehold Improvements <i>HK\$'000</i>	Office furniture and fixtures <i>HK\$'000</i>	Land and buildings <i>HK\$'000</i>	Total <i>HK\$'000</i>
<i>Cost:</i>							
At 1 January 2001	1,054,459	86,274	3,394	29,781	4,687	26,421	1,205,016
Additions	137,695	22,221	—	3,526	107	—	163,549
Transfer from construction in progress ( <i>note 12</i> )	66,325	—	—	—	—	—	66,325
Disposals/write-off	(1,055)	(75)	—	(90)	(14)	—	(1,234)
At 31 December 2001	<u>1,257,424</u>	<u>108,420</u>	<u>3,394</u>	<u>33,217</u>	<u>4,780</u>	<u>26,421</u>	<u>1,433,656</u>
<i>Accumulated depreciation:</i>							
At 1 January 2001	262,666	30,192	1,999	19,906	2,985	2,064	319,812
Charge for the year	114,433	11,969	679	3,844	949	596	132,470
Written back on disposals/ write-off	(235)	(64)	—	(90)	(12)	—	(401)
At 31 December 2001	<u>376,864</u>	<u>42,097</u>	<u>2,678</u>	<u>23,660</u>	<u>3,922</u>	<u>2,660</u>	<u>451,881</u>
<i>Net book value at 31 December 2001</i>	<u>880,560</u>	<u>66,323</u>	<u>716</u>	<u>9,557</u>	<u>858</u>	<u>23,761</u>	<u>981,775</u>



## AT 31 DECEMBER 2002

	Network and testing equipment <i>HK\$'000</i>	Computer, billing, office and telephone equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Leasehold Improvements <i>HK\$'000</i>	Office furniture and fixtures <i>HK\$'000</i>	Land and buildings <i>HK\$'000</i>	Total <i>HK\$'000</i>
<i>Cost:</i>							
At 1 January 2002	1,257,424	108,420	3,394	33,217	4,780	26,421	1,433,656
Additions	113,359	15,829	—	1,054	190	—	130,432
Transfer from construction in progress ( <i>note 12</i> )	70,652	—	—	—	—	—	70,652
Disposals/write-off	—	(73)	—	(282)	(39)	—	(394)
At 31 December 2002	<u>1,441,435</u>	<u>124,176</u>	<u>3,394</u>	<u>33,989</u>	<u>4,931</u>	<u>26,421</u>	<u>1,634,346</u>
<i>Accumulated depreciation:</i>							
At 1 January 2002	376,864	42,097	2,678	23,660	3,922	2,660	451,881
Charge for the year	133,525	11,292	400	4,002	467	595	150,281
Written back on disposals/ write-off	—	(51)	—	(273)	(36)	—	(360)
At 31 December 2002	<u>510,389</u>	<u>53,338</u>	<u>3,078</u>	<u>27,389</u>	<u>4,353</u>	<u>3,255</u>	<u>601,802</u>
<i>Net book value at 31 December 2002</i>	<u>931,046</u>	<u>70,838</u>	<u>316</u>	<u>6,600</u>	<u>578</u>	<u>23,166</u>	<u>1,032,544</u>

## AT 31 DECEMBER 2003

	Network and testing equipment <i>HK\$'000</i>	Computer, billing, office and telephone equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Leasehold Improvements <i>HK\$'000</i>	Office furniture and fixtures <i>HK\$'000</i>	Land and buildings <i>HK\$'000</i>	Total <i>HK\$'000</i>
<i>Cost:</i>							
At 1 January 2003	1,441,435	124,176	3,394	33,989	4,931	26,421	1,634,346
Additions	150,117	14,753	171	1,056	68	—	166,165
Transfer from construction in progress ( <i>note 12</i> )	131,340	—	—	—	—	—	131,340
Disposals/write-off	(16,517)	(1,249)	—	(12)	(21)	—	(17,799)
At 31 December 2003	<u>1,706,375</u>	<u>137,680</u>	<u>3,565</u>	<u>35,033</u>	<u>4,978</u>	<u>26,421</u>	<u>1,914,052</u>
<i>Accumulated depreciation:</i>							
At 1 January 2003	510,389	53,338	3,078	27,389	4,353	3,255	601,802
Charge for the year	157,598	12,633	211	3,170	256	596	174,464
Written back on disposals/ write-off	(10,708)	(1,243)	—	(12)	(21)	—	(11,984)
At 31 December 2003	<u>657,279</u>	<u>64,728</u>	<u>3,289</u>	<u>30,547</u>	<u>4,588</u>	<u>3,851</u>	<u>764,282</u>
<i>Net book value at 31 December 2003</i>	<u>1,049,096</u>	<u>72,952</u>	<u>276</u>	<u>4,486</u>	<u>390</u>	<u>22,570</u>	<u>1,149,770</u>

The net book value of computer and office equipment held under finance leases of the Company at 31 December.

	At 31 December		
	2001	2002	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
The net book value of computer and office equipment	—	372	296

The net book value of fixed assets of the Company includes an amount of HK\$22,569,914 at 31 December 2003 in respect of assets pledged against letters of credit issued by the bank on behalf of the Company (31 December 2002: HK\$213,987,369, 31 December 2001: HK\$411,928,937 in respect of assets pledged against vendor financing loans and letters of credit issued by the bank on behalf of the Company).

Included in additions are capitalised staff costs of HK\$26,595,245 for 2003 (2002: HK\$23,982,346, 2001: HK\$21,641,980).

The analysis of net book value of land and building is as follows:

	At 31 December		
	2001	2002	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
In Hong Kong			
— medium-term leases	19,562	19,072	18,583
— long-term leases	4,199	4,094	3,987
	<u>23,761</u>	<u>23,166</u>	<u>22,570</u>

## 12. Construction in progress

	Year ended 31 December		
	2001	2002	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>Cost:</i>			
At 1 January	12,713	16,325	18,443
Additions	69,937	73,391	122,506
Disposals	—	(621)	(847)
Transfer to fixed assets ( <i>note 11</i> )	<u>(66,325)</u>	<u>(70,652)</u>	<u>(131,340)</u>
At 31 December	<u>16,325</u>	<u>18,443</u>	<u>8,762</u>

## 13. Secured deposits

The deposits are placed with a bank to secure letters of credit and letters of guarantee issued by the bank on behalf of the Company.

## 14. Intangible assets

	At 31 December		
	2001	2002	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>Cost:</i>			
At 1 January	55,219	40,653	38,691
Additions	3,006	14,041	8,200
Amortisation	<u>(17,572)</u>	<u>(16,003)</u>	<u>(16,044)</u>
At 31 December	<u>40,653</u>	<u>38,691</u>	<u>30,847</u>

**15. Deferred taxation**

The components of deferred tax assets and liabilities recognised in the balance sheet and movement during the year are as follows:

	At 31 December		
	2001 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
At 1 January	—	—	91,955
Credited/(charged) to the income statement	<u>—</u>	<u>91,955</u>	<u>(55,912)</u>
At 31 December	<u>—</u>	<u>91,955</u>	<u>36,043</u>

Deferred tax assets and liabilities recognised

	At 31 December		
	2001 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Depreciation allowances in excess of related depreciation	(91,052)	(96,644)	(118,723)
General provision for bad debts	—	12,746	6,929
Tax losses	<u>91,052</u>	<u>175,853</u>	<u>147,837</u>
	<u>—</u>	<u>91,955</u>	<u>36,043</u>

The Company had no unprovided deferred tax assets at 31 December 2002 and 2003 (31 December 2001: HK\$139,536,000 in respect of general bad debt provision and unused tax losses).

**16. Inventories**

	At 31 December		
	2001 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Handsets	13,444	14,652	15,590
Accessories	<u>4,169</u>	<u>3,153</u>	<u>3,342</u>
	<u>17,613</u>	<u>17,805</u>	<u>18,932</u>

Included in the above inventories, HK\$354,704 at 31 December 2003 (31 December 2002: HK\$895,925, 31 December 2001: HK\$170,167) value of handsets are stated at net realisable value. Accessories are stated net of a general provision that is made in order to state these assets at the lower of their cost and estimated net realisable value.

**17. Trade and other receivables**

	At 31 December		
	2001 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Trade receivables, net of provision for bad and doubtful debts	59,436	75,728	79,094
Other receivables and prepayments	<u>62,395</u>	<u>57,197</u>	<u>64,852</u>
	<u>121,831</u>	<u>132,925</u>	<u>143,946</u>

The amount of provision for bad and doubtful debts as at 31 December 2003 was HK\$39,594,332 (31 December 2002: HK\$79,662,648, 31 December 2001: HK\$54,392,632).

All of the trade and other receivables are expected to be recovered within one year. The ageing analysis of the trade receivables of the Company are as follows:

	At 31 December		
	2001	2002	2003
	HK\$'000	HK\$'000	HK\$'000
Current	43,744	57,854	55,666
Over 1 month but less than 3 months	10,116	11,946	19,126
Over 3 months but less than one year	<u>5,576</u>	<u>5,928</u>	<u>4,302</u>
	<u>59,436</u>	<u>75,728</u>	<u>79,094</u>

#### 18. Cash and cash equivalents

	At 31 December		
	2001	2002	2003
	HK\$'000	HK\$'000	HK\$'000
Deposits with banks	9,500	100,948	22,980
Cash at bank and in hand	<u>16,356</u>	<u>23,861</u>	<u>23,141</u>
Cash and cash equivalents	<u>25,856</u>	<u>124,809</u>	<u>46,121</u>

#### 19. Trade and other payables

	At 31 December		
	2001	2002	2003
	HK\$'000	HK\$'000	HK\$'000
Bills payable	11,209	25,671	151,210
Trade payables	103,438	133,452	94,542
Other payables and accruals	<u>259,600</u>	<u>320,273</u>	<u>372,867</u>
	<u>374,247</u>	<u>479,396</u>	<u>618,619</u>

Except for provision for long service payment of HK\$2,823,739 at 31 December 2003 (2002 & 2001: HK\$Nil), all of the trade and other payables are expected to be settled within one year.

Other payables and accruals included HK\$293,428,472 at 31 December 2003 (31 December 2002: HK\$245,621,260, 31 December 2001: HK\$187,001,853) of accrued interest payable to shareholders, which are expected to be fully settled on or within three business days after the listing of the Company's Shares on the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The following is an ageing analysis of trade payables:

	At 31 December		
	2001	2002	2003
	HK\$'000	HK\$'000	HK\$'000
Current	26,876	57,351	52,531
Aged over 1 month but less than 2 months	38,228	42,422	24,131
Aged over 2 months but less than 3 months	14,823	17,109	6,940
Aged over 3 months	<u>23,511</u>	<u>16,570</u>	<u>10,940</u>
	<u>103,438</u>	<u>133,452</u>	<u>94,542</u>

**20. Bank and other interest-bearing borrowings**

At 31 December 2001, 2002, and 2003, the bank loans and other interest-bearing borrowings are repayable as follows:

	At 31 December		
	2001 HK\$'000	2002 HK\$'000	2003 HK\$'000
Within 1 year	210,742	240,897	624,869
After 1 year but within 2 years	116,477	52,572	—
After 2 years but within 5 years	58,239	—	—
	174,716	52,572	—
	<u>385,458</u>	<u>293,469</u>	<u>624,869</u>

At 31 December 2001, 2002, and 2003, the bank loans and other interest-bearing borrowings are secured as follows:

	At 31 December		
	2001 HK\$'000	2002 HK\$'000	2003 HK\$'000
Secured bank loans	141,503	—	—
Other secured loans	206,274	157,716	—
	347,777	157,716	—
Unsecured shareholders' loans (see Note 23)	—	100,000	624,869
Other unsecured loans	37,681	35,753	—
	<u>385,458</u>	<u>293,469</u>	<u>624,869</u>

Other loans are secured by charges over assets (see Note 11).

**21. Amounts due from/to shareholders and fellow subsidiaries**

Amounts due from/to shareholders and fellow subsidiaries are unsecured, interest free and have no fixed terms of repayment.

**22. Non-current interest-bearing borrowings**

	At 31 December		
	2001 HK\$'000	2002 HK\$'000	2003 HK\$'000
Unsecured shareholders' loans (see Note 23)	824,869	724,869	—
Other secured loans	174,716	52,572	—
	<u>999,585</u>	<u>777,441</u>	<u>—</u>

**23. Shareholders' loans**

The shareholders have provided finance in the form of shareholders' loans to the Company. The outstanding principal of the shareholders' loans at the year end are as follows:

	At 31 December		
	2001 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
China Resources (Holdings) Company Limited	625,171	625,171	469,171
KPN Telecom BV	90,736	90,736	68,736
Overseas Telecom AB*	90,736	90,736	68,736
Mobile Systems International Cellular Investments Holdings BV**	13,750	13,750	13,750
Telepaging Limited	<u>4,476</u>	<u>4,476</u>	<u>4,476</u>
	<u>824,869</u>	<u>824,869</u>	<u>624,869</u>

Shareholders' loans are unsecured, charged at the Hong Kong Prime Rate plus 2 per cent. and have no fixed terms of repayment. The shareholders' loans are expected to be fully settled on or within three business days after the listing of the Company's Shares on the Stock Exchange.

\* Overseas Telecom AB was formerly known as Telia Overseas AB. The change of name was effective in March 2003.

\*\* Mobile Systems International Cellular Investments Holdings BV changed its name to Celtel International B.V. on 6 February 2004.

At 31 December 2001, 2002, and 2003, the shareholders' loans are repayable as follows:

	At 31 December		
	2001 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Within 1 year ( <i>see Note 20</i> )	—	100,000	624,869
After 1 year ( <i>see Note 22</i> )	<u>824,869</u>	<u>724,869</u>	—
	<u>824,869</u>	<u>824,869</u>	<u>624,869</u>

**24. Convertible preference shares**

	At 31 December		
	2001 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
5 per cent. convertible, redeemable, cumulative and participating preference shares of \$1 each	154,125	154,125	154,125
Cumulative preference dividend	14,795	22,502	30,208
Redemption premium	<u>14,795</u>	<u>22,502</u>	<u>30,208</u>
	<u>183,715</u>	<u>199,129</u>	<u>214,541</u>

(i) The Company's authorised share capital includes 200,000,000 shares of convertible preference shares of HK\$1 each. The number of preference shares issued and fully paid for was 154,125,000 at 31 December 2003 (31 December 2002: 154,125,000, 31 December 2001: 154,125,000).

(ii) Holders of the convertible preference shares are entitled to receive a fixed cumulative preferential dividend at the rate of 5 per cent. per annum on the amount paid up or credited as paid up. The dividend is payable half-yearly on 30 June and 31 December in each year.

- (iii) Holders of the convertible preference shares have the right exercisable at any time to convert the preference shares into fully paid ordinary shares at the conversion rate of one ordinary share for every one preference share, subject to adjustment.
- (iv) The convertible preference shares may be redeemed by the shareholders at any time at a redemption price per share equal to the paid-up amount plus accrued dividend and a sum equal to 5 per cent. per annum on the paid-up amount from the date the paid-up amount was paid to the Company to the date of redemption.

## 25. Share capital

	At 31 December		
	2001 HK\$'000	2002 HK\$'000	2003 HK\$'000
<i>Authorised:</i>			
Ordinary shares of \$1 each	<u>433,000</u>	<u>433,000</u>	<u>433,000</u>
<i>Issued and fully paid:</i>			
Ordinary shares of \$1 each	<u>433,000</u>	<u>433,000</u>	<u>433,000</u>

In addition to the above ordinary shares, the Company's authorised share capital includes 200,000,000 convertible preference shares of HK\$1 each. The number of preference shares issued and fully paid was 154,125,000 at 31 December 2003 (31 December 2002: 154,125,000, 31 December 2001: 154,125,000).

## 26. Retirement benefits

The Company operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5 per cent. of the employees' relevant income, subject to a cap of monthly relevant income of HK\$20,000. Contributions to the scheme vest immediately.

## 27. Commitments and contingencies

### (a) Commitments under operating leases

At 31 December 2001, 2002 and 2003, the total future minimum lease payments under non-cancellable operating leases in respect of property rentals are payable as follows:

	At 31 December		
	2001 HK\$'000	2002 HK\$'000	2003 HK\$'000
Within 1 year	115,083	127,438	123,204
After 1 year but within 5 years	57,434	53,720	54,006
After 5 years	<u>1,409</u>	<u>145</u>	<u>—</u>
	<u>173,926</u>	<u>181,303</u>	<u>177,210</u>

The Company leases a number of properties under operating leases. The leases typically run for an initial period of 4 to 78 months, with an option to renew the lease when all terms are renegotiated. Two of the leases of the retail premises include contingent rentals that are payable at a fixed percentage of the monthly gross receipts of the retail outlets.

(b) *Capital commitments*

	At 31 December		
	2001	2002	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Contracted for	<u>7,297</u>	<u>17,884</u>	<u>34,150</u>

(c) *Foreign currency exchange contracts*

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\$98,388,027 (31 December 2002: HK\$Nil; 31 December 2001: HK\$Nil)

**28. Material related party transactions**

- (a) The shareholders have provided finance in the form of shareholders' loans to the Company. Interest payable to the shareholders during the year and the outstanding principal of the shareholders' loans at the year end are as follows:

	Interest charge		
	Year ended 31 December		
	2001	2002	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
China Resources (Holdings) Company Limited	57,565	44,428	36,048
KPN Telecom BV	8,353	6,448	5,260
Overseas Telecom AB	8,353	6,448	5,261
Mobile Systems International Cellular Investments Holdings BV	1,266	977	934
Telepaging Limited	<u>412</u>	<u>318</u>	<u>304</u>
	<u>75,949</u>	<u>58,619</u>	<u>47,807</u>

	Outstanding principal		
	31 December		
	2001	2002	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
China Resources (Holdings) Company Limited	625,171	625,171	469,171
KPN Telecom BV	90,736	90,736	68,736
Overseas Telecom AB	90,736	90,736	68,736
Mobile Systems International Cellular Investments Holdings BV	13,750	13,750	13,750
Telepaging Limited	<u>4,476</u>	<u>4,476</u>	<u>4,476</u>
	<u>824,869</u>	<u>824,869</u>	<u>624,869</u>

The Company repaid shareholders' loans amounted to HK\$200,000,000 on 15 January 2003 and 15 October 2003. (see Note 23)

- (b) Three of the ordinary shareholders are also the holders of the convertible preference shares. Details of the fully paid and issued shares, cumulative preference dividend payable and redemption premium payable are as follows:

	Fully paid and issued shares		
	31 December		
	2001	2002	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
China Resources (Holdings) Company Limited	112,511	112,511	112,511
Mobile Systems International Cellular Investments Holdings BV	4,366	4,366	4,366
Telepaging Limited	<u>37,248</u>	<u>37,248</u>	<u>37,248</u>
	<u>154,125</u>	<u>154,125</u>	<u>154,125</u>



	<b>Cumulative Preference Dividends</b>		
	<b>31 December</b>		
	<b>2001</b>	<b>2002</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
China Resources (Holdings) Company Limited	10,820	16,446	22,071
Mobile Systems International Cellular Investments Holdings BV	376	595	813
Telepaging Limited	<u>3,599</u>	<u>5,461</u>	<u>7,324</u>
	<u>14,795</u>	<u>22,502</u>	<u>30,208</u>

	<b>Redemption premium</b>		
	<b>31 December</b>		
	<b>2001</b>	<b>2002</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
China Resources (Holdings) Company Limited	10,820	16,446	22,071
Mobile Systems International Cellular Investments Holdings BV	376	595	813
Telepaging Limited	<u>3,599</u>	<u>5,461</u>	<u>7,324</u>
	<u>14,795</u>	<u>22,502</u>	<u>30,208</u>

- (c) Telepaging Limited (“Telepaging”), a shareholder of the Company, was appointed as a content provider and a dealer for selling the Company’s PCS handsets on a consignment basis. The consignment arrangement ceases when the handsets are sold to subscribers and sale of the handsets is made from the Company to Telepaging. The Company also pays commission to Telepaging on SIM activation and airtime on those subscribers acquired through Telepaging’s outlets. Sales to Telepaging amounted to HK\$47,022,239 (31 December 2002: HK\$52,167,777, 31 December 2001: HK\$38,821,347) and commission paid was HK\$43,542,183 (31 December 2002: HK\$41,917,619, 31 December 2001: HK\$33,059,372) for the year ended 31 December 2003. The total fees paid to Telepaging for provision of information and content was HK\$659,953 (31 December 2002: HK\$634,313, 31 December 2001: HK\$1,696,710). The net amount due from Telepaging at 31 December 2003 amounted to HK\$16,884,707 (31 December 2002: HK\$31,552,772, 31 December 2001: HK\$12,440,239).

The sales of handsets are at the same price as those charged by Telepaging to its customers. After the sale, Telepaging receives a commission of HK\$120 for each handset sold. The Company pays activation commission depending on the particular tariff plan selected by the customer and monthly usage commissions of 5 per cent. of the total monthly billing of each Telepaging enlisted customer. Telepaging charges a fixed monthly fee, depending on the type and nature of the information and content provided during the month.

- (d) mVantage Limited, a company controlled by the spouse of a director of the Company, was appointed to provide management support for the formulation and implementation of its mobile VAS strategy and purchased secondhand and obsolete handsets from the Company. The amount of consultancy fees paid was HK\$1,200,000 (31 December 2002: HK\$1,150,000, 31 December 2001: HK\$500,000). Sales of secondhand and obsolete handsets amounted to HK\$9,319,010 (31 December 2002: HK\$2,289,275, 31 December 2001: HK\$Nil).

The consultancy fees are payable at pre-determined amounts by reference to market rates in accordance with the terms of the consultancy agreement signed by the Company and mVantage Limited.

- (e) Tate’s Cairn Tunnel Co Ltd, a company controlled by China Resources (Holdings) Company Limited, a shareholder of the Company, leases sites to the Company, on which three base stations are situated. The rental expenses paid was HK\$2,144,021 (31 December 2002: HK\$1,951,960, 31 December 2001: HK\$1,543,300).

Rental expenses are payable at a pre-determined amount per month in accordance with the terms of the license agreements signed by the Company and Tate’s Cairn Tunnel Co Ltd.

The Directors of the Company have confirmed that the material related party transactions set out in (c), (d) and (e) above will continue after the listing of the Company’s Shares on the Stock Exchange.

**29. Ultimate holding company**

The directors consider the ultimate holding company at 31 December 2003 to be China Resources National Corporation, a company incorporated in the People's Republic of China.

**D. SUBSEQUENT EVENTS**

The following events took place subsequent to 31 December 2003:

- (a) On 15 December 2003, Telepaging Limited (holding on behalf of Onwel Strategic Holdings Limited) executed an Instrument of Transfer to transfer its shareholding in the Company to Onwel Capital Company Limited. The Instrument of Transfer became effective on 2 January 2004.
- (b) On 3 February 2004, the holders of the Preference Shares signed an irrevocable undertaking to the effect that conditional on the Capitalisation Issue taking effect (which is expected to be immediately after the closing of the Global Offering but before the Ordinary Shares commence dealings on the Stock Exchange), the Preference Shareholders will convert their respective Preference Shares into fully paid Ordinary Shares at the conversion rate of one Ordinary Share for every one Preference Share upon the terms of the Articles of Association, provided that fractions of Ordinary 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.
- (c) On 17 February 2004, the Company received confirmation by the High Court of Hong Kong which allowed the Company to reduce the Company's accumulated losses in the amount of HK\$305,305,000 with the credit arising out of the capital reduction exercise by reducing the nominal amount of all the issued Ordinary and Preference Shares of the Company from HK\$1.00 to HK\$0.48, further details of which are set out in the section headed "Share Capital" to this Prospectus.
- (d) The Company changed its name from Peoples Telephone Company Limited to its existing name on 25 February 2004.
- (e) Pursuant to a resolution in writing signed on 4 March 2004 by all the shareholders of the Company, a Share Option Scheme and Pre-IPO Share Option Scheme have been conditionally approved and adopted by the Company.
- (f) On 10 March 2004, resolutions were passed by all of the ordinary shareholders of the Company and the holders of the Preference Shares to resolve that the Company will, conditional upon the share premium account of the Company being sufficiently credited as a result of the Global Offering, allot and issue immediately after the closing of the Global Offering such number of shares based on the Offer Price per share to the holders of the convertible preference shares in return for them agreeing to convert their respective Preference Shares immediately after the closing of the Global Offering but before the listing of the Ordinary Shares on the Stock Exchange, and thereby forfeiting their respective rights to any cumulative preferential dividend payable to them by the Company in the future by capitalising the share premium account arising from the proposed listing of new shares.

- (g) On 10 March 2004, the Company entered into an unsecured loan facility in the amount of HK\$300.0 million to repay a portion of the loans from the Company's shareholders. This loan is repayable in instalments, with the final instalment repayable on 10 March 2006. The loan facility contains certain covenants requiring the Company, amongst other things, to maintain certain levels of net profit, net worth, cap on capital expenditure, liquidity and interest coverage. One of the events of default under the loan facility will be triggered if China Resources, the Company's controlling shareholder, ceases either (i) to be the single largest shareholder or (ii) to hold 30 per cent. or more of the Company's ordinary shares. The Company also has the right to accelerate the repayment of the loan facility on or after 10 March 2005.

#### **E. DIRECTORS' EMOLUMENTS**

Save as disclosed in Section C above, no remuneration has been paid or is payable in respect of the relevant period by the Company to the directors of the Company. Under the arrangements presently in force, the estimated aggregate amount of the Company's directors' and non-executive directors' emoluments payable for the year ending 31 December 2004 is not more than HK\$12.0 million.

#### **F. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared by the Company in respect of any period subsequent to 31 December 2003.

Yours faithfully,  
**KPMG**  
*Certified Public Accountants*  
Hong Kong