



華潤萬眾電話有限公司

CHINA RESOURCES PEOPLES TELEPHONE COMPANY LIMITED

(incorporated in Hong Kong with limited liability under the Companies Ordinance)

Interim Report 2004



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CORPORATE INFORMATION

Board of Directors

Executive Directors

LEUNG Kai Hung, Michael
(Executive Vice Chairman)
HENSHAW Charles Guy
WONG Man Kwan, Willie
LEUNG Ka On, Charlotte

Non-Executive Directors

NING Gao Ning *(Chairman)*
JIANG Wei
LI Fu Zuo
WU Jun
HUANG Zhi Jian
SINN Chung Ming, Anthony

Independent Non-Executive Directors

Audit Committee

CHEN Kwan Yiu, Edward
MA Chiu Cheung, Andrew
TAN Henry
LAM Kwong Yu (Appointed on 24th August 2004)

Company Secretary

KONG Kin Sing, James

Principal Place of Business

8th Floor, Manhattan Centre
8 Kwai Cheong Road
Kwai Chung
Kowloon
Hong Kong, China

Principal Share Registrar and Transfer Office

Tricor Investor Services Limited
Ground Floor
Bank of East Asia Harbour View Centre
56 Gloucester Road
WanChai
Hong Kong, China

Principal Bankers

CITIC Ka Wah Bank Limited
The Bank of East Asia, Limited
The Hongkong and Shanghai Banking
Corporation Limited

Auditors

KPMG
8th Floor, Prince's Building
10 Chater Road
Central
Hong Kong, China

Stock Code

The Stock Exchange of Hong Kong Limited: 0331

Website

www.peoples.com.hk

CHAIRMAN'S STATEMENT

The Company has achieved several key financial milestones in the first half of 2004. On 17 February, 2004, the High Court of Hong Kong confirmed the Company's petition on Capital Reduction. On 1 April 2004, the Company's shares were successfully listed on the main board of The Stock Exchange of Hong Kong Limited. By using the IPO proceeds and the draw-down of a new bank loan, the Company has repaid the shareholders' loans and accrued interest amounting to \$929 million.

FINANCIAL HIGHLIGHTS

Despite arduous competition and the aggressive third generation (3G) promotional offerings, the Company's profitability has recovered from the downward trend due to the price war and SARS (Severe Acute Respiratory Syndrome) epidemic and back on an upward track.

Turnover for the period ended 30 June 2004 was \$831 million, an increase of 2 per cent. as compared to \$813 million in the previous six months and flat against \$829 million for the same period last year.

The Company's earnings before interest, tax, depreciation and amortisation ("EBITDA") of \$266 million increased by approximately 2 per cent. against \$261 million of the previous six months and down 17 per cent. for the same period last year. Earnings before tax ("EBT") of \$148 million rose by 11 per cent. on the preceding six months and again down 24 per cent. or \$45 million on the corresponding period last year. The current depression against the first half of 2003 is principally attributed to last year's price war which lowered the ARPU (average revenue per user) as more handset rebates and tariff discounts were offered.

Profits attributable to shareholders amounted to \$119 million which was a 12 per cent. increase on \$106 million for the preceding six months and a 28 per cent. decrease on \$164 million for the corresponding period last year. Earnings per share for the period ended 30 June 2004 was \$0.20.

INTERIM DIVIDEND

At a meeting held on 24 August 2004, the Directors declared an interim dividend of \$0.13 per share for the six months ended 30 June 2004 (2003: Nil).

BUSINESS REVIEW

During the period under review, the Company continued to pursue the drive for service quality and customer satisfaction. The Company also strived to strengthen its brand loyalty and improvements in all areas of its service offerings, from products and network performance to customer care, establishing a broader foundation for future revenue growth and profitability.

- The Company sustained its strategy of providing the best value for money mobile services through its best offer matching policy. This strategy gives reassurance to our customers that they do not need to continuously search for the best value mobile services by switching from operator to operator. As a result, the Company's subscriber base has remained stable.
- The Company continues to monitor the merits of the network and services and has continued to dedicate resources in further enhancing network and service quality through close co-operation with infrastructure suppliers. During the period under review, the Company effected significant organisational structure. Not only will these changes create synergies and improve productivity in the organisation, they will also enhance the Company's ability to ensure end-to-end service performance.
- Through strengthening its partnerships with handset suppliers, the Company has rolled out a series of successful handset promotions during the period, targeting to attract new customers, as well as encouraging handset upgrades for existing customers. This strategy has successfully increased handsets and accessories sales by 16 per cent. to \$177 million (second half of 2003: HK\$153 million). Handset upgrades also encourage a wider adoption of multimedia services as more customers are equipped with state-of-the-art handsets designed for the advance data services on offer.
- The Company continues to strengthen its data services offering. During the period under review, contents of the COLOR portal have been enriched, ease of use of data services has been enhanced, and further customer education of data services has been successfully launched. The Company's data services revenue has enjoyed an encouraging growth of 34 per cent. as compared to the preceding six months.

OUTLOOK

Riding on the Company's solid foundation of proven business strategies, a loyal customer base and an efficient operation, the Company strives to further differentiate itself from its competitors by providing value for money and demand-driven mobile voice and data services to its customers.

Whilst the Company will continue to adopt the best offer matching strategy, it is also starting to be a creator of demand-driven mobile services. Seeing a tremendous and continuous increase in travellers from Mainland China under the "Individual Visit Scheme", the Company was the first to launch a \$28 "Easy Talk" prepaid card catering for these travellers in April 2004. Leveraging on the Company's recognised strength in providing value for money mobile services, it will continue to identify areas of customers' demands and create products that are both of good value and can suit their needs.

The Company is fully committed to EDGE with Phase 1 of the network now completed. EDGE is a substantial enhancement over the current 2.5G data services allowing the introduction of new and exciting multimedia services that will satisfy our customers' needs. The Company is particularly enthusiastic about the launch of new services like video streaming and is currently working with a range of local and overseas content providers to secure the best and most desirable material. The Company is confident that the introduction of these new data services over EDGE will provide the impetus to accelerate the growth of data revenue.

On 23 April 2004, the Company successfully obtained a Certificate in the VAS section under the Closer Economic Partnership Arrangement (CEPA) for certification as a Hong Kong service supplier to the Mainland. The Company is proactively searching for opportunities in the PRC's telecommunications market for future expansion. With China Resources as our largest shareholder and leveraging its vast expertise, the Company will be able to serve the mobile communication market in the PRC with our data content with much greater economy of scale.

With these initiatives, together with improved economic conditions, the Company is well positioned to improving competitiveness, driving revenue growth and enhancing profitability and return to shareholders.

APPRECIATION

For and on behalf of the Board, I would like to thank our loyal customers, shareholders and fellow Directors for their continual support. I would also like to express my gratitude to all our staff for their enduring hard work and dedicated contributions to the Company.

Ning Gao Ning

Chairman

Hong Kong, 24 August 2004

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

The Company has accomplished the following key financial milestones in the first half of 2004:

- On 17 February 2004, the High Court of Hong Kong confirmed the Company's petition on Capital Reduction.
- On 1 April 2004, the Company's shares were successfully listed on the main board of The Stock Exchange of Hong Kong Limited.
- By using the IPO proceeds and the proceeds from the draw-down of a new bank loan, the Company has repaid the shareholders' loans and accrued interest amounting to \$929 million.

As a result, the Company's shareholders' fund was substantially increased by \$1,004 million to \$1,069 million in comparison with \$65 million as at 31 December 2003 after the above financial arrangements.

Operating Performance

Despite brutal competition in the market, the Company succeeded in achieving profits attributable to shareholders of \$119 million, in the six month period ended 30 June 2004, a 12 per cent. surge from \$106 million of the previous six months ended 31 December 2003.

The Company's earnings before interest, tax, depreciation and amortisation ("EBITDA") for the reviewed period improved to \$266 million (second half of 2003: \$261 million).

Total turnover in the period increased by 2 per cent. to \$831 million (second half of 2003: \$813 million).

- Airtime and service charges in the period remained stable at \$654 million (second half of 2003: \$660 million). In order to match with other competitors, average monthly postpaid revenue per user (ARPU) for the period was slightly lower as more handset rebates and higher voice traffic discounts were offered to customers. However, the Company's postpaid average monthly churn rate for the period reduced to 3.4 per cent. from 3.8 per cent. and 3.9 per cent. for the average of the prior six months and the same period last year respectively.
- The successful launch of a series of comprehensive prepaid products has stimulated the Company's prepaid sales up by 14 per cent. in comparison with the corresponding period in 2003 or 3 per cent. in comparison with the previous six months to 31 December 2003.

- The Company's data revenue has recorded remarkable growth of 34 per cent. as compared with the second half of 2003. During the period under review, the Company continued to strengthen the contents of the COLOR portal, with the aim of ensuring that there are sufficient content to suit the wide-ranging interests of our customers. In addition, the Company also furthered its efforts in strengthening the data product knowledge of frontline staff, such that they are well equipped to educate the customers and promote data services. As a result, data services have received a boarder acceptance from data users which generated higher revenue for the Company.
- Handsets and accessories sales in the period were \$177 million, a 16 per cent. jump from \$153 million in the second half of 2003. The launch of the "instant rebate" program and having more new handset models with advanced features has stimulated the increase in handset sales.

Cost of goods sold and services provided increased to \$260 million (second half of 2003: \$237 million) arising from a higher volume of handsets sold and increasing local interconnection cost and infotainment services charges. These higher costs are reflected in the corresponding increases in handset sales and increasing traffic.

Even with the fact that the Company has achieved a solid niche as a low-cost operator, overall operating expenses (excluding depreciation and amortisation) for the six months ended 30 June 2004 was further reduced by 4 per cent. to \$306 million as compared with the second half of 2003 of \$318 million which indicates continuous operating efficiency and improved cost control.

Capital Structure and Use of Proceeds

On 17 February 2004, the Company received confirmation from the High Court of Hong Kong to allow the Company to reduce the accumulated losses in the amount of HK\$305 million with the credit arising from reducing the nominal amount of the issued Ordinary and Preference Shares of the Company from HK\$1.00 to HK\$0.48 each. The above reduction has therefore enable the Company to bring forward the time to pay dividend.

The Company's shares were listed on The Stock Exchange of Hong Kong on 1 April 2004 with a Global Offering of 149,450,000 new shares and 119,075,000 of old shares to the public and institutional investors. The Global Offering raised a total of HK\$680 million of new share capital to the Company. Upon the completion of the Global Offering, all convertible Preference Shares in the amount of HK\$74 million was converted into Ordinary Shares of the Company and 7,066,019 Ordinary Shares were issued to the holders of Preference Shares in return for them agreeing to convert their Preference Shares and thereby forfeiting their respective rights to any cumulative preferential dividend in the amount of HK\$32 million payable to them by the Company in the future.

On 1 April 2004, an unsecured HK\$300 million floating rate loan facility has been fully drawn down. The unsecured loan is repayable in four instalments, with the final instalment repayable on 10 March 2006. The loan facility contains certain covenants requiring the Company, among other things, to maintain certain levels of net profits, net worth, cap on capital expenditure, liquidity, interest coverage and controlling shareholding of China Resources. There was no trigger of any events of default as at 30 June 2004.

Part of the net proceeds of the Global Offering and the draw-down of HK\$300 million loan facility were used to repay the shareholders' loans and accrued interest thereon in the aggregate amount of HK\$929 million. The remaining balance of the proceeds is kept in the form of short-term bank deposit and will be applied for general working capital purpose.

Liquidity and Financial Resources

The cash position of the Company has improved with cash and bank balances at 30 June 2004 of HK\$185 million, verses HK\$66 million at 30 June 2003.

The Company had a net cash inflow from operating activities during the period of HK\$304 million. Net cash used in investing activities during the period was HK\$211 million compared to HK\$69 million in the same period in 2003 due to increase in investment on EDGE and perfecting the network. The Company also had an inflow of HK\$46 million being the remaining balance of the net proceeds from the Global Offering.

At 30 June 2004, the net current liabilities of the Company amounted to HK\$24 million. This was primarily due to an increase in the current portion of the outstanding HK\$300 million bank loan drawn on 1 April 2004. Since the Company has continued to generate positive cash flow during the first six months of the year, the Directors are of the opinion that the Company can fund its ongoing capital expenditure and operating expenses for the remainder of the financial year from existing cash resources and its committed borrowing facilities.

At 30 June 2004, the total debt to total assets ratio reduced to 18.3 per cent. from 74.2 per cent. as at 31 December 2003.

Treasury Policy and Foreign Exchange Exposure

Under the period reviewed, the Company had placed its surplus funds on short-term deposit with banks in Hong Kong.

The Company's assets, liabilities, revenues and expenses were mainly denominated in Hong Kong dollars or U.S. dollars and the exchange rate between these two currencies has remained pegged. At 30 June 2004, no derivative financial instruments were used for financial risk management purpose (31 December 2003: HK\$98 million).

CONTINGENT LIABILITIES

At 30 June 2004, the Company had obtained certain letters of guarantee from bank in aggregate of HK\$2 million (31 December 2003: HK\$2 million).

EMPLOYEES AND SHARE OPTION SCHEME

The Company had 596 full-time staff and 98 part-time and temporary staff as at 30 June 2004, all based in Hong Kong. Staff receives remuneration package consisting of basic salary, bonus and other benefits. Benefits include a mandatory provident fund scheme and medical insurance. Staff members are provided with both internal and external training appropriate to each individual's requirements.

The Company had approved a Pre-IPO share option scheme on 4 March 2004, under which the Company may grant options to the participants, including Directors and employees, to subscribe for shares of the Company at offer price at different exercise periods. During the reviewed period, 591 options to subscribe for 58,100,000 shares were granted to employees and Directors for a total consideration of HK\$591. The share options are exercisable at HK\$4.55 per share, which was the Offer Price of the Company's shares pursuant to the Global Offering.

During the six months ended 30 June 2004, no options were exercised and 27 options to subscribe for 1,350,000 shares were cancelled upon termination of employment of certain employees.

INDEPENDENT REVIEW REPORT TO THE BOARD OF DIRECTORS OF CHINA RESOURCES PEOPLES TELEPHONE COMPANY LIMITED

Introduction

We have been instructed by the company to review the interim financial report set out on pages 11 to 30.

Respective responsibilities of Directors and auditors

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Statement of Standard Accounting Practice 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Review work performed

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2004.

KPMG

Certified Public Accountants
Hong Kong, 24 August 2004

CONDENSED FINANCIAL STATEMENTS

(All references to "\$" are to the Hong Kong dollar)

The Directors are pleased to present the Company's interim report and the condensed financial statements for the six months ended 30 June 2004. The condensed income statement, the condensed cash flow statement and the statement of changes in equity for the six months ended 30 June 2004, and the condensed balance sheet as at 30 June 2004 of the Company, all of which are unaudited, along with selected explanatory notes, are set out on pages 11 to 30 of this report.

CONDENSED INCOME STATEMENT

For the six months ended 30 June 2004

		Unaudited six months ended 30 June	
		2004	2003
		\$'000	\$'000
	Note		
Turnover	2	830,786	829,179
Direct cost of goods sold and services provided			
— Cost of handsets and accessories		(159,274)	(132,934)
— Interconnection cost		(101,073)	(88,252)
		570,439	607,993
Other revenue	4	1,730	1,756
Other net income/(loss)	4	40	(104)
Operating expenses		(409,829)	(381,655)
Profits from operations		162,380	227,990
Finance costs	5	(14,647)	(34,772)
Profits before taxation	5	147,733	193,218
Income tax	6	(28,697)	(28,953)
Profits attributable to shareholders		119,036	164,265
Dividend			
In respect of the period	7	96,673	—
Earnings per share (in HK\$)			
— Basic	8	0.20	0.38
— Diluted	8	0.20	0.29
EBITDA	9	265,811	319,644

The notes on pages 15 to 30 form part of these interim financial statements.

CONDENSED BALANCE SHEET

As at 30 June 2004

	Note	Unaudited 30 June 2004 \$'000	Audited 31 December 2003 \$'000
Non-current assets			
Fixed assets	10	1,169,787	1,149,770
Construction in progress		34,395	8,762
Secured deposits		1,550	1,631
Intangible assets	11	30,539	30,847
Deferred tax assets		7,346	36,043
		1,243,617	1,227,053
Current assets			
Inventories		21,307	18,932
Amount due from shareholders		—	20,595
Amount due from fellow subsidiaries		—	330
Amount due from a related company		19,001	—
Secured deposits		26,021	69,252
Trade and other receivables	12	143,307	143,946
Cash and cash equivalents	13	184,555	46,121
		394,191	299,176
Current liabilities			
Trade and other payables	14	(264,656)	(618,619)
Current portion of interest-bearing borrowings	15	(150,000)	(624,869)
Amount due to shareholders		—	(3,610)
Amount due to a related company		(3,956)	—
Convertible Preference Shares	16	—	(214,541)
		(418,612)	(1,461,639)
Net current liabilities		(24,421)	(1,162,463)
Total assets less current liabilities		1,219,196	64,590
Non-current liabilities			
Interest-bearing borrowings	15	(150,000)	—
Net Assets		1,069,196	64,590
Capital and reserves			
Share capital	17	356,948	433,000
Reserves	19	712,248	(368,410)
		1,069,196	64,590

The notes on pages 15 to 30 form part of these interim financial statements.

CONDENSED CASH FLOW STATEMENT

For the six months ended 30 June 2004

	Unaudited six months ended 30 June	
	2004	2003
	\$'000	\$'000
Net cash inflow from operating activities	303,674	198,940
Investing activities		
Payment for fixed assets	(143,521)	(24,197)
Payment for construction in progress	(58,498)	(41,570)
Payment for purchase of intangible assets	(9,058)	(3,170)
Proceeds from sales of fixed assets	53	—
Net cash used in investing activities	(211,024)	(68,937)
Financing activities		
Proceeds from bank and other loans	300,000	20,909
Proceeds from issue of new shares upon the Global Offering	679,997	—
Payment of listing expenses	(4,983)	—
Repayment of bank and other interest-bearing borrowings	—	(104,606)
Repayment of shareholders' loans	(624,869)	(100,000)
Payment of accrued interest on shareholders' loans	(304,361)	—
Payment of other interest	—	(4,810)
Net cash from/(used in) financing activities	45,784	(188,507)
Net increase/(decrease) in cash and cash equivalents	138,434	(58,504)
Cash and cash equivalents at 1 January	46,121	124,809
Cash and cash equivalents at 30 June	184,555	66,305

The notes on pages 15 to 30 form part of these interim financial statements.

STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2004

	Ordinary Share Capital \$'000	Share Premium \$'000	Other Reserve \$'000	Retained Profits/ (Accumulated Losses) \$'000	Total \$'000
As at 1 January 2004	433,000	—	—	(368,410)	64,590
Capital Reduction (note 17a)	(225,160)	—	—	305,305	80,145
Issue of new shares (net of listing expenses) (note 17b)	71,736	596,654	—	—	668,390
Issue of new shares upon conversion of Preference Shares (notes 16, 17c & 19)	73,980	—	63,055	—	137,035
Capitalisation Issue (note 17d)	3,392	(3,392)	—	—	—
Profit for the period	—	—	—	119,036	119,036
As at 30 June 2004	356,948	593,262	63,055	55,931	1,069,196

	Ordinary Share Capital \$'000	Share Premium \$'000	Other Reserve \$'000	Retained Profits/ (Accumulated Losses) \$'000	Total \$'000
As at 1 January 2003	433,000	—	—	(638,486)	(205,486)
Profit for the year	—	—	—	270,076	270,076
As at 31 December 2003	433,000	—	—	(368,410)	64,590

The notes on pages 15 to 30 form part of these interim financial statements.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2004

1. Basis of Preparation and the Principal Accounting Policies

These interim financial statements have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25, "Interim financial reporting", issued by the Hong Kong Society of Accountants, and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accounting policies and methods of computation used in the preparation of these interim financial statements are consistent with those used in the Company's annual financial statements for the year ended 31 December 2003. The interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2003.

2. Turnover

The principal activity of the Company is the provision of mobile telecommunications and related services.

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

	Six months ended 30 June	
	2004	2003
	\$'000	\$'000
Sales of handsets and accessories	176,652	144,749
Airtime and service charges	654,134	684,430
	830,786	829,179

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2004

3. Segment Reporting

For the six months ended 30 June 2004, the Company's turnover and operating profits were primarily attributable to its mobile communications operations in the Special Administrative Region of Hong Kong. Accordingly, no analysis by either business or geographical segment is included in these interim financial statements.

4. Other Income

	Six months ended 30 June	
	2004	2003
	\$'000	\$'000
Other revenue		
Bank interest income	218	258
Commission income	37	84
Sundry income	1,475	1,414
	<u>1,730</u>	<u>1,756</u>
Other net income/(loss)		
Exchange gain/(loss)	40	(104)
	<u>40</u>	<u>(104)</u>

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2004

5. Profits Before Taxation

Profits before taxation is arrived at after charging/(crediting):

	Six months ended 30 June	
	2004	2003
	\$'000	\$'000
(i) Finance costs:		
Interest on bank and other loans repayable within five years	1,103	2,139
Interest on shareholders' loans	10,905	25,430
Dividend on convertible Preference Shares	1,942	3,822
Redemption premium on convertible preference shares	697	3,821
	<u>14,647</u>	35,212
Less: Borrowing costs capitalised	—	(440)
	<u>14,647</u>	<u>34,772</u>
(ii) Staff costs:		
Retirement costs	4,199	3,686
Salaries, wages and other benefits	79,449	78,656
	<u>83,648</u>	82,342
Less: Staff costs capitalised ⁽¹⁾	<u>(14,341)</u>	<u>(11,351)</u>
	<u>69,307</u>	<u>70,991</u>
Other items:		
Depreciation	94,065	83,778
Amortisation of intangible assets	9,366	7,876
Cost of inventories sold	159,274	132,934
Loss on disposal of fixed assets	270	—
Operating lease rentals in respect of properties	93,480	85,371
Provision for bad and doubtful debts	12,545	14,631

⁽¹⁾ The staff costs directly attributable to the construction of fixed assets have been capitalised and included in network and billing equipment.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS *(continued)*

For the six months ended 30 June 2004

6. Taxation

- a. No provision for Hong Kong Profits Tax has been made for the period as the Company had sufficient tax losses brought forward to offset the assessable profits for the period (2003: Nil).
- b. Income tax expense charged to the condensed income statement represents:

	Six months ended 30 June	
	2004	2003
	\$'000	\$'000
Deferred tax		
Reversal of temporary differences	28,697	37,574
Effect of increase in tax rate on deferred tax at 1 January	—	(8,621)
	<hr/>	<hr/>
Total income tax	28,697	28,953
	<hr/> <hr/>	<hr/> <hr/>

- c. Reconciliation between tax expense and accounting profits at applicable rate:

	Six months ended 30 June	
	2004	2003
	\$'000	\$'000
Profits before taxation	147,733	193,218
	<hr/>	<hr/>
Notional tax on profits before tax calculated at 17.5 per cent	25,853	33,813
Tax effect of non-deductible expenses	2,988	3,761
Tax effect of non-taxable revenue	(144)	—
Effect on opening deferred tax balances resulting from increase in tax rate during the period	—	(8,621)
	<hr/>	<hr/>
	28,697	28,953
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS *(continued)*

For the six months ended 30 June 2004

7. Interim Dividend

At a meeting held on 24 August 2004, the Directors declared an interim dividend of \$96,673,000 (\$0.13 per share) for the six months ended 30 June 2004 (2003: Nil). This declared dividend is not reflected as a dividend payable in these interim financial statements but will be accounted for as an appropriation of retained profits for the year ending 31 December 2004.

The Company did not pay any interim dividend during the six months ended 30 June 2004 (2003: Nil).

8. Basic And Diluted Earnings Per Share**a. Basic earnings per share**

The calculation of basic earnings per share is based on the profits attributable to shareholders of \$119,036,000 (2003: \$164,265,000) and the weighted average number of Ordinary Shares outstanding during the period of 588,320,510 (2003: 433,000,000).

Reconciliation:

	Number of Shares
At 1 January 2004	433,000,000
Weighted average number of Ordinary Shares for new issued shares	74,725,000
Weighted average number of Ordinary Shares upon conversion of Preference Shares	77,062,500
Weighted average number of Ordinary Shares issued pursuant to the Capitalisation Issue	<u>3,533,010</u>
At 30 June 2004	<u><u>588,320,510</u></u>

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2004

8. Basic And Diluted Earnings Per Share (continued)

b. Diluted earnings per share

The calculation of diluted earnings per share is based on the profits attributable to Ordinary Shareholders of \$119,036,000 (2003: \$171,908,000) and the weighted average number of Ordinary Shares of 588,320,510 shares as at 30 June 2004 (2003: 587,125,000). For the six months ended 30 June 2004, there was no potentially dilutive share outstanding.

	Six months ended 30 June	
	2004	2003
	\$'000	\$'000
Profit attributable to shareholders	119,036	164,265
Adjusted for:		
Accrued dividend and accrued redemption premium on convertible Preference Shares	—	7,643
Profit attributable to Ordinary Shareholders	119,036	171,908
	Number of shares	
Weighted average number of Ordinary Shares	588,320,510	433,000,000
Deemed conversion of Preference Shares	—	154,125,000
Weighted average number of Ordinary Shares in calculating diluted earnings per share	588,320,510	587,125,000
Diluted earnings per share (HK\$)	0.20	0.29

9. EBITDA

EBITDA represents earnings before interest, taxation, depreciation and amortisation expenses.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS *(continued)*

For the six months ended 30 June 2004

10. Fixed Assets

	\$'000
Cost	
At 1 January 2004	1,914,052
Additions	81,540
Transfer from construction in progress	32,865
Disposals/write-off	(1,792)
	<hr/>
At 30 June 2004	2,026,665
	<hr/>
Accumulated depreciation	
At 1 January 2004	764,282
Charge for the period	94,065
Disposals/write-off	(1,469)
	<hr/>
At 30 June 2004	856,878
	<hr/> <hr/>
Net book value	
At 30 June 2004	1,169,787
	<hr/> <hr/>
At 31 December 2003	<u>1,149,770</u>

At 30 June 2004, the net book value of fixed assets held by the Company under finance leases amounted to \$258,000 (31 December 2003: \$296,000).

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2004

11. Intangible Assets

	\$'000
At 1 January 2004	30,847
Additions	9,058
Amortisation	<u>(9,366)</u>
At 30 June 2004	<u><u>30,539</u></u>

Intangible assets comprise of the initial licence fee for the provision of Personal Communication Service ("PCS") and the access fee for the utilisation of a distributed communication system and customers retention cost which represents the discount amount on sale of handsets to existing subscribers. Initial licence fee is amortised on a straight line basis over the licence terms. Access fee and customers retention cost are amortised on a straight line basis in accordance with the lease period of base stations and the terms of service agreements, respectively.

12. Trade and Other Receivables

	30 June 2004 \$'000	31 December 2003 \$'000
Trade receivables, net of provision for bad and doubtful debts	83,917	79,094
Other receivables and prepayments	59,390	64,852
	<u>143,307</u>	<u>143,946</u>

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:

Current	61,628	55,666
Over 1 month but less than 3 months	17,785	19,126
Over 3 months but less than one year	4,504	4,302
	<u>83,917</u>	<u>79,094</u>

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2004

13. Cash and Cash Equivalents

	30 June 2004 \$'000	31 December 2003 \$'000
Deposit with banks	153,800	22,980
Cash at bank and in hand	30,755	23,141
	184,555	46,121

14. Trade and Other Payables

	30 June 2004 \$'000	31 December 2003 \$'000
Bills payable	43,289	151,210
Trade payables	131,463	94,542
Other payables and accruals	89,904	372,867
	264,656	618,619

The ageing analysis of the trade payables of the Company are as follows:

Current	34,985	52,531
Over 1 month but less than 2 months	63,911	24,131
Over 2 months but less than 3 months	16,966	6,940
Over 3 months	15,601	10,940
	131,463	94,542

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2004

15. Interest-Bearing Borrowings

At 30 June 2004, the interest-bearing borrowings were repayable as follows:

	30 June 2004 \$'000	31 December 2003 \$'000
Within 1 year	150,000	624,869
After 1 year but within 2 years	150,000	—
	<u>300,000</u>	<u>624,869</u>

On 10 March 2004, the Company entered into an unsecured \$300 million loan facility with floating rate interest. The loan facility is repayable in four equal 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 profits, 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, cease either (i) to be the single largest shareholder or (ii) to hold 30 per cent. or more of the Company's Ordinary Shares.

On 1 April 2004, the facility was fully drawn down and the first instalment was repaid to the bank on 12 July 2004.

On 1 April 2004, the shareholders' loans of \$624,869,000 was repaid.

16. Convertible Preference Shares

	\$'000
At 1 January 2004	214,541
Accrued Preference dividends for the period	1,942
Accrued Redemption premium for the period	697
Capital Reduction (note 17a)	(80,145)
Conversion of Preference Shares to Ordinary Shares (note 17c)	(73,980)
Transferred to Other Reserve (note 17c & 19)	(63,055)
	<u>—</u>
At 30 June 2004	<u>—</u>

On 1 April 2004, the Preference Shareholders converted their respective Preference Shares into fully paid Ordinary Shares at the conversion rate of one Ordinary Share for every one Preference Share, the accrued redemption premium was extinguished and transferred to the "Other Reserve" account and the accrued preference dividends lapsed pursuant to the Capitalisation Issue.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2004

17. Share Capital

	30 June 2004 \$'000	31 December 2003 \$'000
<i>Authorised:</i>		
2,500,000,000 Ordinary Shares of \$0.48 each (31 December 2003: 433,000,000 Ordinary Shares of \$1.00 each)	1,200,000	433,000
154,125,000 Preference Shares of \$0.48 each (31 December 2003: 200,000,000 Preference Shares of \$1.00 each)	73,980	200,000
	<u>1,273,980</u>	<u>633,000</u>
<i>Issued and fully paid:</i>		
743,641,019 Ordinary Shares of \$0.48 each (31 December 2003: 433,000,000 Ordinary Shares of \$1.00 each)	<u>356,948</u>	<u>433,000</u>

The following events took place in respect of the Company's share capital during the six months ended 30 June 2004:

- a. On 17 February 2004, the Company received confirmation from the High Court of Hong Kong which allowed the Company to reduce the Company's accumulated losses in the amount of \$305,305,000 with the credit arising out of the Capital Reduction exercise by reducing the nominal amount of the issued Ordinary and Preference Shares of the Company from \$1.00 to \$0.48 each.
- b. On 1 April 2004, immediately after the closing of the Global Offering and before the listing of the Ordinary Shares on the Stock Exchange, the Company issued 149,450,000 new Ordinary Shares at \$0.48 each to the subscribers of new shares.
- c. On 1 April 2004, immediately after the closing of the Global Offering and before the listing of the Ordinary Shares on the Stock Exchange, all of the 154,125,000 Preference Shares were converted into fully paid Ordinary Shares at the conversion rate of one Ordinary Share for every one Preference Shares. Upon the conversion of the Preference Shares, the amount arising from extinguishment of the accrued redemption premium and cumulative preference dividend were transferred to the "Other Reserve" account.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2004

17. Share Capital (continued)

- d. On 1 April 2004, pursuant to the Capitalisation Issue, 7,066,019 Ordinary Shares were issued to the Preference Shareholders. The number of shares issued to the Preference Shareholders was determined by reference to the amount of cumulative preference dividend which they would have received in the future, divided by the Offer Price (\$4.55) of the Company's shares pursuant to the Global Offering.

18. Employee Share Option Scheme

On 4 March 2004, the shareholders of the Company approved and adopted a Pre-IPO share option scheme, under which the Board may offer any employee, Director (including Independent Non-executive Directors), consultant or advisor of the Company options to subscribe for shares at a determined price.

On 11 March 2004, 591 options to subscribe for 58,100,000 shares were granted to employees and Directors for a total consideration of \$591. The share options are exercisable at \$4.55 per share, which was the Offer Price of the Company's shares pursuant to the Global Offering.

During the six months ended 30 June 2004, no options were exercised and 27 options to subscribe for 1,350,000 shares were cancelled upon termination of employment of certain employees.

At 30 June 2004, the outstanding options granted under the Company's share option scheme are as follows:

Date granted	Exercise Period	Exercise Price per share	Number of options		At 30 June 2004
			Exercised during the period	Cancelled during the period	
11 March 2004	11 March 2004 to 10 March 2014	\$4.55	—	27	564

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS *(continued)*

For the six months ended 30 June 2004

19. Reserves

	Share Premium \$'000	Other Reserve \$'000	Retained Profits/ (Accumulated Losses) \$'000	Total \$'000
As at 1 January 2004	—	—	(368,410)	(368,410)
Capital Reduction <i>(note 17a)</i>	—	—	305,305	305,305
Issue of new shares (net of listing expenses) <i>(note 17b)</i>	596,654	—	—	596,654
Issue of new shares upon conversion of Preference Shares <i>(note 16 & 17c)</i>	—	63,055	—	63,055
Capitalisation Issue <i>(note 17d)</i>	(3,392)	—	—	(3,392)
Profit for the period	—	—	119,036	119,036
As at 30 June 2004	<u>593,262</u>	<u>63,055</u>	<u>55,931</u>	<u>712,248</u>

Notes:

1. The application of the share premium account is governed by Section 48B of the Hong Kong Companies Ordinance.
2. As at 30 June 2004, the Company had \$118,986,000 reserve available for distribution to its shareholders.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2004

20. Commitments

a. Commitments under operating leases

At 30 June 2004, the total future minimum lease payments under non-cancellable operating leases in respect of property rentals are payable as follows:

	30 June 2004 \$'000	31 December 2003 \$'000
Within 1 year	133,057	123,204
After 1 year but within 5 years	55,930	54,006
	<u>188,987</u>	<u>177,210</u>

b. Capital Commitments

	30 June 2004 \$'000	31 December 2003 \$'000
Contracted for	<u>11,462</u>	<u>34,150</u>

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2004

21. Material Related Party Transactions

During the six months period, the Company had the following significant transactions with certain related parties in the ordinary course of business:

- a. Interest paid on shareholders' loans during the period are as follows:

	Six months ended 30 June	
	2004	2003
	\$'000	\$'000
China Resources (Holdings) Company Limited	8,188	19,203
Onwel Capital Company Limited ⁽¹⁾	79	—
Telepaging Limited ⁽¹⁾	—	155
	8,267	19,358

⁽¹⁾ On 2 January 2004, Telepaging Limited transferred its shareholding in the Company to Onwel Capital Company Limited.

⁽²⁾ The shareholders' loans interest paid to the ex-shareholders, KPN Telecom BV, Oversea Telecom AB and Celtel International B.V. for the six months ended 30 June 2004 were \$1,199,000 (2003: \$2,797,000), \$1,199,000 (2003: \$2,797,000) and \$240,000 (2003: \$478,000) respectively.

- b. Telepaging Limited ("Telepaging"), a company controlled by a Director of the Company, was appointed as a content provider and a dealer for selling the Company's PCS handsets on a consignment basis. Sales of handsets to Telepaging amounted to \$28,641,000 (2003: \$22,209,000) and commission paid on SIM activation and airtime on those subscribers acquired through Telepaging's outlets was \$20,095,000 (2003: \$22,038,000) for the six months ended 30 June 2004. The total fees paid to Telepaging for provision of information and content was \$298,000 (2003: \$398,000).
- c. 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 \$600,000 (2003: \$600,000). Sales of secondhand and obsolete handsets amounted to \$6,528,000 (2003: \$5,135,000).

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS *(continued)*

For the six months ended 30 June 2004

21. Material Related Party Transactions *(continued)*

- d. Tate's Cairn Tunnel Company Limited, 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 \$660,000 (2003: \$1,093,000).

OTHER INFORMATION

Interim Dividend

The Directors declared an interim dividend of HK\$0.13 (2003: Nil) per share for the six months ended 30 June 2004 to shareholders whose names appear in the Register of Members of the Company on 21 September 2004. It is expected that the interim dividend warrants will be dispatched to shareholders on or about 13 October 2004.

Closure of Register of Members

The Register of Members of the Company will be closed from Monday, 20 September 2004 to Tuesday, 21 September 2004 (both days inclusive) during which period no transfer of shares will be registered. In order to qualify for the aforesaid interim dividend, all transfers of shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's Share Registrar in Hong Kong, Tricor Investor Services Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong by no later than 4:00 p.m. on Friday, 17 September 2004.

Directors' Interests and Short Positions

At 30 June 2004, the interests or short positions of the Directors, chief executive and their respective associates in shares and in respect of equity derivatives, underlying shares and debentures of the Company and its associated corporations (as defined in the Securities and Futures Ordinance (the "SFO") as recorded in the register maintained by the Company under section 352 of the SFO were as follows:

a. Interests in Shares and Underlying Shares of the Company

Name of director	Shares				Equity derivatives		Percentage of aggregate interests to issued capital
	Beneficial owner	Discretionary trust founder & trust beneficiary	Spouse or child under 18	Controlled corporation	Share options ⁽²⁾	Aggregate interests	
Leung Kai Hung, Michael	16,488,500 ⁽³⁾	—	—	118,407,331 ⁽¹⁾	4,500,000	134,895,831	18.14
Leung Ka On, Charlotte	—	—	—	—	3,000,000	3,000,000	0.40
Wong Man Kwan, Willie	—	—	—	—	3,000,000	3,000,000	0.40
Henshaw Charles Guy	—	—	—	—	3,000,000	3,000,000	0.40
Ning Gao Ning	—	—	—	—	1,000,000	1,000,000	0.13
Jiang Wei	—	—	—	—	800,000	800,000	0.11
Li Fu Zuo	—	—	—	—	600,000	600,000	0.08
Wu Jun	—	—	—	—	600,000	600,000	0.08
Huang Zhi Jian	—	—	—	—	400,000	400,000	0.05
Sinn Chung Ming, Anthony	—	—	—	—	400,000	400,000	0.05

Notes:

- (1) These shares were held by Onwel Capital Company Limited and Mr. Leung Kai Hung, Michael has 100 per cent. interests of control of the Company.
- (2) The share options are exercisable at HK\$4.55 per share during the period from 11 March 2004 to 10 March 2014. The options can be exercised up to 20 per cent. from 11 March 2005, up to 40 per cent. from 11 March 2006, up to 60 per cent. from 11 March 2007, up to 80 per cent. from 11 March 2008 and whole from 11 March 2009.
- (3) These shares already included 4,500,000 share options.

b. Short Position in the Shares and Underlying Shares of the Company

Under the SFO, Mr. Leung Kai Hung, Michael held a short position through Onwel Capital Company Limited pursuant to equity derivatives in respect of 23,815,000 underlying shares in the Company as at 30 June 2004.

Disclosable Interests and Short Positions of Shareholders under the SFO

At 30 June 2004, the following parties (other than the Directors and chief executive of the Company) had interests or short positions of 5 per cent. or more in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO or as notified to the Company:

Name of shareholder	Note	Number of shares interested	Percentage of Shares to issued Share capital
Interests			
China Resources Co., Limited	1	356,704,770	47.97
China Resources National Corporation	2	356,704,770	47.97
Onwel Capital Company Limited		118,407,331	15.92
China Merchants Group Limited	3	65,823,000	8.85
Mochtar Riady	4	47,010,000	6.32
Lidya Suryawaty	5	47,010,000	6.32
Short Position			
Onwel Capital Company Limited		23,815,000	3.20

Notes:

1. For the purposes of the SFO, China Resources Co., Limited ("CRL") is deemed or taken to be interested in these shares which are beneficially owned by China Resources (Holdings) Company Limited ("CRH") through its wholly owned subsidiary, CRC Bluesky Limited.
2. For the purposes of the SFO, China Resources National Corporation ("CRNC") is interested in 99.984 per cent. of the registered capital of CRL and therefore, CRNC is deemed or taken to be interested in these Shares which are beneficially owned by CRH.
3. For the purposes of the SFO, China Merchants Group Limited is deemed or taken to be interested in these shares which are beneficially owned by China Merchants Holdings (Hong Kong) Limited through its wholly owned subsidiary, China Merchants Steam Navigation Company Limited.
4. For the purposes of the SFO, Mochtar Riady is the founder of a discretionary trust which held interest in shares of the Company.
5. For the purposes of the SFO, these shares were held by the spouse of Lidya Suryawaty.

Save as disclosed above, no other parties had registered as having an interest of 5 per cent. or more in the shares or underlying shares of the Company or having short positions as recorded in the register kept under section 336 of the SFO.

Purchase, Sale or Redemption of Shares

Save as disclosed above, during the six months ended 30 June 2004, the Company has not redeemed, purchased or sold any of the Company's shares.

Audit Committee

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to "A Guide for Effective Audit Committees" published by the Hong Kong Society of Accountants dated February, 2002.

The Audit Committee is comprised of all of the Independent Non-executive Directors (Mr. Lam Kwong Yu was appointed on 24 August 2004). The Audit Committee has reviewed the accounting principles and practices adopted by the Company and has also discussed auditing and financial reporting matters including the review of the unaudited interim results for the six months ended 30 June 2004 with the external auditors and management.

The interim financial statements for the six months ended 30 June 2004 have not been audited but have been reviewed by the Company's external auditors.

Code of Best Practice

None of the Directors is aware of any information that would reasonably indicate that the Company is not or was not in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules for any part of the accounting period covered by the interim report, except that the Non-executive Directors of the Company are not appointed for specific terms. However, the Non-executive Directors are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's by-laws.

Model Code for Securities Transactions by Directors of the Company ("Model Code")

For the six months ended 30 June 2004, the Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard set out in the Model Code. After having made specific enquiry of all Directors of the Company, the Directors have complied with the required standard set out in the Model Code and its code of conduct regarding securities transactions by Directors.

The financial information disclosed above complies with Appendix 16 of the Listing Rules and has been reviewed by the Audit Committee and the auditors before being put forward to the Directors for approval.

By order of the Board
KONG Kin Sing, James
Company Secretary

Hong Kong, 24 August 2004