MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

In 2004, the Company has accomplished the following key financial milestones:

- 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.

- By using the IPO proceeds and the proceeds from the drawdown of a new bank loan, the Company has repaid the shareholders' loan and accrued interest amounting to $929 million.

- On 13 October 2004, the Company had declared and paid its first interim dividend of $0.13 per share to eligible shareholders.

- Cash position improved by $151 million to $197 million as at 31 December 2004.

The Company shareholders' funds as at 31 December 2004 was substantially increased by $1,041 million to $1,106 million in comparison with $65 million as at 31 December 2003.

OPERATING PERFORMANCE

In fiscal year 2004, the Company persevered through tough market challenges to post significant improvements. Despite keen competition in the market, the Company recorded $40 million growth of turnover to $1,682 million for the year ended 31 December 2004 as compared to $1,642 million for the same period in 2003.

Turnover

- Airtime and service revenue was slightly lowered to $1,324 million for 2004 as compared to $1,345 million in 2003. In order to match with other competitors, more handset rebates and voice traffic discounts were offered to customers in 2004, which had lowered the average monthly postpaid revenue per user ("ARPU").

- The reduction in postpaid voice revenue was partially offset by a surge of 35.3 per cent. in data revenue in 2004. The Company has continued to strengthen the contents of the COLOR portal which included the launch of "Mobile TV" service in August 2004. It was expected that with the deployment of EDGE technology and the continuous enrichment of our service portfolios would stimulate interest and customers' demand. It is encouraging to note that postpaid data revenue in the second half of the year had surged 53.1 per cent. in comparison with the same period in 2003.

MANAGEMENT DISCUSSION AND ANALYSIS

- Prepaid revenue in 2004 has an encouraging growth of 25.0 per cent. During the year, the successful inauguration of a comprehensive range of prepaid products on targeted customer segments had proved to be the right strategy. Again, the prepaid revenue in the second half of 2004 was a 35.3 per cent. jump versus the second half of 2003.

- Handsets and accessories sales in 2004 were $358 million, a 20.5 per cent. jump from $297 million in 2003. The adoption of the "Instant Rebate" strategy and the offer of more new handset models with advanced features have stimulated the increase in handset sales.

Cost of Goods Sold and Services Provided

Cost of goods sold and services provided increased to $538 million (2003: $458 million) arising from a higher volume of handsets sold, increasing interconnection cost and infotainment services charges. The higher cost is reflected in the corresponding increases in handset sales, increasing traffic and higher data revenue.

Operating Expenses

Overall operating expenses (excluding depreciation and amortisation) remained flat at $612 million for the year ended 31 December 2004 as compared to $608 million last year. To enhance operating efficiency and to maintain effective cost control continues to be the main focus of the management despite the low cost base of the Company.

Earnings Before Interest, Tax, Depreciation and Amortisation ("EBITDA")

EBITDA decreased 7.8 per cent. to $535 million versus $581 million in 2003. However, EBITDA in the second half of 2004 rebounded by 3.2 per cent. to $270 million as compared to $261 million same period in 2003.

Finance Costs

As a result of IPO and better financial arrangements in 2004, finance costs decreased by $48 million from $65 million in 2003 to $17 million in 2004. The reduction was mainly attributable to the full settlement of the shareholders' loans plus accrued interest of $929 million on 1 April 2004. After the conversion of the Preference Shares which took place on 1 April 2004, the Company ceased the accrual of cumulative Preference Shares dividends and redemption premium on Preference Shares.

Profit for the Year

Despite the decrease in tariffs due to the irrational price wars in 2003, profit attributable to shareholders only slightly decreased to $252 million in 2004 from $270 million in 2003. In fact, it is very encouraging to see the continuous improvement in profitability during the year with 25.3 per cent. increase in net profit of $133 million in the second half year of 2004 in comparison with $106 million same period in 2003.

MANAGEMENT DISCUSSION AND ANALYSIS

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 $305 million with the credit arising from reducing the nominal amount of the issued Ordinary and Preference Shares of the Company from $1.00 to $0.48 each. The above reduction has enabled the Company to pay the first interim dividend of $0.13 per share on 13 October 2004.

The Company's shares were listed on the Stock Exchange 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 $680 million of new share capital to the Company. Upon the completion of the Global Offering, all convertible Preference Shares in the amount of $74 million were 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 preference dividend in the amount of $32 million payable to them by the Company in the future.

On 1 April 2004, an unsecured $300 million floating rate loan facility was fully drawn down. The unsecured loan is repayable in instalments. The first instalment was repaid in July 2004 and the final instalment is repayable in 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 the controlling shareholding of China Resources. There was no trigger of any events of default as at 31 December 2004.

Part of the net proceeds of the Global Offering and the draw down of $300 million loan facility were used to repay the shareholders' loans and accrued interest thereon in the aggregate amount of $929 million. The remaining balance of the proceeds was applied for general working capital purposes.

CAPITAL EXPENDITURE

Total capital expenditure reduced by 22.6 per cent. to $230 million in 2004 from $297 million in 2003. The majority of the capital expenditure in 2004 was for the EDGE network rollout, 2G network upgrade and expansion to further optimise the Company's network quality. The peak investment period on EDGE has ended as the Phase One rollout has been successfully completed.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND CAPITAL RESOURCES

The cash position of the Company has significantly improved with cash and bank balances at 31 December 2004 increased to $197 million, versus $46 million in 2003.

The Company had a net cash inflow from operating activities during the year of $590 million. Net cash used in investing activities during the year was $305 million compared to $206 million in 2003 due to the payment of capital expenditure brought forward from last year and to fund additional network investment in 2004. The net cash outflow from financing activities of $134 million was attributable to the repayment of Shareholders' loan and accrued interest thereon by using the net proceeds from the IPO and draw down of a bank loan.

As at 31 December 2004, the Company only had outstanding borrowings of $225 million. The total debt to total assets ratio was reduced to 13.8 per cent. from 74.2 per cent. as at 31 December 2003.

The Directors are of the opinion that the Company can fund its ongoing capital expenditure, working capital requirements and fulfil its loan obligations with internal cash resources and borrowing facilities.

TREASURY POLICY AND FOREIGN EXCHANGE EXPOSURE

During the year ended 31 December 2004, the Company placed its surplus funds on short-term deposits 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 31 December 2004, no derivative financial instruments were used for financial risk management purpose (2003: $98 million).

CHARGE ON ASSETS

At 31 December 2004, certain cash and properties of the Company with an aggregate carrying value of $44 million were pledged to banking facilities utilised by the Company (2003: $92 million).

CONTINGENT LIABILITIES

As at 31 December 2004, the Company had obtained certain letters of guarantee from a bank of $2 million (2003: $2 million) in aggregate.

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEES AND SHARE OPTIONS

The Company had 627 full-time staff and 104 part-time and temporary staff as at 31 December 2004, all based in Hong Kong. Staff receives remuneration packages 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 their individual requirements.

A share option scheme (the "Share Option Scheme") has been approved by a resolution in writing from the shareholders of the Company on 4 March 2004. The purpose of the Share Option Scheme is to attract and retain the best available personnel, to provide additional incentive to employees, Directors (including Independent Non-executive Directors), consultants and advisors of the Company.

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 year of 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 year ended 31 December 2004, no options were exercised and 53 options to subscribe for 3,750,000 shares were cancelled upon the resignation of a Director and termination of employment of certain employees.