# CHINA RESOURCES PEOPLES TELEPHONE COMPANY LIMITED

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

**(Stock code: 331)**

## 2005 INTERIM RESULTS ANNOUNCEMENT

*(All references to "$" are to the Hong Kong dollars)*

- Total turnover rose to $896 million, a 7.9 per cent. increase against the first half of 2004
- Profit attributable to shareholders was $115 million
- The Company's subscriber base has reached 1.21 million by the end of June 2005
- Second quarter dividend of $0.075 per share

### CHAIRMAN'S STATEMENT

I am pleased to present the Interim Report of China Resources Peoples Telephone Company Limited (the "Company" or "PEOPLES") for the half-year ended 30 June 2005 and to record a satisfactory performance by the Company over this period.

The period under review has been extremely challenging with our competitors pouring substantial resources on aggressive tariff offerings to boost up third generation ("3G") commercial acceptance. To counteract this antagonistic approach, the Company has pursued a series of complementary strategies to grow both voice and data revenues. The adoption of a "Back-to-Basic" strategy together with the deployment of EDGE technology plus the continuous enrichment of our "Mobile TV" and "COLOR" portals have proved to be the right moves for the Company to maintain market share and to attract new mobile users to our fold.

### FINANCIAL HIGHLIGHTS

Despite the intensified competition, the Company has once again delivered a stable and solid performance for the period under review.

Turnover for the period ended 30 June 2005 was $896 million, a 7.9 per cent. increase as compared to $831 million for the corresponding period last year.

The Company's earnings before interest, tax, depreciation and amortisation ("EBITDA") of $257 million showed a slight decrease of 3.1 per cent. against $265 million in the corresponding period in 2004. However on a quarterly basis, EBITDA improved 3.4 per cent. when comparing the second quarter with the first quarter of 2005, or $130 million and $127 million respectively.

Profit attributable to shareholders amounted to $115 million, a slight decrease of 3.5 per cent. from $119 million in the corresponding period in 2004. Again on a quarterly basis, net profit was improved by 6.3 per cent. to $59 million in the second quarter from $56 million in the first quarter of 2005.

The capital expenditure was downsized to $86 million, reduced by 42.6 per cent. in the first half of 2005 as compared to $149 million in the corresponding period in 2004. The major investment on the EDGE network upgrade was completed at the end of 2004. The management has now redeployed resources to maintain a leading position in network quality during 2005.

## DIVIDEND

At a meeting held on 29 August 2005, the Board of Directors declared a quarterly dividend of $0.075 per share for the three months ended 30 June 2005.

The proposed second quarter dividend, together with the first quarter dividend of $0.06 per share paid by the Company in July, 2005, make a total half-yearly interim dividend of $0.135 per share (2004: $0.13 per share) for the six months ended 30 June 2005.

## BUSINESS REVIEW

With vision and determination, the Company has strived to grow the traditional voice segment as well as show further improvement in the multimedia services business.

The interim results of 2005 reflect the solid foundation of the Company in the core business as well as the realisation of growth from data services. The management has focused on the four key pillars of our "Back-to-Basic" strategy: retain existing subscriber base, expand market share where possible, optimise network quality and maintain our distinctive edge on cost leadership. By doing so, the management has responded wisely to the market demand on data services and strengthened voice service offerings to different segments.

The Company's well known flexible postpaid and prepaid service offerings continued to generate strong cash flow. EBITDA grew 3.4 per cent. to $130 million in the second quarter from $127 million in the first quarter. Our subscriber base has expanded to 1.21 million, a 17.3 per cent. leap in aggregate as compared to 1.04 million for the corresponding period in 2004. On a quarterly basis, the jump was a 4.4 per cent., from 1.16 million in the first quarter. The management's adherence to the strategy had not only prevented the migration of our subscriber base but also sustained net gain in subscribers. The Company further advanced the general market recognition of our brand image on value for money tariffs, superior customer care and excellent service quality.

## OUTLOOK

From a macroeconomic perspective, current trends indicate that the Hong Kong economy should continue to maintain a relatively healthy growth in 2005. However amid this euphoria, the adoption of 3G has further intensified the aggressive pricing behaviour of our competitors. Therefore, the Company envisages many opportunities as well as challenges at the same time.

Going forward, the Company will continue to focus on our "Back-to-Basic" strategy. The Company will continue its commitment to improve network coverage and launching more tailor-made voice services demanded by the market. I am confident that by applying these proven strategies, we are in the best position to capture more business opportunities.

I would like to take this opportunity to provide an update on our current PCS 1800 MHz license, which as previously stated, will expire on 30 September 2006. The Company had negotiated with The Office of the Telecommunications Authority ("OFTA") and on 3 May 2005, the Company has accepted OFTA's proposed renewal terms of the new PCS 1800 MHz license. The new license is for fifteen years with a new royalty calculation under the Spectrum Utilisation Fee ("SUF"), and will be known as the Mobile Carrier License ("MCL"). The new MCL will be effective starting October 2006.

The interim results speak for themselves and clearly show that the Company has adapted itself admirably to the highly competitive marketplace and the rapid technological changes in the wireless industry. Looking ahead, I can envisage that the Company will continue to endorse the proven strategies and maintain its agility in providing first class mobile services at competitive prices.

## APPRECIATION

We have continued to achieve important strategic objectives in the face of escalating competition during the first six months of 2005. I believe that the Company will continue to push the boundaries beyond what we have so far accomplished. For that, I must thank our dedicated management and employees who have worked so diligently to carry off such a feat. I would also like to thank my fellow Directors for their foresight and commitment. To our loyal customers who remain the lifeblood of our business, I would like to offer you our deepest appreciation and gratitude.

## RISKS STATEMENT

The business performance of the Company is subject to market competition, regulatory changes and even at times, from acts of God. Any forward looking statements made in this interim report with respect to PEOPLES' strategies or plans are made based solely on management's assumptions and beliefs with what information currently available to it.

**Jiang Wei**
*Chairman*

## RESULTS

The Directors are pleased to present the Company's Income Statement for the six months ended 30 June 2005 and the Balance Sheet as at 30 June 2005, which are unaudited and condensed.

## CONDENSED INCOME STATEMENT

*For the six months ended 30 June 2005*

| | Note | Unaudited six months ended 30 June 2005 $'000 | 2004 $'000 (Restated) |
|---|---|---|---|
| **Turnover** | *2* | **896,176** | 830,786 |
| Direct cost of goods sold and services provided | | | |
| – Cost of handsets and accessories | | **(219,509)** | (159,274) |
| – Interconnection cost | | **(108,413)** | (101,073) |
| | | **568,254** | 570,439 |
| Other revenue | | **2,980** | 1,730 |
| Other net income | | **57** | 40 |
| Operating expenses | *3* | **(428,252)** | (410,145) |
| **Profit from operations** | | **143,039** | 162,064 |
| **Finance costs** | | **(2,195)** | (14,647) |
| **Profit before taxation** | | **140,844** | 147,417 |
| Income tax | *4* | **(26,275)** | (28,697) |
| **Profit attributable to shareholders** | | **114,569** | 118,720 |
| **Dividend** | | | |
| In respect of the period | *5* | **100,391** | 96,673 |
| **Earnings per share** (in HK$) | | | |
| – Basic | *6* | **0.15** | 0.20 |
| – Diluted | *6* | **0.15** | 0.20 |
| **EBITDA** | *7* | **257,378** | 265,495 |

## CONDENSED BALANCE SHEET

*As at 30 June 2005*

| | Note | Unaudited 30 June 2005 $'000 | Audited 31 December 2004 $'000 (Restated) |
|---|---|---|---|
| **Non-current assets** | | | |
| Fixed assets | | **1,129,097** | 1,155,920 |
| Construction in progress | | **9,927** | 9,049 |
| Intangible assets | | **23,180** | 25,956 |
| Interest in leasehold land held for own use under an operating lease | | **11,099** | 11,232 |
| | | **1,173,303** | 1,202,157 |
| **Current assets** | | | |
| Inventories | | **24,654** | 28,493 |
| Amount due from related companies | | **19,676** | 20,965 |
| Secured deposits | | **1,224** | 23,221 |
| Trade and other receivables | | **135,161** | 154,330 |
| Cash and cash equivalents | | **101,705** | 196,749 |
| | | **282,420** | 423,758 |
| **Current liabilities** | | | |
| Trade and other payables | | **(217,396)** | (269,466) |
| Dividend payable | | **(44,618)** | – |
| Current portion of interest-bearing borrowings | *8* | **–** | (150,000) |
| Amount due to related companies | | **(3,557)** | (3,903) |
| | | **(265,571)** | (423,369) |
| **Net current assets** | | **16,849** | 389 |
| **Total assets less current liabilities** | | **1,190,152** | 1,202,546 |
| **Non-current liabilities** | | | |
| Interest-bearing borrowings | *8* | **(100,000)** | (75,000) |
| Deferred tax liabilities | | **(47,892)** | (21,617) |
| | | **(147,892)** | (96,617) |
| **Net assets** | | **1,042,260** | 1,105,929 |
| **Capital and reserves** | | | |
| Share capital | | **356,948** | 356,948 |
| Reserves | *9* | **685,312** | 748,981 |
| | | **1,042,260** | 1,105,929 |

*NOTES:*

**1.(i) Changes in Accounting Policies**

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued a number of new and revised Hong Kong Financial Reporting Standards ("HKFRSs", which collectively includes HKASs and Interpretations) that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. The Board of Directors has determined the accounting policies to be adopted in the preparation of the Company's annual financial statements for the year ending 31 December 2005, on the basis of HKFRSs currently in issue.

The HKFRSs that will be effective or are available for voluntary early adoption in the annual financial statements for the year ending 31 December 2005 may be affected by the issue of additional interpretation(s) or other changes announced by the HKICPA subsequent to the date of issuance of the interim financial report. Therefore the policies that will be applied in the Company's financial statements for that period cannot be determined with certainty at the date of issuance of the interim financial report.

The following table set out the summaries of the effect of changes in accounting policies for the annual accounting period beginning on 1 January 2005 which have been reflected in the interim financial report.

*Summary of the effect of changes in the accounting policies*

The following table sets out the adjustments that have been made to the opening balances at 1 January 2005 are the aggregate effect of retrospective adjustment to the net assets as at 31 December 2004 and the opening balance adjustments made as at 1 January 2005.

| *Effect of new policy ((decrease)/increase)* | *Note* | **Retained Profit** *$'000* | **Employee Share Based Compensation Reserve** *$'000* | **Total Equity** *$'000* |
|---|---|---|---|---|
| Prior period adjustment: | | | | |
| *HKAS 17* | | | | |
| Leasehold land and building held for own use | *1(iii)* | – | – | – |
| *HKFRS 2* | | | | |
| Equity settled share-based transactions | *1(ii)* | (947) | 947 | – |
| *Total effect at 1 January 2005* | | (947) | 947 | – |

**1.(ii) Employee share option scheme (HKFRS 2, Share-based payment)**

In the prior year, no amount was recognised when employees (which term includes directors) were granted share options over shares in the Company. If the employees chose to exercise the options, the nominal amount of share capital and share premium were credited only to the extent of the option's exercise price receivable.

With effect from 1 January 2005, in order to comply with HKFRS 2, the Company recognises the fair value of such share options as an expense in the income statement. A corresponding increase is recognised in a capital reserve, "Employee Share Based Compensation Reserve" within equity.

Where the employees are required to meet vesting conditions before they become entitled to the options, the Company recognises the fair value of the options granted over the vesting period.

If an employee chooses to exercise options, the related capital reserve is transferred to share capital and share premium, together with the exercise price. If the options lapse unexercised the related capital reserve is transferred directly to retained earnings.

The new accounting policy has been applied retrospectively with comparatives restated in accordance with HKFRS 2.

The Company has no options granted to employee on or before 7 November 2002.

The amount of the prior period adjustment and the effect on the results for the six months ended 30 June 2005, and the reserves as of that date, are set out in the above summary. No adjustment to the opening balances as at 1 January 2004 is required as no options existed at that time which were unvested at 1 January 2005.

The amount charged to the income statement as a result of the change of policy increased staff costs for the six months ended 30 June 2005 by $235,000 (six months ended 30 June 2004: $316,000) with the corresponding amounts credited to the capital reserve.

**1.(iii) Leasehold land and buildings held for own use (HKAS 17, Leases)**

The adoption of revised HKAS 17 "Leases" has resulted in a change in the accounting policy relating to the classification of leasehold land. In accordance with HKAS 17, a lease of land and building should be split into a lease of land and a lease of building in proportion to the relative fair values of the leasehold interests in the land element and the building element of the lease at the inception of the lease.

Any pre-paid land premiums for acquiring the land leases, or other lease payments, are amortised on a straight line basis over the lease term. The amortisation charge is recognised in the income statement immediately.

Any buildings held for own use which are situated on such land leases continue to be presented as part of property, plant and equipment.

The new accounting policies have been adopted retrospectively.

**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** | |
|---|---|---|
| | **2005** | 2004 |
| | ***$'000*** | *$'000* |
| | | (restated) |
| Sales of handsets and accessories | **232,324** | 176,652 |
| Airtime and service charges | **663,852** | 654,134 |
| | **896,176** | 830,786 |

**3. Operating Expenses**

Operating expenses include the following:

| | **Six months ended 30 June** | |
|---|---|---|
| | **2005** | 2004 |
| | ***$'000*** | *$'000* |
| | | (restated) |
| Depreciation | **105,097** | 93,932 |
| Amortisation of leasehold land | **133** | 133 |
| Amortisation of intangible assets | **9,108** | 9,366 |

## 4. Taxation

a. No provision for Hong Kong Profits Tax has been made for the period as the Company has sufficient tax losses brought forward to offset the assessable profits for the period (2004: Nil).

b. Income tax expense charged to the condensed income statement represents:

| | **Six months ended 30 June** | |
|---|---|---|
| | **2005** | 2004 |
| | ***$'000*** | *$'000* |
| | | (restated) |
| Deferred tax | | |
| Reversal of temporary differences | **26,275** | 28,697 |

## 5. Dividend

a. Dividends attributable to interim period:

| | **Six months ended 30 June** | |
|---|---|---|
| | **2005** | 2004 |
| | ***$'000*** | *$'000* |
| | | (restated) |
| First quarter dividend declared and payable during the interim period of $0.06 per share (2004: Nil) | **44,618** | – |
| Second quarter dividend declared and paid after the interim period of $0.075 per share (2004: Nil) | **55,773** | – |
| Interim dividend declared and paid after the interim period (2004: $0.13 per share) | **–** | 96,673 |
| | **100,391** | 96,673 |

The second quarter dividend declared after the interim period has not been recognised as a liability at the Balance Sheet date.

b. Dividends attributable to the previous financial year, approved and paid during the interim period:

| | **Six months ended 30 June** | |
|---|---|---|
| | **2005** | 2004 |
| | ***$'000*** | *$'000* |
| | | (restated) |
| Final dividend in respect of the financial year ended 31 December 2004, approved and paid of $0.18 per share (year ended 31 December 2003: Nil) | **133,855** | – |

*Notes:*

(1) The first quarter dividend of $44,618,000 was paid on 13 July 2005.

(2) At a Board meeting held on 29 August 2005, the Directors declared the second interim dividend of $55,773,000 ($0.075 per share) for the three months ended 30 June 2005 (2004: 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 profit for the year ending 31 December 2005.

## 6. Basic and Diluted Earnings per Share

a. Basic earnings per share:

| | Six months ended 30 June | |
|---|---|---|
| | **2005** | 2004 |
| | ***$'000*** | *$'000* |
| | | (restated) |
| Profit attributable to shareholders for the period | 114,569 | 118,720 |

| | Number of shares | |
|---|---|---|
| | **2005** | 2004 |
| **At 1 January** | **743,641,019** | 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 | **–** | 3,533,010 |
| **At 30 June** | **743,641,019** | 588,320,510 |
| **Basic earnings per share (in HK$)** | **0.15** | 0.20 |

b. Diluted earnings per share

No diluted earnings per share is presented for the six months ended 30 June 2005 as the existence of unexercised options during the period has no dilutive effect on the calculation of diluted earnings per share for the period (2004: Nil).

## 7. EBITDA

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

## 8. Bank Loans

At 30 June 2005, the bank loans are repayable as follows:

| | **30 June 2005** | 31 December 2004 |
|---|---|---|
| | ***$'000*** | *$'000* |
| | | (restated) |
| Within 1 year | **–** | 150,000 |
| After 1 year but within 2 years | **100,000** | 75,000 |
| | **100,000** | 225,000 |

On 5 May 2005, the Company entered into a new unsecured $150 million loan facility with floating rate interest to finance the capital expenditure and general working capital requirements of the Company. The loan facility is repayable in three equal instalments with the final instalment repayable in November 2007.

As at 30 June 2005, a total amount of $100 million was drawn down under this loan facility.

The Company has fully repaid and settled the outstanding balance of the pre-existing $300 million loan facility during the six month period under review.

**9. Reserves**

| | Share Premium $'000 | Employee Share Based Compensation Reserve $'000 | Other Reserve $'000 | Retained Profits $'000 | Total $'000 |
|---|---|---|---|---|---|
| **As at 1 January 2005** (as previously reported) | 594,099 | – | 63,055 | 91,827 | 748,981 |
| Prior period adjustment arising from change of accounting policy | – | 947 | – | (947) | – |
| **As at 1 January 2005** (as restated) | 594,099 | 947 | 63,055 | 90,880 | 748,981 |
| Payment of 2004 final dividend *(note 5 (b))* | – | – | (63,055) | (70,800) | (133,855) |
| Payment of 2005 first quarter dividend *(note 5 (a))* | – | – | – | (44,618) | (44,618) |
| Employee share option benefits | – | 235 | – | – | 235 |
| Profit for the period | – | – | – | 114,569 | 114,569 |
| **As at 30 June 2005** | 594,099 | 1,182 | – | 90,031 | 685,312 |

## MANAGEMENT DISCUSSION AND ANALYSIS

### Overview

The following are key corporate and financial events of the Company in the first half of 2005:

- On 3 May 2005, the Company has accepted OFTA's proposed renewal terms of the new PCS 1800 MHz license for another fifteen years commencing from October 2006.
- On 5 May 2005, the Company secured a new $150 million medium term bank loan facility and drew down $100 million under the facility.
- On 23 May 2005, the Company declared first quarter dividend of $0.06 per share.
- On 10 June 2005, the Company had prepaid and fully settled the outstanding balance of the unsecured $300 million bank loan facility.
- The Company's subscriber base has reached 1.21 million by the end of June 2005.

### Operating Performance

The Company endured tough challenges from competition and emerged with consistent financial performance during the period under review.

*Turnover*

Total turnover for the period jumped 7.9 per cent. to $896 million (first half of 2004: $831 million).

- Airtime and service revenue for the period increased to $664 million (first half of 2004: $654 million). Due to the aggressive tariff offerings by 3G operators, voice revenue generated from postpaid business showed a slight reduction with lowered average revenue per user ("ARPU"). However, the Company is able to offset the negative downturn in ARPU by an increasing subscriber base. By the end of June 2005, the Company had a net gain of 85,363 subscribers compared with the end of December 2004.
- The slight reduction in postpaid voice revenue is partially offset by the encouraging 42.1 per cent. growth in prepaid revenue verses the corresponding period in 2004. The momentum created by the successful launch of a comprehensive range of new prepaid products in 2004 had been sustained into the first half of this year.

- Postpaid data revenue has also surged by 22.9 per cent. for the period under review verses the corresponding period in 2004. Data services continue to be one of the key revenue growth drivers.
- Handsets and accessories sales have leapt by 31.5 per cent. to $232 million in the six months under review from $177 million in the corresponding period last year. The launch of various distinct and targeted promotions coupled with subscribers' growing appetite for premium handsets with advanced features had stimulated sales.

*Cost of goods sold and services provided*

Cost of goods sold and services provided increased to $328 million (first half of 2004: $260 million). It is mainly attributable to the higher volume of handsets sold and an increase in interconnection costs. These higher costs are reflected in the corresponding increase in the number of handsets sold and the increasing traffic. Interconnection costs had since been scaled down and had been relatively stable when comparing between the first two quarters of 2005.

*Operating Expenses*

The overall operating expenses, which excluded depreciation and amortisation, showed a slight increase of 2.3 per cent. from $314 million for the six months under review as compared to $307 million for the corresponding period last year. Despite the fact that the Company has been operating at high efficiency with a low cost base, effective cost control continues to be one of the key strategies of the Company.

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

EBITDA slipped 3.1 per cent. to $257 million in the first half of 2005 from $265 million in the corresponding period in 2004. However, on a quarterly basis, EBITDA rebounded to $130 million from $127 million or 3.4 per cent. between the second and first quarter of 2005.

*Finance Costs*

The decreasing finance costs reflected the Company's significantly improved cash position after the full settlement of the shareholders' loan on 1 April 2004 and the full prepayment of the outstanding balance of a short-term bank loan ($225 million) during the first half of 2005. As a result of low gearing, finance costs were down to just $2 million in the first half of 2005, an 85.0 per cent. reduction from $15 million for the corresponding period in 2004.

*Profit for the period*

Profit attributable to shareholders was slightly down by 3.5 per cent. to $115 million in the first half of 2005 as compared to $119 million for the first half of 2004. However, it is encouraging to see a 6.3 per cent. improvement in profitability or $59 million in the second quarter of 2005 compared with the $56 million in the first quarter of 2005.

## CAPITAL EXPENDITURE

Total capital expenditure was dramatically reduced by 42.6 per cent. to $86 million in the first half of 2005 from $149 million in the corresponding period in 2004. The major investment on the EDGE network upgrade was completed at the end of 2004. The Company has redeployed capital expenditure in upgrading and expanding the 2G network in 2005.

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

For the six months ended 30 June 2005, the Company's primary sources of funding include cash resources generated internally and bank financing. The Company's funds were primarily used for the payment of capital expenditure, repayment of the short-term bank loan of $225 million and payment of 2004 final dividend of $134 million.

As at 30 June 2005, the Company had only an outstanding borrowing of $100 million. The total debt to total assets ratio was reduced to 6.8 per cent. from 13.8 per cent. as at 31 December 2004. Financial prudence is a key strategic focus of the Company's policies.

## TREASURY POLICY AND FOREIGN EXCHANGE EXPOSURE

For the six-month period under review, the Company had placed its surplus funds in 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 with the exchange rate between these two currencies remained pegged. At 30 June 2005, no derivative financial instruments were used for financial risk management purpose (31 December 2004: Nil).

## CHARGE ON ASSETS

At 30 June 2005, certain cash and properties of the Company with an aggregate carrying value of $22 million were pledged to the banking facilities utilised by the Company (31 December 2004: $44 million).

## CONTINGENT LIABILITIES

As at 30 June 2005, the letters of guarantee obtained from a bank have been reduced to $1 million from $2 million as at the end of 2004.

## DIVIDEND

The Directors recommended the payment of a quarterly dividend of $0.075 (2004: Nil) per share for the three months ended 30 June 2005 to the shareholders registered in the Company's register of members as at the close of business on 16 September 2005.

## CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Tuesday, 20 September 2005 to Wednesday, 21 September 2005 (both days inclusive) during which period no transfer of shares will be registered. In order to qualify for the aforesaid quarterly 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. Friday, 16 September 2005.

## PURCHASE, SALE OR REDEMPTION OF SHARES

Save as disclosed above, during the six months ended 30 June 2005, the Company has not redeemed, purchased or sold any of its shares.

## CORPORATE GOVERNANCE

PEOPLES is passionate about adhering to the high standards of corporate governance. Throughout the period under review, the Company has incorporated certain provisions as set out in the Code on Corporate Governance Practices in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, which came into effect on 1 January 2005. As at 30 June 2005, PEOPLES has complied with all applicable code provisions in Appendix 14 with one deviation. All Non-executive Directors are appointed with no specific term but are subject to retirement and re-election by rotation. The Board of Directors is aware of such deviation and is currently working on a solution that is in the best interest of our shareholders.

## AUDIT COMMITTEE

The Audit Committee has reviewed the unaudited interim financial results and was content that the accounting policies of the Company are in compliance with Hong Kong Financial Reporting Standards.

The interim financial statements for the six months ended 30 June 2005 have not been audited but have been reviewed by the Company's external auditors.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY THE DIRECTORS OF THE COMPANY ("MODEL CODE")

For the six months ended 30 June 2005, the Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than 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.

By Order of the Board
**China Resources Peoples Telephone Company Limited**
**KONG Kin Sing, James**
*Company Secretary*

Hong Kong, 29 August 2005

*As at the date of this announcement, the Company's Board is comprised of*

*Chairman & Non-executive Director*
Mr. JIANG Wei

*Executive Vice Chairman & Executive Director*
Mr. LEUNG Kai Hung, Michael

*Executive Directors*
Mr. HENSHAW Charles Guy *(Chief Executive Officer)*
Mr. WONG Man Kwan, Willie
Ms. WONG LEUNG Ka On, Charlotte

*Non-executive Directors*
Dr. HUANG Zhi Jian
Mr. LI Fu Zuo
Mr. SINN Chung Ming, Anthony
Mr. WU Jun
Mr. YAN Biao

*Independent Non-executive Directors*
Professor CHEN Kwan Yiu, Edward
Mr. LAM Kwong Yu
Mr. MA Chiu Cheung, Andrew
Mr. TAN Henry

Please also refer to the published version of this announcement in The Standard.