
THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this document or as to the action to be taken, you should consult a licensed securities dealer or registered institution in securities, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **China Resources Peoples Telephone Company Limited**, you should at once hand this document and the accompanying **WHITE** Form of Acceptance to the purchaser(s) or to the transferee(s) or to the licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s). This document should be read in conjunction with the Forms of Acceptance, the contents of which form part of the terms of the Offers contained herein.

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**CHINA MOBILE
(HONG KONG) LIMITED**

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

(Stock Code: 941)



**CHINA RESOURCES PEOPLES
TELEPHONE COMPANY LIMITED**

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

(Stock Code: 331)

FIT BEST LIMITED

(Incorporated in the British Virgin Islands with limited liability)

**Composite offer and response document
Voluntary conditional cash offers by**

**China International Capital
Corporation (Hong Kong) Limited**

and

Merrill Lynch (Asia Pacific) Limited

on behalf of

Fit Best Limited,

a wholly-owned subsidiary of China Mobile (Hong Kong) Limited,

to acquire all the issued shares in the share capital,

and for cancellation of all outstanding options, of

China Resources Peoples Telephone Company Limited

**(other than those already owned by the Offeror, China Mobile (Hong Kong) Limited
or parties acting in concert with them)**

Financial advisers to China Mobile (Hong Kong) Limited and the Offeror



CICC
中國國際金融(香港)有限公司
CHINA INTERNATIONAL CAPITAL
CORPORATION (HONGKONG) LIMITED

**China International Capital
Corporation (Hong Kong) Limited**



Merrill Lynch

Merrill Lynch (Asia Pacific) Limited

**Independent financial adviser to the independent board committee of
China Resources Peoples Telephone Company Limited**



Baron Capital Limited

A letter from the Peoples Independent Board Committee containing its recommendation in respect of the Offers to the Peoples Independent Shareholders and the Peoples Optionholders is set out on pages 26 to 27 of this document. A letter from the Independent Financial Adviser, Baron Capital Limited, containing its advice to the Peoples Independent Board Committee in respect of the Offers is set out on pages 28 to 62 of this document.

The procedures for acceptance and settlement of the Offers are set out on pages I-1 to I-9 in Appendix I to this document and in the accompanying Forms of Acceptance. Acceptances of the Share Offer must be received by 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 Thursday, 29 December 2005, or such later time and/or date as the Offeror may determine and announce as permitted under the Takeovers Code. Acceptances of the Option Offer must be received by the company secretary of Peoples at its registered office at 8th Floor, Manhattan Centre, 8 Kwai Cheong Road, Kwai Chung, Kowloon, Hong Kong by no later than 4:00 p.m. on Thursday, 29 December 2005, or such later time and/or date as the Offeror may determine and announce as permitted under the Takeovers Code.

10 November 2005

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EXPECTED TIMETABLE

The following expected timetable assumes prior consent from the TA under section 7P(6) of the Telecommunications Ordinance is obtained on or before the First Closing Date:

Despatch date of this document Thursday, 10 November 2005

Commencement of the Offers Thursday, 10 November 2005

First Closing Date (*Note 1*) Thursday, 29 December 2005

Latest time for acceptance of the Offers
on the First Closing Date (*Note 1*) 4:00 p.m. on Thursday, 29 December 2005

Announcement of the results of the Offers
as at the First Closing Date on
the Stock Exchange's website (*Note 2*) By 7:00 p.m. on Thursday, 29 December 2005

Announcement of the results of the Offers
as at the First Closing Date in newspapers (*Note 2*) Friday, 30 December 2005

Latest date for posting of remittances for the amounts
due under the Offers in respect of valid acceptances
received at or before the latest time for acceptances
of the Offers on the First Closing Date (assuming
the Offers become or are declared unconditional
in all respects on the First Closing Date) (*Note 3*) Friday, 6 January 2006

Final closing date of the Offers (assuming the Offers
become or are declared unconditional in all
respects on the First Closing Date) (*Note 4*) Thursday, 12 January 2006

Latest time and date for acceptance of the Offers
(assuming the Offers become or are declared
unconditional in all respects on
the First Closing Date) (*Note 4*) 4:00 p.m. on Thursday, 12 January 2006

Latest time and date by which the Offers
can become or be declared unconditional
as to acceptances (*Note 5*) 7:00 p.m. on Monday, 9 January 2006

Latest time and date for the Offers to remain open
for acceptance (*Note 6*) 4:00 p.m. on Friday, 10 March 2006

Notes:

- (1) The Share Offer will be subject to, among other things, the Offeror having received valid acceptances of the Share Offer in respect of Peoples Shares which constitute not less than 90% of the maximum number of Peoples Shares to which the Share Offer relates, by 4:00 p.m. on the date which is 49 days after the making of the Share Offer, being the First Closing Date, or such later time(s) and/or date(s) as the Offeror may, subject to the rules of the Takeovers Code, decide. The Option Offer will be subject to and conditional upon the Share Offer becoming or

EXPECTED TIMETABLE

being declared unconditional. Unless the Offers have previously become or been declared unconditional, revised or extended, the latest time and date for acceptance of the Offers is 4:00 p.m. on the First Closing Date.

- (2) The First Closing Date assumes that prior consent from the TA under section 7P(6) of the Telecommunications Ordinance is obtained on or before 29 December 2005. If the prior consent from the TA is obtained on or before the First Closing Date and the other Conditions are either fulfilled or waived, the Offers will become unconditional and will close at least 14 days thereafter. If the prior consent from the TA is not obtained on or before the First Closing Date, the Offeror will decide whether to waive that condition on the First Closing Date. If the Offeror decides to waive that condition on the First Closing Date, the Offers will proceed in accordance with the expected timetable set out above. Please refer to the paragraph headed “Possible Extension to Day 60” under the section headed “Letter from the Financial Advisers” in this document. The Offeror reserves the right to extend the Offers until such time and/or date as it may determine and in accordance with the Takeovers Code. The Offeror will issue an announcement on the Stock Exchange’s website by 7:00 p.m. on Thursday, 29 December 2005, being the First Closing Date, stating whether the Offers have been revised or extended, have expired or have become or been declared unconditional (as to acceptances or in all respects). Such announcement will be republished in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) on Friday, 30 December 2005.

An acceptor of the relevant Offer is entitled to withdraw his/her/its acceptance after 21 days from the First Closing Date if the Share Offer has not by then become unconditional as to acceptances. In the situation where prior consent from the TA under section 7P(6) of the Telecommunications Ordinance is not obtained on or before 29 December 2005 (irrespective of whether the Offeror waives this condition), an acceptor of the relevant Offer is entitled to withdraw his/her/its acceptance from 19 January 2006 if the Share Offer has not become or been declared unconditional as to acceptances by then. However, such entitlement to withdraw is exercisable only until such time as the Share Offer becomes or is declared unconditional as to acceptances. For further details, please refer to the paragraph headed “Right of Withdrawal” in Appendix I to this document.

- (3) Pursuant to Rule 20.1 of the Takeovers Code, payment in cash in respect of acceptances of the Offers will be made within 10 days of the date of receipt of complete and valid acceptance or of the Unconditional Date, whichever is the later. Relevant documents of title must be received by the Offeror to render each acceptance of the Offers complete and valid.
- (4) In accordance with Rule 15.3 of the Takeovers Code, where the Offers become or are declared unconditional, they should remain open for acceptance for not less than 14 days thereafter. In such case, at least 14 days’ notice in writing must be given before the Offers are closed to the Peoples Independent Shareholders or the Peoples Optionholders (as the case may be) who have not accepted the Offers.
- (5) In accordance with Rule 15.5 of the Takeovers Code, except with the consent of the Executive, the Share Offer may not become or be declared unconditional as to acceptances after 7:00 p.m. on the 60th day (“**Day 60**”) after the day on which this document is posted (or such later date as extended by the Executive). Accordingly, unless the Share Offer has previously become or been declared unconditional as to acceptances, the Offers will lapse at 7:00 p.m. on Monday, 9 January 2006 unless the Offers are extended by the Offeror with the consent of the Executive. Note 3 to Rule 15.5 of the Takeovers Code provides that if there is a delay in the decision of the TA under section 7P of the Telecommunications Ordinance after the posting of this

EXPECTED TIMETABLE

document, the Executive will normally extend “Day 39” (see Rule 15.4 of the Takeovers Code) to the second day following the announcement of such decision with consequent changes to Day 60. For further details, please refer to the paragraph headed “Possible Extension to Day 60” under the section headed “Letter from the Financial Advisers” in this document.

- (6) According to Rule 15.6 of the Takeovers Code, as the Offeror may consider exercising its rights under the relevant provisions of the Companies Ordinance to compulsorily acquire those Peoples Shares not acquired by the Offeror under the Share Offer, the Share Offer may not remain open for acceptance for more than four months from the posting of this document unless the Offeror has by that time become entitled to exercise such power of compulsory acquisition.

All time references contained in this document refer to Hong Kong time.

DEFINITIONS

In this document, unless the context otherwise requires, the following expressions have the following meanings:

“acting in concert”	has the meaning ascribed to it in the Takeovers Code;
“Announcement”	means the announcement dated 20 October 2005 jointly made by CMHK and Peoples in relation to the Offers;
“associates”	has the meaning ascribed to it in the Listing Rules;
“Business Day(s)”	means a day on which banks are opened for business in Hong Kong (excluding Saturdays, Sundays or public holidays in Hong Kong);
“CCASS”	means the Central Clearing and Settlement System established and operated by HKSCC;
“China Resources”	means China Resources (Holdings) Company Limited, a company incorporated in Hong Kong with limited liability;
“CICC”	means China International Capital Corporation (Hong Kong) Limited, a licensed corporation for type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO, being the joint financial adviser to CMHK and the Offeror in relation to the Offers;
“Closing Date”	means the First Closing Date or any subsequent closing date(s) as the Offeror may determine and announce as permitted under the Takeovers Code;
“CMHK”	means China Mobile (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability, whose shares are listed on the Main Board of the Stock Exchange and whose American depositary shares are listed on the New York Stock Exchange;
“CMHK Board”	means the board of CMHK Directors;
“CMHK Directors”	means the directors of CMHK for the time being;
“CMHK Group”	means CMHK and its subsidiaries;
“Committed Shares”	means the 359,218,770 Peoples Shares beneficially owned by China Resources and the 133,382,831 Peoples Shares beneficially owned by Michael Leung, which are subject to the Irrevocable Undertakings;
“Companies Ordinance”	means the Companies Ordinance (Chapter 32 of the Laws of Hong Kong);
“Concert Parties”	means persons who are acting in concert with the Offeror and CMHK;
“Conditions”	means the conditions of the Offers, as set out under the paragraph headed “Conditions of the Offers” under the section headed “Letter from the Financial Advisers” of this document;

DEFINITIONS

“Executive”	means the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director;
“Financial Advisers”	means CICC and Merrill Lynch;
“First Closing Date”	means 29 December 2005;
“Forms of Acceptance”	means the WHITE Form of Acceptance and the YELLOW Form of Acceptance;
“HK\$”	means Hong Kong dollars, the lawful currency of Hong Kong;
“HKSCC”	means Hong Kong Securities Clearing Company Limited;
“Hong Kong”	means the Hong Kong Special Administrative Region of the PRC;
“Independent Financial Adviser”	means Baron Capital Limited, a licensed corporation for type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser to the Peoples Independent Board Committee in respect of the Offers;
“Irrevocable Undertakings”	means the irrevocable undertakings dated 20 October 2005 given by each of China Resources and Michael Leung respectively in favour of CMHK in respect of the Committed Shares and (in the case of Michael Leung) his Peoples Option;
“Latest Practicable Date”	means 7 November 2005, being the latest practicable date prior to the printing of this document for the purpose of ascertaining certain information contained herein;
“Last Trading Date”	means 20 October 2005, being the last day on which Peoples Shares were traded prior to the publication of the Announcement;
“Listing Rules”	means the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
“Merrill Lynch”	means Merrill Lynch (Asia Pacific) Limited, a licensed corporation for type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 7 (providing automated trading services) regulated activities under the SFO, being the joint financial adviser to CMHK and the Offeror in relation to the Offers;
“Michael Leung”	means Michael Leung and his associates;
“MOU Announcement”	means the announcement dated 4 October 2005 issued by Peoples in relation to the signing of a non-binding memorandum of understanding between China Resources, Michael Leung and Onwel Capital Company Limited and CMHK;

DEFINITIONS

“Offers”	means the Share Offer and the Option Offer, and “ Offer ” means any of them;
“Offer Period”	has the meaning ascribed to it in the Takeovers Code;
“Offeror”	means Fit Best Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of CMHK;
“OFTA”	means the Office of the Telecommunications Authority of Hong Kong;
“Option Offer”	means the voluntary conditional cash offer for cancellation of the Peoples Options at the consideration of HK\$1.00 per Peoples Option (other than those already owned by the Offeror, CMHK or other parties acting in concert with them);
“Peoples” or the “Company”	means China Resources Peoples Telephone Company Limited, a company incorporated in Hong Kong with limited liability, whose shares are listed on the Main Board of the Stock Exchange;
“Peoples Annual Report”	means the audited annual report of Peoples for the year ended 31 December 2004;
“Peoples Board”	means the board of Peoples Directors;
“Peoples Directors”	means the directors of Peoples;
“Peoples Group”	means Peoples and its subsidiaries (if any);
“Peoples Independent Board Committee”	means the committee of Peoples Directors, consisting of Mr. Ma Chiu Cheung, Andrew, Prof. Chen Kwan Yiu, Edward, Mr. Tan Henry and Mr. Lam Kwong Yu, being all the independent non-executive directors of Peoples, formed to advise the Peoples Independent Shareholders and the Peoples Optionholders in respect of the terms of the Offers;
“Peoples Independent Shareholders”	means the Peoples Shareholders other than CMHK, the Offeror and the Concert Parties;
“Peoples Interim Report”	means the unaudited interim report of Peoples for the six months ended 30 June 2005;
“Peoples Optionholders”	means registered holders for the time being of Peoples Options;
“Peoples Options”	means outstanding options granted by Peoples under the Peoples’ Pre-IPO Share Option Scheme, conferring on the grantee the right to subscribe for Peoples Shares at the Peoples Option Exercise Price;
“Peoples Option Exercise Price”	means HK\$4.55, being the price per Peoples Share at which the Peoples Optionholders may subscribe for new Peoples Shares on the terms of the Peoples Options;
“Peoples Shareholders”	means registered holders for the time being of Peoples Shares;

DEFINITIONS

“Peoples Shares”	means ordinary shares of HK\$0.48 each in the issued share capital of Peoples;
“Peoples’ Pre-IPO Share Option Scheme”	means the pre-IPO share option scheme adopted by Peoples on 4 March 2004;
“PRC”	means the People’s Republic of China, which for the purposes of this document, excludes Hong Kong, the Macau Special Administrative Region and Taiwan;
“Registrar”	means Tricor Investor Services Limited, the share registrar and transfer office of Peoples;
“SFC”	means the Securities and Futures Commission of Hong Kong;
“SFO”	means the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“Share Offer”	means the voluntary conditional cash offer at the Share Offer Price for all the issued Peoples Shares and Peoples Shares issued upon the exercise of any of the Peoples Options (other than those already owned by the Offeror, CMHK or other parties acting in concert with them);
“Share Offer Price”	means the amount of HK\$4.55 payable by the Offeror to Peoples Shareholders for each Peoples Share accepted under the Share Offer;
“Stock Exchange”	means The Stock Exchange of Hong Kong Limited;
“subsidiaries”	has the meaning ascribed to it in Section 2 of the Companies Ordinance;
“TA”	means the Telecommunications Authority;
“Takeovers Code”	means The Hong Kong Code on Takeovers and Mergers;
“Telecommunications Ordinance”	means the Telecommunications Ordinance (Chapter 106 of the Laws of Hong Kong);
“Unconditional Date”	means the date on which the Offers become or are declared unconditional in all respects;
“ WHITE Form of Acceptance”	means the form of acceptance and transfer of the Peoples Shares in WHITE in respect of the Share Offer; and
“ YELLOW Form of Acceptance”	means the form of acceptance and cancellation of the outstanding Peoples Options in YELLOW in respect of the Option Offer.

LETTER FROM THE FINANCIAL ADVISERS



CICC
中國國際金融(香港)有限公司
CHINA INTERNATIONAL CAPITAL
CORPORATION (HONGKONG) LIMITED

**China International Capital
Corporation (Hong Kong) Limited**



Merrill Lynch
Merrill Lynch (Asia Pacific) Limited

10 November 2005

To the Peoples Shareholders and the Peoples Optionholders

Dear Sir or Madam,

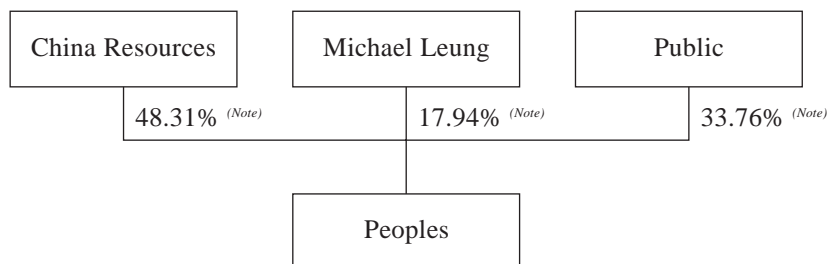
**Voluntary conditional cash offers by
China International Capital Corporation (Hong Kong) Limited
and Merrill Lynch (Asia Pacific) Limited
on behalf of
Fit Best Limited, a wholly-owned subsidiary of
China Mobile (Hong Kong) Limited,
to acquire all the issued shares in the share capital,
and for cancellation of all outstanding options, of
China Resources Peoples Telephone Company Limited
(other than those already owned by the Offeror, China Mobile (Hong Kong) Limited
or parties acting in concert with them)**

INTRODUCTION

On 20 October 2005, CMHK and Peoples jointly announced that the Offeror will make, through the Financial Advisers, voluntary conditional cash offers to acquire all the issued shares in the share capital, and for the cancellation of all outstanding options, of Peoples (other than those already owned by the Offeror, CMHK or other parties acting in concert with them).

According to Peoples, there were 743,641,019 Peoples Shares in issue and 492 outstanding Peoples Options involving 50,650,000 Peoples Shares as at the Latest Practicable Date. The number of Peoples Options included in the Announcement did not include (i) Peoples Options which have been informally surrendered through, in most cases, delivery of the relevant option certificates to Peoples by employees on their resignation and (ii) Peoples Options held by other employees of Peoples who had resigned as at the date of the Announcement, although in each case such Peoples Options were not formally cancelled. Peoples has no other options, warrants or other securities issued by Peoples that carry a right to subscribe for or which are convertible into Peoples Shares.

As at the Latest Practicable Date, the simplified shareholding structure of Peoples was as follows:



Note: Discrepancies between total and sums of amounts listed due to rounding.

LETTER FROM THE FINANCIAL ADVISERS

To the best knowledge, information and belief of the CMHK Directors, both China Resources and Michael Leung are independent from and not connected with CMHK and any of the directors, chief executive or substantial shareholders of CMHK and its subsidiaries and any of their respective associates.

This letter sets out details of the principal terms of the Offers, together with information relating to the Offeror and the intentions of CMHK and the Offeror in relation to the Peoples Group. Further details of the terms of the Offers and the procedures for acceptance of the Offers are set out in Appendix I to this document and in the Forms of Acceptance. Your attention is also drawn to the letter from the Peoples Board, the letter from the Peoples Independent Board Committee and the letter from the Independent Financial Adviser contained in this document.

THE OFFERS

CICC and Merrill Lynch are making the Offers for and on behalf of the Offeror, subject to the terms set out in this document and in the accompanying Forms of Acceptance on the following basis:

The Share Offer

For each Peoples Share HK\$4.55 in cash.

The Option Offer

For each of the 492 outstanding Peoples Options (*Note*) HK\$1.00 in cash.

Note: The number of Peoples Options included in the Announcement did not include (i) Peoples Options which have been informally surrendered through, in most cases, delivery of the relevant option certificates to Peoples by employees on their resignation and (ii) Peoples Options held by other employees of Peoples who had resigned as at the date of the Announcement, although in each case such Peoples Options were not formally cancelled.

Comparisons of value

The Share Offer

The Share Offer Price represents:

- (a) a premium of approximately 16.67% over the closing price of HK\$3.90 per Peoples Share as quoted on the Stock Exchange on 3 October 2005, being the last day on which trading in Peoples Shares took place prior to the date of the MOU Announcement;
- (b) a premium of approximately 59.15% over the average closing price of approximately HK\$2.859 per Peoples Share for the six months up to and including the Last Trading Date;
- (c) a premium of approximately 45.69% over the average closing price of approximately HK\$3.123 per Peoples Share for the three months up to and including the Last Trading Date;
- (d) a premium of approximately 26.68% over the average closing price of approximately HK\$3.592 per Peoples Share for the last 30 trading days up to and including the Last Trading Date;

LETTER FROM THE FINANCIAL ADVISERS

- (e) a premium of approximately 3.70% over the average closing price of approximately HK\$4.388 per Peoples Share for the last 10 trading days up to and including the Last Trading Date;
- (f) a premium of approximately 3.17% over the average closing price of HK\$4.410 per Peoples Share for the last five trading days up to and including the Last Trading Date;
- (g) a premium of approximately 2.82% over the closing price of HK\$4.425 per Peoples Share as quoted on the Stock Exchange on the Last Trading Date;
- (h) a premium of approximately 205.95% over the audited net asset value per Peoples Share of approximately HK\$1.49 as at 31 December 2004 (based on the net asset value of approximately HK\$1,105.93 million and 743,641,019 Peoples Shares in issue as at 31 December 2004 according to the audited accounts in the Peoples Annual Report);
- (i) a price earnings multiple of approximately 13.45 times based on the audited net profit attributable to Peoples Shareholders of approximately HK\$251.61 million for the financial year ended 31 December 2004 and 743,641,019 Peoples Shares in issue as at 31 December 2004 (as disclosed in the Peoples Annual Report); and
- (j) a premium of approximately 2.25% over the closing price of HK\$4.45 per Peoples Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Option Offer

The consideration of HK\$1.00 for the cancellation of each of the 492 outstanding Peoples Options is nominal. The number of Peoples Options included in the Announcement did not include (i) Peoples Options which have been informally surrendered through, in most cases, delivery of the relevant option certificates to Peoples by employees on their resignation and (ii) Peoples Options held by other employees of Peoples who had resigned as at the date of the Announcement, although in each case such Peoples Options were not formally cancelled. As the Peoples Option Exercise Price is HK\$4.55 per Peoples Share, which equals the Share Offer Price, the Peoples Options carry no intrinsic value under the Share Offer.

Trading Prices

The highest and lowest prices at which Peoples Shares were traded on the Stock Exchange in the six-month period immediately prior to the commencement of the Offer Period and up to and including the Latest Practicable Date were HK\$4.50 on 1 November 2005 and HK\$2.40 on 11 May 2005, 13 May 2005 and 17 May 2005, respectively.

Total Consideration

On the basis of the Share Offer Price of HK\$4.55 per Peoples Share and 743,641,019 Peoples Shares in issue as at the Latest Practicable Date, the entire issued share capital of Peoples is valued at approximately HK\$3,383.6 million.

According to Peoples, there were 492 Peoples Options, involving 50,650,000 Peoples Shares, outstanding as at the Latest Practicable Date. The number of Peoples Options included in the Announcement did not include (i) Peoples Options which have been informally surrendered through, in most cases, delivery of the relevant option certificates to Peoples by employees on their

LETTER FROM THE FINANCIAL ADVISERS

resignation and (ii) Peoples Options held by other employees of Peoples who had resigned as at the date of the Announcement, although in each case such Peoples Options were not formally cancelled. Peoples has no other options, warrants or other securities issued by Peoples that carry a right to subscribe for or which are convertible into Peoples Shares. Assuming none of the Peoples Options is exercised prior to the Closing Date and the Option Offer is accepted in full, on the basis of consideration of HK\$1.00 payable for the cancellation of each of the 492 outstanding Peoples Options, the Option Offer is valued at HK\$492.

Assuming that all Peoples Options are exercised in full by the Peoples Optionholders prior to the Closing Date and the Share Offer is accepted in full, the consideration payable by the Offeror pursuant to the Share Offer will be increased to approximately HK\$3,614 million. No consideration for cancellation will then be payable under the Option Offer.

Confirmation of Financial Resources

CICC and Merrill Lynch have been appointed as the joint financial advisers to CMHK and the Offeror in respect of the Offers.

The Financial Advisers are satisfied that sufficient financial resources are available to the Offeror to meet full acceptance of the Offers. The Offers will be financed by CMHK's internal resources.

Terms of the Offers

Under the terms of the Share Offer, Peoples Shares will be acquired with all rights attached thereto as at the date of the Announcement, or subsequently becoming attached thereto and free from all rights of pre-emption, options, liens, claims, equities, charges, encumbrances and third party rights.

Under the terms of the Option Offer, the Peoples Options of the accepting Peoples Optionholders, together with all rights attaching thereto, will be entirely cancelled and renounced.

Payment

Payment in cash in respect of acceptances of the Offers will be made within 10 days of the date of receipt of complete and valid acceptance or of the Unconditional Date, whichever is the later. Relevant documents of title must be received by the Offeror to render each acceptance of the Offers complete and valid.

Stamp Duty

Sellers' ad valorem stamp duty for Peoples Shares registered on the Hong Kong register arising in connection with acceptance of the Share Offer will be payable by each Peoples Shareholder at the rate of HK\$1.00 for every HK\$1,000 or part thereof of the consideration payable by the Offeror for such person's Peoples Shares or the market value of such person's Peoples Shares, and will be deducted from the cash amount due to such person under the Share Offer. The Offeror will pay the buyer's ad valorem stamp duty on its own behalf and the seller's ad valorem stamp duty on behalf of the accepting Peoples Shareholders in respect of the Peoples Shares accepted under the Share Offer.

No stamp duty is payable in connection with acceptance of the Option Offer.

LETTER FROM THE FINANCIAL ADVISERS

CONDITIONS OF THE OFFERS

The Share Offer is conditional on the satisfaction or waiver of the following Conditions:

- (a) valid acceptances of the Share Offer being received (and not, where permitted, withdrawn) by 4:00 p.m. on the date which is 21 days after the making of the Share Offer (or such later time(s) and/or date(s) as the Offeror may, subject to the rules of the Takeovers Code, decide) in respect of the Peoples Shares which constitute not less than 90% (the “**Percentage Threshold**”) of the maximum number of Peoples Shares to which the Share Offer relates;
- (b) the following approvals and consents have been obtained:
 - (i) the approval of the National Development and Reform Commission and the Ministry of Commerce of the PRC and other necessary regulatory authorities in the PRC; and
 - (ii) the prior consent from the OFTA under section 7P(6) of the Telecommunications Ordinance or the OFTA providing a written confirmation that an investigation under section 7P of the Telecommunications Ordinance is not required;
- (c) no governments, governmental, quasi-governmental, supranational, statutory or regulatory bodies or courts in any jurisdiction having instituted any action, proceedings, suit, investigation or enquiry or enacted or made and there not continuing to be outstanding any statute, regulation or order that would make the Offers void, unenforceable or illegal or prohibit the implementation of, the Offers;
- (d) all telecommunications licences held by Peoples and/or any member of the Peoples Group are in full force and effect, and have not expired or been revoked by the OFTA when Conditions (a), (b), (c) and (e) are satisfied; and
- (e) any necessary third party consents in relation to the Offers (other than consents from the Concert Parties) required pursuant to any agreement (including any financing agreement) to which any member of the Peoples Group is a party (where any failure to obtain a consent would have a material adverse effect on the business of the Peoples Group taken as a whole) having been obtained or waived by the relevant party(ies).

For the purpose of this “Conditions of the Offers” paragraph, the “Peoples Group” shall mean Peoples, together with its subsidiaries and associated companies.

If valid acceptances of the Share Offer are received on or before the First Closing Date, being 49 days after the making of the Share Offer, or such later time and/or date as the Offeror may determine and announce as permitted under the Takeovers Code, in respect of the Peoples Shares which constitute not less than 90% of the maximum number of Peoples Shares to which the Share Offer relates, Condition (a) will be fulfilled.

In addition to the conditions set out above, the Share Offer is subject to the term that acceptance of the Share Offer by any person constitutes a warranty by such person or persons to the Offeror that the Peoples Shares acquired under the Share Offer are sold by such person or persons free from all third party rights, liens, charges, equities and encumbrances and together with all rights

LETTER FROM THE FINANCIAL ADVISERS

attaching thereto as at the date of the Announcement or subsequently becoming attached to them, including (as appropriate) the right to receive all dividends and distributions declared, made or paid on or after the date of the Announcement.

The Option Offer will be subject to and conditional upon the Share Offer becoming or being declared unconditional.

In addition, the Option Offer will also be subject to the term that acceptance of the Option Offer by any person constitutes a warranty by such person or persons to the Offeror that the Peoples Options are free from all third party rights, liens, charges, equities and encumbrances and are to be cancelled and renounced together with all rights attaching thereto as at the date of the Announcement or subsequently becoming attached to them.

Waiver of the Conditions of the Offers

The Offeror reserves the right, at its absolute discretion, to waive all or any of the Conditions in whole or in part during the Offer Period, save that the Percentage Threshold referred in Condition (a) above must be more than 50%.

Irrevocable Undertakings to Accept the Offers

As at the Latest Practicable Date, China Resources and Michael Leung (the substantial shareholders (as such term is defined in the Listing Rules) of Peoples) were interested in 359,218,770 Peoples Shares and 133,382,831 Peoples Shares respectively, representing approximately 48.31% and 17.94% of the entire issued share capital in Peoples as at the Latest Practicable Date, respectively. Michael Leung has a further interest in one Peoples Option involving 4,500,000 Peoples Shares, which Peoples Option is exercisable at the Peoples Option Exercise Price during the period from 11 March 2004 to 10 March 2014.

The Offeror has received Irrevocable Undertakings from China Resources and Michael Leung that they will accept the Share Offer in respect of the Committed Shares, which represent approximately 66.24% of the Peoples Shares in issue as at the Latest Practicable Date. Michael Leung has further irrevocably undertaken to the Offeror that he will accept the Option Offer in respect of his one Peoples Option involving 4,500,000 Peoples Shares.

The Irrevocable Undertakings provide that China Resources and Michael Leung shall accept the Share Offer in respect of the Committed Shares, and Michael Leung shall also accept the Option Offer in respect of his one Peoples Option, on the day immediately following the receipt of a notice from CMHK, such notice to be given within the Offer Period. If China Resources and Michael Leung have not received such notice from CMHK by the 18th day after the date of despatch of this document, they shall in any event fulfil their undertakings by the 21st day following the date of despatch of this document.

The Irrevocable Undertakings will lapse if and only if: (i) the Announcement was not issued on or before the seventh Business Day after the date of the Irrevocable Undertakings; (ii) the Offers were not made (by posting of this document) by the date falling 21 days after the issue of the Announcement (or such later date may be agreed by the Executive, being no later than 15 December 2005); or (iii) the Share Offer lapses or is withdrawn without having become wholly unconditional. As at the date of this document, conditions (i) and (ii) to the Irrevocable Undertakings were fulfilled.

LETTER FROM THE FINANCIAL ADVISERS

Possible Extension to Day 60

Section 7P of the Telecommunications Ordinance provides that the TA has jurisdiction over certain mergers and acquisitions involving telecommunications carrier licensees (as defined in the Telecommunications Ordinance) and proposed shareholder changes in relation to such licensees.

Note 3 to Rule 15.5 of the Takeovers Code provides that if there is a delay in a decision of the TA under section 7P of the Telecommunications Ordinance after the posting of this document, the Executive will normally extend “Day 39” (see Rule 15.4 of the Takeovers Code) to the second day following the announcement of such decision with consequent changes to “Day 46” (see Rule 16.1 of the Takeovers Code) and “Day 60” (see Rule 15.5 of the Takeovers Code). If there is a significant delay or there is an appeal against the TA’s decision whereby the extended “Day 39” under the note is likely to be more than 3 months from the posting of this document, the Executive should be consulted to determine whether the Offers should lapse and to what extent the relevant provisions of the Takeovers Code will continue to apply after lapsing of the Offers.

On 8 November 2005, the Offeror has submitted to the TA an application under section 7P of the Telecommunications Ordinance. The TA has indicated that it intends to conduct a market inquiry and the application will take around two months to process. It is therefore expected that the TA’s decision under section 7P of the Telecommunications Ordinance will be made in late December 2005.

In light of the timetable for the TA to make a decision under section 7P of the Telecommunications Ordinance, the Offeror has made an application to the Executive pursuant to Note 3 to Rule 15.5 to extend “Day 39” to the second day following the announcement of such decision of the TA, with consequent changes to “Day 46” and “Day 60” accordingly.

If the prior consent from the TA under section 7P(6) of the Telecommunications Ordinance is obtained on or before the First Closing Date and the other Conditions are either fulfilled or waived, the Offers will proceed in accordance with the expected timetable set out in the section headed “Expected Timetable” on pages (ii) to (iv) of this document. However, if TA’s prior consent is not obtained and the Offeror waives that condition and the other Conditions are either fulfilled or waived, the Offers will proceed to closing. If the TA is of the view that the acquisition has, or is likely to have, the effect of substantially lessening competition in the telecommunications market and it is not satisfied that the benefit of the acquisition to the public outweighs any detriment to the public which will, or is likely to, result from a substantial lessening of competition, the TA is empowered under the Telecommunications Ordinance to direct Peoples to take any action as it deems necessary or to impose other remedies by requiring Peoples and the Offeror to modify the acquisition transaction. These actions or remedies may affect the business operations of Peoples. The Offeror has no intention to waive the condition in relation to the TA’s prior consent.

Lapse of the Offers

According to Rule 5 of the Takeovers Code, except with the consent of the Executive and subject to the notes to Rule 5 of the Takeovers Code, the Offeror must proceed with the Offers unless the Conditions are not met (and not waived by the Offeror in its sole discretion) on or before the Closing Date or such later date if permitted by the Takeovers Code and as the Executive may approve. Except with the consent of the Executive, all Conditions must be fulfilled (or waived by the Offeror in its sole discretion) on or before the Closing Date, otherwise, subject to full compliance with the Takeovers Code (in particular, Note 2 of Rule 30.1), the Offers will lapse on the Closing Date. In that case, the Offeror will publish an announcement on the Stock Exchange’s

LETTER FROM THE FINANCIAL ADVISERS

website by 7:00 p.m. on the Closing Date and republish such announcement in accordance with the requirements of the Listing Rules and the Takeovers Code on the next Business Day. Under the Takeovers Code, the latest date on which the Offeror can declare the Share Offer unconditional as to acceptances is 60 days after the date of the posting of this document (or such later date as the Executive may consent to).

If the Offers do not become, and are not declared unconditional in all respects within the time permitted under the Takeovers Code, the share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or satisfactory indemnity or indemnities required in respect thereof), or (as the case may be) the certificate(s) of the Peoples Options, tendered for acceptance under the Offers will be returned to the accepting Peoples Shareholders and Peoples Optionholders as soon as possible but in any event within 10 days after the Offers have lapsed. For further details, please refer to the paragraph headed “Procedures for acceptance and settlement” in Appendix I to this document.

INFORMATION ON THE OFFEROR AND CHINA MOBILE

The Offeror is a company incorporated in the British Virgin Islands on 15 September 2005 and the directors of the Offeror are Mr. Wang Jianzhou, Mr. Xue Taohai and Mr. He Ning, all of whom are also executive directors of CMHK. The Offeror is a wholly-owned subsidiary of CMHK, a company incorporated in Hong Kong with limited liability whose shares are listed on the Main Board of the Stock Exchange and whose American depositary shares are listed on the New York Stock Exchange. As at the Latest Practicable Date, CMHK is in turn indirectly owned as to 75.31% by China Mobile Communications Corporation, a state-owned company established under the laws of the PRC. The Offeror is an investment holding company set up for making the Offers. The Offers will not affect the shareholding structure of CMHK.

CMHK was incorporated in Hong Kong in 1997 and was listed on the New York Stock Exchange and the Stock Exchange in the same year. As the leading mobile services provider in the PRC, CMHK operates nationwide mobile telecommunications services in all 31 provinces, autonomous regions and directly-administered municipalities in the PRC.

Assuming the Offers are accepted in full, each of the applicable ratios pursuant to Rule 14.07 of the Listing Rules in connection with the Offers and with regard to CMHK is less than 5%. Accordingly, the Offers do not constitute notifiable transactions for CMHK under Chapter 14 of the Listing Rules. The Offers also do not constitute connected transactions for CMHK under Chapter 14A of the Listing Rules.

REASONS AND BENEFITS FOR THE OFFERS

The CMHK Directors are of the view that the making of the Offers provides an opportunity for CMHK to enlarge its footprint into Hong Kong. Moreover, the Offers, if successfully concluded, are expected to bring, among others, synergies in areas such as procurement, marketing, and product development, etc. CMHK will provide assistance to Peoples in respect of operational, technical and financial matters after the close of the Offers to enhance Peoples’ competitiveness in the telecommunications market in Hong Kong. Moreover, Peoples would benefit from CMHK’s larger economies of scale and be able to provide better service on a lower cost base.

Based on the above reasons, the CMHK Board believes that the making of the Offers will be beneficial to CMHK and its shareholders as a whole.

THE OFFEROR'S INTENTION IN RELATION TO PEOPLES

Intention regarding Peoples

It is the intention of CMHK and the Offeror that Peoples, if the Offers are completed, will continue to carry on the business of engaging in providing mobile voice and data communications services in Hong Kong. CMHK and the Offeror have no intention either to introduce any material changes to the business of the Peoples Group nor to redeploy its fixed assets. The Offeror does not intend to transfer, charge or pledge to any other persons any Peoples Shares acquired in pursuance of the Share Offer.

Compulsory Acquisition

Under the Companies Ordinance, the compulsory acquisition right may be exercised within two months from the date when the Offeror acquires the prescribed level of Peoples Shares as required by the Companies Ordinance.

If the Offeror receives valid acceptances of the Share Offer for not less than 90% of the disinterested Peoples Shares, the Offeror intends to apply the provisions of the Companies Ordinance to compulsorily acquire any remaining Peoples Shares and to apply for a de-listing of Peoples Shares from the Stock Exchange.

According to the Rule 15.6 of the Takeovers Code, as the Offeror may consider exercising its rights under the relevant provisions of the Companies Ordinance to compulsorily acquire those Peoples Shares not acquired by the Offeror under the Share Offer, the Share Offer may not remain open for acceptance for more than four months from the posting of this document, unless the Offeror has by that time become entitled to exercise the power of compulsory acquisition available to it under the Companies Ordinance, in which event, the Offeror will do so without delay.

Pursuant to Rule 2.11 of the Takeovers Code, except with the consent of the Executive, where the Offeror seeks to acquire or privatise Peoples by means of the Share Offer and the use of compulsory acquisition rights, such rights may only be exercised if, in addition to satisfying any requirements imposed by the Companies Ordinance, acceptance of the Share Offer and purchases (in each case of the disinterested Peoples Shares) made by the Offeror and persons acting in concert with it during the period of four months after posting this document total 90% of the disinterested Peoples Shares.

As neither China Resources nor Michael Leung is acting in concert with the Offeror, acceptances of the Share Offer for the Committed Shares will be taken into account when calculating that 90% of disinterested Peoples Shares.

WARNING: Furthermore, if the level of acceptances reaches the prescribed level under the Companies Ordinance and Rule 2.11 of the Takeovers Code permits a compulsory acquisition and the Offeror proceeds with the privatisation of Peoples, dealings in the securities of Peoples will be suspended from the Closing Date up to the withdrawal of listing of Peoples' securities from the Stock Exchange pursuant to Rule 6.15 of the Listing Rules.

LETTER FROM THE FINANCIAL ADVISERS

Maintaining the Listing

In the event that the compulsory acquisition right is not available to the Offeror and the Offeror at its absolute discretion waives the condition in relation to the Percentage Threshold and the Offers close, the Offeror will use its reasonable endeavours to maintain the listing of Peoples on the Stock Exchange. The directors of the Offeror and the new directors to be appointed to the board of Peoples will jointly and severally undertake to the Stock Exchange to take appropriate steps to ensure that not less than 25% of the Peoples Shares will be held by the public as soon as possible following the closing of the Share Offer in compliance with the Listing Rules.

The Stock Exchange has stated that if, at the closing of the Share Offer, less than 25% of the Peoples Shares are held by the public or if the Stock Exchange believes that:

- a false market exists or may exist in the trading of the Peoples Shares; or
- there are insufficient Peoples Shares in public hands to maintain an orderly market,

then it will consider exercising its discretion to suspend trading in the Peoples Shares. In this connection, it should be noted that upon completion of the Share Offer, there may be insufficient public float for the Peoples Shares and therefore, trading in the Peoples Shares may be suspended until a prescribed level of public float is attained.

MANAGEMENT AND STAFF

It is the intention of CMHK and the Offeror to have Peoples' existing senior management team to continue to manage Peoples after the completion of the Offers, and not to discontinue the employment of the employees of the Peoples Group as a result of the Offers.

INTEREST OF THE OFFEROR AND THE CONCERT PARTIES IN PEOPLES

Save for dealings/shareholdings for the account of non-discretionary clients by Merrill Lynch and the brokerage division of a subsidiary of CICC, neither Merrill Lynch nor CICC has any shareholdings or dealings in Peoples.

Save as disclosed above, neither the Offeror nor the Concert Parties have any holdings in Peoples Shares or have dealt in Peoples Shares in the six months prior to the commencement of the Offer Period and up to and including the Latest Practicable Date.

ACCEPTANCE AND SETTLEMENT

Procedures for acceptance of the Offers

The Share Offer

To accept the Share Offer, you should complete the accompanying **WHITE** Form of Acceptance in accordance with the instructions printed thereon, which instructions form part of the terms of the Share Offer.

The completed **WHITE** Form of Acceptance should then be forwarded, together with the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) for not less than the number of

LETTER FROM THE FINANCIAL ADVISERS

Peoples Shares in respect of which you intend to accept the Share Offer, to the Registrar at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, as soon as possible but in any event no later than 4:00 p.m. on Thursday, 29 December 2005, being the First Closing Date, or such later time and/or date as the Offeror may determine and announce as permitted under the Takeovers Code.

No acknowledgement of receipt of any **WHITE** Form(s) of Acceptance, share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given.

To ensure equality of treatment of all Peoples Shareholders, those registered Peoples Shareholders who hold Peoples Shares for more than one beneficial owner should, as far as practicable, treat the holding of each beneficial owner separately. In order for beneficial owners of Peoples Shares, whose investments are registered in the names of nominees, to accept the Share Offer, it is essential that they provide instructions to their nominees of their intentions with regard to the Share Offer.

Your attention is drawn to the further details regarding the Share Offer set out in Appendix I to this document and in the **WHITE** Form of Acceptance.

The Option Offer

To accept the Option Offer, you should complete the accompanying **YELLOW** Form of Acceptance in accordance with the instructions printed thereon, which instructions form part of the terms of the Option Offer.

The completed **YELLOW** Form of Acceptance should then be forwarded, together with the relevant certificate(s) for the Peoples Options for not less than the number of Peoples Options in respect of which you intend to accept the Option Offer, to the company secretary of Peoples at 8th Floor, Manhattan Centre, 8 Kwai Cheong Road, Kwai Chung, Kowloon, Hong Kong, as soon as possible but in any event so as to reach the company secretary of Peoples by no later than 4:00 p.m. on Thursday, 29 December 2005, being the First Closing Date, or such later time and/or date as the Offeror may determine and announce as permitted under the Takeovers Code.

No acknowledgement of receipt of any **YELLOW** Form(s) of Acceptance and/or certificate(s) of Peoples Options will be given to the accepting Peoples Optionholders.

Your attention is drawn to the further details regarding the Option Offer set out in Appendix I to this document and in the **YELLOW** Form of Acceptance.

Settlement of the Offers

The Share Offer

Provided that the **WHITE** Form of Acceptance, together with the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) are in complete and good order in all respects and have been received by the Registrar by no later than the latest time and date for acceptance, payment will be posted to the accepting Peoples Shareholders by ordinary post at their own risk as soon as possible but in any event within 10 days of the date of receipt by the Registrar of complete and valid acceptance, or the Unconditional Date, whichever is later.

LETTER FROM THE FINANCIAL ADVISERS

If the Share Offer does not become, or is not declared, unconditional in all respects within the time permitted by the Takeovers Code, the share certificates and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) received by the Registrar will be returned to the Peoples Shareholders who have accepted the Share Offer by post as soon as possible but in any event within 10 days after the Share Offer has lapsed.

The Option Offer

Provided that the **YELLOW** Form of Acceptance, together with the certificates of the relevant Peoples Options are in complete and good order in all respects and have been received by the company secretary of Peoples by no later than the latest time and date for acceptance, payment will be made available for collection by the accepting Peoples Optionholders as soon as possible but in any event within 10 days of the date of receipt by the company secretary of Peoples of complete and valid acceptance, or the Unconditional Date, whichever is later.

If the Option Offer does not become, or is not declared, unconditional in all respects within the time permitted by the Takeovers Code, the certificate(s) of your outstanding Peoples Options received by the company secretary of Peoples will be made available by the company secretary of Peoples for collection by the accepting Peoples Optionholders at the registered office of Peoples as soon as possible but in any event within 10 days after the Option Offer has lapsed.

Other Issues

Settlement of the consideration to which any Peoples Shareholder or Peoples Optionholder is entitled under the Offers will be implemented in full in accordance with the terms of the Offers without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such Peoples Shareholder or Peoples Optionholders.

GENERAL

The availability of the Offers to persons not resident in Hong Kong may be affected by the applicable laws of the relevant jurisdictions. Persons who are not resident in Hong Kong should inform themselves about and observe any applicable requirements in their own jurisdictions. The attention of Peoples Shareholders and Peoples Optionholders who are not resident in Hong Kong is drawn to sub-paragraph (n) of the paragraph headed “General” in Appendix I to this document.

You are recommended to consult your own professional advisers if you are in any doubt as to the taxation implications of accepting the Offers. It is emphasised that none of the Offeror, CMHK, the Financial Advisers, Peoples, or any of their respective directors, or any other persons involved in the Offers, accepts responsibility for any tax or other effects on, or liabilities of, any person or persons as a result of their acceptance of the Offers.

All documents and remittances sent to the Peoples Shareholders and (as appropriate) the Peoples Optionholders by post will be sent to them, or their designated agents, at their own risk to their addresses as stated on the Forms of Acceptance or if no such address is stated, as they appear in the register of members of Peoples or the register of Peoples Optionholders (as the case may be) or, in the case of joint Peoples Shareholders, to the Peoples Shareholder whose name stands first in the register of members of Peoples. None of the Offeror, CMHK, the Financial Advisers, Peoples, the Registrar or any of their respective directors, or any other person involved in the Offers, accepts any liability for any loss in postage or any other liabilities that may arise as a result.

LETTER FROM THE FINANCIAL ADVISERS

Forward looking statements

This document contains certain forward-looking statements. The words “believe”, “intend”, “expect”, “anticipate”, “project”, “estimate”, “predict” and similar expressions are intended to identify forward-looking statements. These statements are not historical facts or guarantees of future performance. Actual results could differ materially from those expressed or implied in such forward-looking statements. Such forward-looking statements are based on the current assumptions and expectations of CMHK and the Offeror and are subject to risks and uncertainties that could significantly affect the expected results.

Further information

Your attention is drawn to the additional information set out in the appendices, which form part of this document. Further terms and conditions of the Offers are set out in Appendix I to this document and the Forms of Acceptance.

Yours faithfully,
For and on behalf of
China International Capital Corporation
(Hong Kong) Limited
Susan Li
Managing Director

Yours faithfully,
For and on behalf of
Merrill Lynch (Asia Pacific) Limited
Liu Erh Fei
Managing Director

LETTER FROM THE PEOPLES BOARD



CHINA RESOURCES PEOPLES TELEPHONE COMPANY LIMITED

華潤萬眾電話有限公司

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

(Stock Code: 331)

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

Registered Office:
8th Floor
Manhattan Centre
8 Kwai Cheong Road
Kwai Chung
Kowloon
Hong Kong

10 November 2005

To the Peoples Shareholders and the Peoples Optionholders

Dear Sir or Madam,

Voluntary conditional cash offers by
China International Capital Corporation (Hong Kong) Limited
and Merrill Lynch (Asia Pacific) Limited
on behalf of
Fit Best Limited, a wholly-owned subsidiary of
China Mobile (Hong Kong) Limited,
to acquire all the issued shares in the share capital,
and for cancellation of all outstanding options, of
China Resources Peoples Telephone Company Limited
(other than those already owned by the Offeror, China Mobile (Hong Kong) Limited
or parties acting in concert with them)

INTRODUCTION

Reference is made to the joint announcement issued by CMHK and Peoples dated 20 October 2005, in which CMHK announced that the Offeror will make, through the Financial Advisers, voluntary conditional cash offers to acquire all of the issued shares in the share capital, and for the cancellation of all outstanding options, of Peoples (other than those already owned by the Offeror, CMHK and other parties acting in concert with them).

LETTER FROM THE PEOPLES BOARD

The Offeror has received Irrevocable Undertakings from China Resources and Michael Leung (the substantial shareholders (as such term is defined in the Listing Rules) of Peoples) that they will accept the Share Offer in respect of the Committed Shares, which represent approximately 66.24% of the Peoples Shares in issue as at the Latest Practicable Date. Michael Leung has further irrevocably undertaken to the Offeror that he will accept the Option Offer in respect of his one Peoples Option involving 4,500,000 Peoples Shares.

If the Offeror receives valid acceptances of the Share Offer for not less than 90% of the disinterested Peoples Shares, the Offeror intends to apply the provisions of the Companies Ordinance to compulsorily acquire any remaining Peoples Shares and to apply for a de-listing of Peoples Shares from the Stock Exchange.

In accordance with Rule 2.1 of the Takeovers Code, the Peoples Independent Board Committee, comprising Mr. Ma Chiu Cheung, Andrew, Professor Chen Kwan Yiu, Edward, Mr. Lam Kwong Yu and Mr. Tan Henry, was established to advise the Peoples Independent Shareholders and the Peoples Optionholders in respect of the Offers. Mr. Jiang Wei, Dr. Huang Zhi Jian, Mr. Li Fu Zuo, Mr. Sinn Chung Ming, Anthony, Mr. Wu Jun and Mr. Yan Biao, non-executive Directors, are all employees or directors of China Resources, or its associates. As such, they are not considered sufficiently independent to advise the Peoples Independent Shareholders and the Peoples Optionholders in respect of the Offers.

The purpose of this composite offer document is to provide you with, among other matters, information relating to the Peoples Group, the Offeror and CMHK and the Offers as well as setting out the letter from the Peoples Independent Board Committee containing its recommendation to the Peoples Independent Shareholders and the Peoples Optionholders in respect of the Offers, and the letter from the Independent Financial Adviser containing its advice to the Peoples Independent Board Committee in respect of the Offers.

THE OFFERS

The Financial Advisers are making the Offers for and on behalf of the Offeror, subject to the terms set out in this composite offer document (including, without limitation, those set out in Appendix I) and in the accompanying Forms of Acceptance, to acquire all of the issued Peoples Shares (other than those already owned by the Offeror, CMHK and other parties acting in concert with them) at the Share Offer Price, and to offer to pay a cash amount to the Peoples Optionholders for each outstanding Peoples Option held by them in consideration for their agreeing to cancel their outstanding Peoples Options, on the following basis:

The Share Offer

For each Peoples Share HK\$4.55 in cash.

The Option Offer

For each of the 492 outstanding Peoples Options (*Note*) HK\$1.00 in cash.

Note: The number of Peoples Options included in the Announcement did not include (i) Peoples Options which have been informally surrendered through, in most cases, delivery of the relevant option certificates to Peoples by employees on their resignation and (ii) Peoples Options held by other employees of Peoples who had resigned as at the date of the Announcement, although in each case such Peoples Options were not formally cancelled.

LETTER FROM THE PEOPLES BOARD

Comparisons of value

The Share Offer

The Share Offer Price represents:

- (a) a premium of approximately 16.67% over the closing price of HK\$3.90 per Peoples Share as quoted on the Stock Exchange on 3 October 2005, being the last day on which trading in Peoples Shares took place prior to the date of the MOU Announcement;
- (b) a premium of approximately 59.15% over the average closing price of approximately HK\$2.859 per Peoples Share for the six months up to and including the Last Trading Date;
- (c) a premium of approximately 45.69% over the average closing price of approximately HK\$3.123 per Peoples Share for the three months up to and including the Last Trading Date;
- (d) a premium of approximately 26.68% over the average closing price of approximately HK\$3.592 per Peoples Share for the last 30 trading days up to and including the Last Trading Date;
- (e) a premium of approximately 3.70% over the average closing price of approximately HK\$4.388 per Peoples Share for the last 10 trading days up to and including the Last Trading Date;
- (f) a premium of approximately 3.17% over the average closing price of HK\$4.410 per Peoples Share for the five trading days up to and including the Last Trading Date;
- (g) a premium of approximately 2.82% over the closing price of HK\$4.425 per Peoples Share as quoted on the Stock Exchange on the Last Trading Date;
- (h) a premium of approximately 205.95% over the audited net asset value per Peoples Share of approximately HK\$1.49 as at 31 December 2004 (based on the net asset value of approximately HK\$1,105.93 million and 743,641,019 Peoples Shares in issue as at 31 December 2004);
- (i) a price earnings multiples of approximately 13.45 times based on the audited net profit attributable to Peoples Shareholders of approximately HK\$251.61 million for the financial year ended 31 December 2004 and 743,641,019 Peoples Shares in issue as at 31 December 2004; and
- (j) a premium of approximately 2.25% over the closing price of HK\$4.45 per Peoples Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Option Offer

The consideration of HK\$1.00 for the cancellation of each of the 492 outstanding Peoples Options is nominal. The number of Peoples Options included in the Announcement did not include (i) Peoples Options which have been informally surrendered through, in most cases, delivery of the relevant option certificates to Peoples by employees on their resignation and (ii) Peoples Options

LETTER FROM THE PEOPLES BOARD

held by other employees of Peoples who had resigned as at the date of the Announcement, although in each case such Peoples Options were not formally cancelled. As the Peoples Option Exercise Price is HK\$4.55 per Peoples Share, which equals the Share Offer Price, the Peoples Options carry no intrinsic value under the Share Offer.

Trading Prices

The highest and lowest prices at which Peoples Shares were traded on the Stock Exchange during the six-month period immediately prior to the commencement of the Offer Period and up to and including the Latest Practicable Date were HK\$4.50 on 1 November 2005 and HK\$2.40 on 11 May 2005, 13 May 2005 and 17 May 2005, respectively.

Terms of the Offers

Under the terms of the Share Offer, Peoples Shares will be acquired with all rights attached thereto as at the date of the Announcement, or subsequently becoming attached thereto and free from all rights of pre-emption, options, liens, claims, equities, charges, encumbrances and third party rights.

Under the terms of the Option Offer, the Peoples Options of the accepting Peoples Optionholders, together with all rights attaching thereto, will be entirely cancelled and renounced.

Conditions of the Offers

The Share Offer

The Share Offer is conditional on the satisfaction or waiver of the following Conditions:

- (a) valid acceptances of the Share Offer being received (and not, where permitted, withdrawn) by 4:00 p.m. on the date which is 21 days after the making of the Share Offer (or such later time(s) and/or date(s) as the Offeror may, subject to the rules of the Takeovers Code, decide) in respect of the Peoples Shares which constitute not less than 90% (the “**Percentage Threshold**”) of the maximum number of Peoples Shares to which the Share Offer relates;
- (b) the following approvals and consents have been obtained:
 - (i) the approval of the National Development and Reform Commission and the Ministry of Commerce of the PRC and other necessary regulatory authorities in the PRC; and
 - (ii) the prior consent from the OFTA under section 7P(6) of the Telecommunications Ordinance or the OFTA providing a written confirmation that an investigation under section 7P of the Telecommunications Ordinance is not required;
- (c) no governments, governmental, quasi-governmental, supernational, statutory or regulatory bodies or courts in any jurisdiction having instituted any action, proceedings, suit, investigation or enquiry or enacted or made and there not continuing to be outstanding any statute, regulation or order that would make the Offers void, unenforceable or illegal or prohibit the implementation of, the Offers;

LETTER FROM THE PEOPLES BOARD

- (d) all telecommunications licences held by Peoples and/or any member of the Peoples Group are in full force and effect, and have not expired or been revoked by the OFTA when Conditions (a), (b), (c) and (e) are satisfied; and
- (e) any necessary third party consents in relation to the Offers (other than consents from the Concert Parties) required pursuant to any agreement (including any financing agreement) to which any member of the Peoples Group is a party (where any failure to obtain a consent would have a material adverse effect on the business of the Peoples Group taken as a whole) having been obtained or waived by the relevant party(ies).

For the purpose of this “Conditions of the Offers” paragraph, the “Peoples Group” means Peoples, together with its subsidiaries and associated companies.

If valid acceptances of the Share Offer are received on or before the First Closing Date, being 49 days after the making of the Share Offer, or such later time and/or date as the Offeror may determine and announce as permitted under the Takeovers Code, in respect of the Peoples Shares which constitute not less than 90% of the maximum number of Peoples Shares to which the Share Offer relates, Condition (a) will be fulfilled.

In respect of Condition (e) above, a loan agreement dated 5 May 2005 entered into by Peoples with CITIC Ka Wah Bank Limited in relation to a thirty months term facility of up to HK\$150 million, details of which were announced by Peoples on that date, includes the requirement that China Resources will at all times remain the single largest shareholder of Peoples and that China Resources will at all times beneficially own not less than 30% of the issued Peoples Shares. In addition, cessation of the listing status of Peoples on the Stock Exchange will constitute an event of default under the loan agreement. Peoples has obtained a written waiver from CITIC Ka Wah Bank Limited from compliance with such requirements in connection with the Offers on the basis that CMHK will remain as the single largest shareholder of Peoples, with effect from the date of completion of the Share Offer.

According to CMHK, on 8 November 2005, the Offeror has submitted to the TA an application under section 7P of the Telecommunications Ordinance. The TA has indicated that it intends to conduct a market inquiry and the application will take around two months to process. It is therefore expected that the TA’s decision under section 7P of the Telecommunications Ordinance will be made in late December 2005.

In light of the timetable for the TA to make a decision under section 7P of the Telecommunications Ordinance, the Offeror has made an application to the Executive pursuant to Note 3 to Rule 15.5 to extend “Day 39” to the second day following the announcement of such decision of the TA, with consequent changes to “Day 46” and “Day 60” accordingly.

CMHK has stated that if the prior consent from the TA under section 7P(6) of the Telecommunications Ordinance is obtained on or before the First Closing Date and the other Conditions are either fulfilled or waived, the Offers will proceed in accordance with the expected timetable set out in the section headed “Expected Timetable” on pages (ii) to (iv) of this document. However, if TA’s prior consent is not obtained and the Offeror waives that condition and the other Conditions are either fulfilled or waived, the Offers will proceed to closing. If the TA is of the view that the acquisition has, or is likely to have, the effect of substantially lessening competition in the telecommunications market and it is not satisfied that the benefit of the acquisition to the public outweighs any detriment to the public which will, or is likely to, result from a substantial lessening of competition, the TA is empowered under the Telecommunications Ordinance to direct Peoples to

LETTER FROM THE PEOPLES BOARD

take any action as it deems necessary or to impose other remedies by requiring Peoples and the Offeror to modify the acquisition transaction. These actions or remedies may affect the business operations of Peoples. The Offeror has stated that it has no intention to waive the condition in relation to the TA's prior consent.

In addition to the conditions set out above, the Share Offer is subject to the term that acceptance of the Share Offer by any person constitutes a warranty by such person or persons to the Offeror that the Peoples Shares acquired under the Share Offer are sold by such person or persons free from all third party rights, liens, charges, equities and encumbrances and together with all rights attaching thereto as at the date of the Announcement or subsequently becoming attached to them, including (as appropriate) the right to receive all dividends and distributions declared, made or paid on or after the date of the Announcement.

The Option Offer

The Option Offer is subject to and conditional upon the Share Offer becoming or being declared unconditional.

In addition, the Option Offer is also subject to the term that acceptance of the Option Offer by any person constitutes a warranty by such person or persons to the Offeror that the Peoples Options are free from all third party rights, liens, charges, equities and encumbrances and are to be cancelled and renounced together with all rights attaching thereto as at the date of the Announcement, or subsequently becoming attached to them.

Waiver of the Conditions of the Offers

The Offeror reserves the right, at its absolute discretion, to waive all or any of Conditions in whole or in part during the Offer Period, save that the Percentage Threshold referred in Condition (a) above must be at least more than 50%.

IRREVOCABLE UNDERTAKINGS TO ACCEPT THE OFFERS

The Offeror has received Irrevocable Undertakings from China Resources and Michael Leung (the substantial shareholders (as such term is defined in the Listing Rules) of Peoples) that they will accept the Share Offer in respect of the Committed Shares, which represent approximately 66.24% of the Peoples Shares in issue as at the Latest Practicable Date. Michael Leung has further irrevocably undertaken to the Offeror that he will accept the Option Offer in respect of his one Peoples Option involving 4,500,000 Peoples Shares.

The Irrevocable Undertakings provide that China Resources and Michael Leung shall accept the Share Offer in respect of the Committed Shares, and Michael Leung shall also accept the Option Offer in respect of his one Peoples Option, on the day immediately following the receipt of a notice from CMHK, such notice to be given within the Offer Period. If China Resources and Michael Leung have not received such notice from CMHK by the 18th day after the date of despatch of this document, they shall in any event fulfil their undertakings by the 21st day following the date of despatch of this document.

The Irrevocable Undertakings will lapse if and only if: (i) the Announcement was not issued on or before the seventh Business Day after the date of the Irrevocable Undertakings; (ii) the Offers were not made (by posting of this document) by the date falling 21 days after the issue of the Announcement (or such later date may be agreed by the Executive, being no later than 15 December

LETTER FROM THE PEOPLES BOARD

2005); or (iii) the Share Offer lapses or is withdrawn without having become wholly unconditional. As at the date of this document, conditions (i) and (ii) to the Irrevocable Undertakings were fulfilled.

PEOPLES SHARES AND PEOPLES OPTIONS HELD BY THE PEOPLES DIRECTORS

Peoples has been informed by Mr. Lam Kwong Yu, an independent non-executive director of Peoples, that he intends to accept the Share Offer in respect of his shareholding in Peoples. Each of Mr. Charles Guy Henshaw, Mr. Wong Man Kwan, Willie and Ms. Wong Leung Ka On, Charlotte, executive directors of Peoples, and Mr. Jiang Wei, Mr. Li Fu Zuo, Mr. Wu Jun, Dr. Huang Zhi Jian and Mr. Sinn Chung Ming, Anthony, non-executive directors of Peoples, have informed Peoples that they intend to accept the Option Offer in respect of the Peoples Options held by them.

INFORMATION ON THE PEOPLES GROUP

Business of the Peoples Group

Peoples was incorporated in 1994 in Hong Kong and is one of the six primary providers of the mobile voice and data communications services in Hong Kong. In 1996, Peoples obtained a Public Radiocommunication Service (“**PRS**”) licence to construct and operate a PCS1800 network in Hong Kong, and on 28 January 1997, Peoples became the first Personal Communication Service (“**PCS**”) operator in Hong Kong to launch its service. On 25 February 2004, Peoples changed its legal name from “Peoples Telephone Company Limited” to “China Resources Peoples Telephone Company Limited”. Peoples was listed on the Main Board of the Stock Exchange on 1 April 2004, trading under the stock code 331.

The number of Peoples Shares in issue was 743,641,019 as at the Latest Practicable Date and China Resources was interested in 359,218,770 Peoples Shares, representing approximately 48.31% of the entire issued share capital in Peoples as at the Latest Practicable Date.

Key financial information of the Peoples Group

The audited net asset value of Peoples was HK\$1,105.93 million as at 31 December 2004.

Peoples recorded audited net profits attributable to Peoples Shareholders of approximately HK\$270.08 million and HK\$251.61 million for the years ended 31 December 2003 and 31 December 2004, respectively.

The Offers do not involve Peoples entering into any transaction.

THE OFFEROR’S INTENTIONS REGARDING PEOPLES

Peoples Business

CMHK and the Offeror intend that Peoples, if the Offers are completed, will continue to carry on the business of engaging in providing mobile voice and data communications services in Hong Kong. CMHK and the Offeror do not intend either to introduce any material changes to the business of the Peoples Group nor to re-deploy its fixed assets.

LETTER FROM THE PEOPLES BOARD

Compulsory Acquisition

If the Offeror receives valid acceptances of the Share Offer for not less than 90% of the disinterested Peoples Shares, the Offeror intends to apply the provisions of the Companies Ordinance to compulsorily acquire any remaining Peoples Shares and to apply for a de-listing of Peoples Shares from the Stock Exchange. As neither China Resources nor Michael Leung is acting in concert with the Offeror, acceptances of the Share Offer for the Committed Shares will be taken into account when calculating that 90% of disinterested Peoples Shares.

Maintaining the Listing

In the event that the compulsory acquisition right is not available to the Offeror and the Offeror at its absolute discretion waives the condition in relation to the Percentage Threshold and the Offers close, the Offeror has stated that it will use its reasonable endeavours to maintain the listing of Peoples on the Stock Exchange. The directors of the Offeror and the new directors to be appointed to the board of Peoples will jointly and severally undertake to the Stock Exchange to take appropriate steps to ensure that not less than 25% of the Peoples Shares will be held by the public as soon as possible following the closing of the Share Offer in compliance with the Listing Rules.

Management and Staff

It is the intention of CMHK and the Offeror to have Peoples' existing senior management team to continue to manage Peoples after the completion of the Offers, and not to discontinue the employment of the employees of the Peoples Group as a result of the Offers.

FURTHER INFORMATION

Please refer to the letter from the Financial Advisers set out in this composite offer document and Appendix I to this composite offer document for information in relation to the Offers, the making of the Offers to Peoples Shareholders and Peoples Optionholders residing in jurisdictions outside Hong Kong, taxation, acceptance and settlement procedures for the Offers.

RECOMMENDATION

Your attention is drawn to the letter from the Peoples Independent Board Committee set out in this composite offer document, which contains its recommendation to the Peoples Independent Shareholders and the Peoples Optionholders in respect of the Share Offer and the Option Offer, and the letter from the Independent Financial Adviser which contains its advice to the Peoples Independent Board Committee in respect of the fairness and reasonableness of the Offers, and the principal factors and reasons which it has considered before arriving at its advice to the Peoples Independent Board Committee. You are also advised to read this composite offer document and the Forms of Acceptance in respect of the acceptance and settlement procedures of the Offers.

Yours faithfully,

For and on behalf of the Board of
CHINA RESOURCES PEOPLES TELEPHONE COMPANY LIMITED

Jiang Wei

Chairman and non-executive Director



CHINA RESOURCES PEOPLES TELEPHONE COMPANY LIMITED

華潤萬眾電話有限公司

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

(Stock Code: 331)

10 November 2005

To the Peoples Independent Shareholders and Peoples Optionholders

Dear Sir or Madam,

**Voluntary conditional cash offers by
China International Capital Corporation (Hong Kong) Limited
and Merrill Lynch (Asia Pacific) Limited
on behalf of
Fit Best Limited, a wholly-owned subsidiary of
China Mobile (Hong Kong) Limited,
to acquire all the issued shares in the share capital,
and for cancellation of all outstanding options, of
China Resources Peoples Telephone Company Limited
(other than those already owned by the Offeror, China Mobile (Hong Kong) Limited
or parties acting in concert with them)**

We refer to the composite offer and response document issued jointly by CMHK and Peoples to the Peoples Shareholders and the Peoples Optionholders dated 10 November 2005 (the “composite offer document”) of which this letter forms part. Terms defined in the composite offer document shall have the same meanings in this letter unless the context otherwise requires.

We have been appointed by the Peoples Board to form the Peoples Independent Board Committee to consider the terms of the Offers and to make recommendations to the Peoples Independent Shareholders and the Peoples Optionholders in connection with the Share Offer and the Option Offer, respectively.

We have considered whether the terms of the Share Offer and the Option Offer are fair and reasonable so far as the Peoples Independent Shareholders and the Peoples Optionholders respectively are concerned. Baron Capital Limited has been appointed as the independent financial adviser to advise us in respect of the above.

LETTER FROM THE PEOPLES INDEPENDENT BOARD COMMITTEE

We wish to draw your attention to the letter from the Financial Advisers, the letter from the Peoples Board and the letter from the Independent Financial Adviser as set out in the composite offer document. Having considered the principal factors and reasons considered by, and the advice of, the Independent Financial Adviser as set out in its letter of advice, we consider that the terms of the Share Offer and the Option Offer are fair and reasonable so far as the Peoples Independent Shareholders and the Peoples Optionholders respectively are concerned. Accordingly, we recommend the Peoples Independent Shareholders and the Peoples Optionholders to accept the Offers.

Yours faithfully,

Peoples Independent Board Committee

Mr. Ma Chiu Cheung, Andrew
Independent Non-executive Director

Professor Chen Kwan Yiu, Edward
Independent Non-executive Director

Mr. Lam Kwong Yu
Independent Non-executive Director

Mr. Tan Henry
Independent Non-executive Director

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the text of a letter of advice to the Peoples Independent Board Committee from Baron Capital Limited, the Independent Financial Adviser, dated 10 November 2005 prepared for the purpose of incorporation in this document:



4/F, Aon China Building
29 Queen's Road Central
Central, Hong Kong

10 November 2005

To the Peoples Independent Board Committee

Dear Sirs,

**Voluntary conditional cash offers by
China International Capital Corporation (Hong Kong) Limited
and Merrill Lynch (Asia Pacific) Limited
on behalf of
Fit Best Limited, a wholly-owned subsidiary of
China Mobile (Hong Kong) Limited,
to acquire all the issued shares in the share capital,
and for cancellation of all outstanding options, of
China Resources Peoples Telephone Company Limited
(other than those already owned by the Offeror, China Mobile (Hong Kong) Limited
or parties acting in concert with it)**

INTRODUCTION

We refer to our appointment by Peoples to advise the Peoples Independent Board Committee in respect of the Offers and to provide an opinion as to whether the terms of the Offers are fair and reasonable so far as the Peoples Independent Shareholders and the Peoples Optionholders are concerned and to give our opinion in relation to the Offers for the consideration of the Peoples Independent Board Committee in making its recommendation as to acceptance to the Peoples Independent Shareholders and the Peoples Optionholders. Details of the Offers are set out in the “Letter from the Financial Advisers” and the “Letter from the Peoples Board” contained in the composite offer and response document to the Peoples Shareholders and the Peoples Optionholders dated 10 November 2005 (the “Composite Document”), of which this letter forms part. Terms defined in the Composite Document shall have the same meanings in this letter unless the context otherwise requires.

In accordance with Rule 2.1 of the Takeovers Code, the Peoples Independent Board Committee, comprising Mr. Ma Chiu Cheung, Andrew, Professor Chen Kwan Yiu, Edward, Mr. Lam Kwong Yu and Mr. Tan Henry, was established to advise the Peoples Independent Shareholders and the Peoples Optionholders in respect of the terms of the Offers. Mr. Jiang Wei, Dr. Huang Zhi Jian, Mr. Li Fu Zuo, Mr. Sinn Chung Ming, Anthony, Mr. Wu Jun and Mr. Yan Biao, all being the non-executive

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Directors, are all employees or directors of China Resources, or its associates. As such, they are not considered sufficiently independent to advise the Peoples Independent Shareholders and the Peoples Optionholders in respect of the Offers.

Baron Capital Limited is independent from, and not associated with, the Offeror or Peoples or their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them and, accordingly, is considered eligible to give independent advice on the Offers. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Offeror or Peoples or their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them.

BASIS OF OUR OPINION

Our recommendation is based solely on publicly available information and other information provided to us by Peoples and its management. In arriving at our opinion and recommendation, we have relied on the Peoples Directors to ensure that the information and representations supplied to us by Peoples are true, accurate and complete in all material aspects at the time they were made and continue to be true at the date of the Composite Document. We have also assumed that all information, statements of belief, opinion and intention in the Composite Document were true at the time they were made and continue to be true at the date of the Composite Document. We have been advised by the Peoples Directors that no material facts have been withheld or omitted from the information provided and referred to in the Composite Document and we are not aware of, nor do we suspect that, any facts or circumstances which would render the information provided and the representations made to us untrue, inaccurate and misleading in any material aspect. Accordingly, we consider that we have reviewed sufficient information to reach an informed view and to justify reliance on the accuracy of the information contained in the Composite Document and to provide a reasonable basis for our recommendation.

The Peoples Directors have jointly and severally accepted full responsibility for the accuracy of the information contained in the Composite Document in respect of the Peoples Group and confirmed, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Composite Document in respect of the Peoples Group have been arrived at after due and careful consideration and there are no other facts not contained in the Composite Document in respect of the Peoples Group, the omission of which would make any statements in the Composite Document in respect of the Peoples Group misleading. The directors of CMHK have all declared in a responsibility statement set out in Appendix III of the Composite Document that they jointly and severally accept full responsibility for the accuracy of the information contained in the Composite Document (other than information relating to the Peoples Group). We have not, however, conducted any independent verification of the information provided by the Peoples Directors and the management of Peoples, nor have we conducted an independent investigation into the business and affairs of Peoples.

We have not considered the tax consequences on the Peoples Independent Shareholders and the Peoples Optionholders in respect of their acceptance or non-acceptance of the Offers since these are particular to their own individual circumstances. In particular, the Peoples Independent Shareholders and the Peoples Optionholders who are overseas residents or subject to overseas taxes or Hong Kong taxation on securities dealing should consider their own tax positions and, if in any doubt, should consult their own professional advisers.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation to the Peoples Independent Board Committee in respect of the Offers, we have taken into consideration the following principal factors and reasons:

Share Offer

1. *Background and the terms of the Offers*

Background

On 20 October 2005, CMHK and Peoples jointly announced that the Offeror will make, through CICC and Merrill Lynch, the Financial Advisers, voluntary conditional cash offers to acquire all of the issued shares in the share capital, and for the cancellation of all outstanding options, of Peoples (other than those already owned by the Offeror, CMHK or other parties acting in concert with it). As at the Latest Practicable Date, there were 743,641,019 Peoples Shares in issue and 492 outstanding Peoples Options involving 50,650,000 Peoples Shares. Save as the outstanding Peoples Options, Peoples has no other options, warrants or other securities issued by Peoples that carry a right to subscribe for or which are convertible into Peoples Shares.

The Financial Advisers are making the Offers for and on behalf of the Offeror, subject to the terms set out in the Composite Document (including, without limitation, those set out in Appendix I) and in the accompanying Forms of Acceptance, to acquire all of the issued Peoples Shares (other than those already owned by the Offeror, CMHK and other parties acting in concert with it) at the Share Offer Price, and to offer to pay a cash amount to the Peoples Optionholders for each outstanding Peoples Option held by them in consideration for their agreeing to cancel their outstanding Peoples Options, on the following basis:

The Share Offer

For each Peoples Share HK\$4.55 in cash

The Option Offer

For each of the 492 outstanding Peoples Options. HK\$1.00 in cash

The Financial Advisers are satisfied that sufficient financial resources are available to the Offeror to meet full acceptances of the Offers.

Conditions

The Share Offer is conditional on the satisfaction or waiver of the following Conditions:

- (a) valid acceptances of the Share Offer being received (and not, where permitted, withdrawn) by 4:00 p.m. on the date which is 21 days after the making of the Share Offer (or such later time(s) and/or date(s) as the Offeror may, subject to the rules of the Takeovers Code, decide) in respect of the Peoples Shares which constitute not less than 90% (the “**Percentage Threshold**”) of the maximum number of Peoples Shares to which the Share Offer relates;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (b) the following approvals and consents have been obtained:
 - (i) the approval of the National Development and Reform Commission and the Ministry of Commerce of the PRC and other necessary regulatory authorities in the PRC; and
 - (ii) the prior consent from the OFTA under section 7P(6) of the Telecommunications Ordinance or the OFTA providing a written confirmation that an investigation under section 7P of the Telecommunications Ordinance is not required;
- (c) no governments, governmental, quasi-governmental, supernational, statutory or regulatory bodies or courts in any jurisdiction having instituted any action, proceedings, suit, investigation or enquiry or enacted or made and there not continuing to be outstanding any statute, regulation or order that would make the Offers void, unenforceable or illegal or prohibit the implementation of, the Offers;
- (d) all telecommunications licences held by Peoples and/or any member of the Peoples Group are in full force and effect, and have not expired or been revoked by the OFTA when Conditions (a), (b), (c) and (e) are satisfied; and
- (e) any necessary third party consents in relation to the Offers (other than consents from the Concert Parties) required pursuant to any agreement (including any financing agreement) to which any member of the Peoples Group is a party (where any failure to obtain a consent would have a material adverse effect on the business of the Peoples Group taken as a whole) having been obtained or waived by the relevant party(ies).

For further details, please refer to the section headed “Conditions of the Offers” under the “Letter from the Financial Advisers” in the Composite Document.

Peoples Shareholders should note that the Offeror reserves the right, at its absolute discretion, to waive all or any of the Conditions in whole or in part during the Offer Period, save that the Percentage Threshold referred in Condition (a) above must be more than 50%. If valid acceptances of the Share Offer are received on or before the First Closing Date, being 49 days after the making of the Share Offer, or such later time and/or date as the Offeror may determine and announce as permitted under the Takeovers Code, in respect of the Peoples Shares which constitute not less than 90% of the maximum number of Peoples Shares to which the Share Offer relates, Condition (a) will be fulfilled.

Peoples Shareholders should also note that the Share Offer is also subject to Condition (b) above regarding consent or confirmation to be obtained from the OFTA. If there is a significant delay in a decision of the TA, the Executive should be consulted to determine whether the Offers should lapse and to what extent the relevant provisions of the Takeovers Code will continue to apply after lapsing of the Offers. The Offeror has submitted to the TA an application under section 7P of the Telecommunications Ordinance on 8 November 2005 and it is expected that the TA’s decision will be made in late December 2005. In light of the timetable for the TA to make a decision under section 7P of the Telecommunications Ordinance, the Offeror has made an application to the Executive pursuant to Note 3 to Rule 15.5 to extend “Day 39” to the second day following the announcement of such decision of the

TA, with consequent changes to “Day 46” and “Day 60” accordingly. Please refer to the section headed “Possible Extension to Day 60” under the “Letter from the Financial Advisers” in the Composite Document for further details.

Peoples Shareholders should note that if the prior consent from the TA under section 7P(6) of the Telecommunication Ordinance is obtained on or before the First Closing Date and the other Conditions (including 90% acceptances) are either fulfilled or waived, the Offers will proceed in accordance with the expected timetable set out in the section headed “Expected Timetable” on pages (ii) to (iv) of the Composite Document.

However, if TA’s prior consent is not obtained and the Offeror waives that condition and the other Conditions are either fulfilled or waived (including the 90% acceptances), the Offers will proceed to closing. If the TA is of the view that the acquisition will lessen competition in the telecommunications market or the benefit of the acquisition to the public outweighs any detriment to the public, the TA is empowered under the Telecommunications Ordinance to direct Peoples to take any action as it deems necessary or to impose other remedies by requiring Peoples and the Offeror to modify the acquisition transaction. These actions or remedies may affect the business operations of Peoples. The Offeror has no intention to waive the condition in relation to the TA’s prior consent. As such, if the TA’s consent is not obtained on or before the First Closing Date, the Share Offer will, subject to the decision of the Offeror, be extended or lapse.

If the Offers do not become, and are not declared unconditional in all respects within the time permitted under the Takeovers Code, the share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or satisfactory indemnity or indemnities required in respect thereof), or (as the case may be) the certificate(s) of the Peoples Options, tendered for acceptance under the Offers will be returned to the accepting Peoples Shareholders and Peoples Optionholders as soon as possible but in any event within 10 days after the Offers have lapsed.

Terms of the Offers

Under the terms of the Share Offer, Peoples Shares will be acquired with all rights attached thereto as at the date of the Announcement, or subsequently becoming attached thereto and free from all rights of pre-emption, options, liens, claims, equities, charges, encumbrances and third party rights.

Under the terms of the Option Offer, the Peoples Options of the accepting Peoples Optionholders, together with all rights attaching thereto, will be entirely cancelled and renounced. Pursuant to the terms of the Peoples’ Pre-IPO Share Option Scheme, in the event of a general offer being made to all the Peoples Shareholders and such offer becoming or being declared unconditional prior to the expiry date of the relevant outstanding Peoples Options, the Peoples Optionholders are entitled to exercise the outstanding Peoples Options in full at any time within 14 days after the date on which the Offers become or are declared unconditional. Accordingly, the exercise period for the outstanding Peoples Options is accelerated. The outstanding Peoples Options will lapse automatically and not be exercisable on the expiry of the aforesaid 14 days period. In the event that any of the outstanding Peoples Options are exercised before the close of the Offers in accordance with the provisions of the Peoples’ Pre-IPO Share Option Scheme, any Peoples Shares issued as a result thereof will be subject to the Share Offer.

Irrevocable Undertakings on the Offers

The Offeror has received Irrevocable Undertakings from China Resources and Michael Leung (the substantial shareholders (as such term is defined in the Listing Rules) of Peoples) that they will accept the Share Offer in respect of the Committed Shares, which represent approximately 66.24% of the Peoples Shares in issue as at the Latest Practicable Date. Michael Leung has further irrevocably undertaken to the Offeror that he will accept the Option Offer in respect of his one Peoples Option involving 4,500,000 Peoples Shares. As neither China Resources nor Michael Leung is acting in concert with the Offeror, acceptances of the Share Offer for the Committed Shares will be taken into account when calculating the 90% of disinterested Peoples Shares required for the Offeror to exercise the rights of compulsory acquisition under Rule 2.11 of the Takeovers Code.

The compulsory acquisition right and the intention of the Offeror

Under the Companies Ordinance, the compulsory acquisition right may be exercised within two months from the date when the Offeror acquires the prescribed level of Peoples Shares as required by the Companies Ordinance. If the Offeror receives valid acceptances of the Share Offer for not less than 90% of the disinterested Peoples Shares, the Offeror intends to apply the provisions of the Companies Ordinance to compulsorily acquire any remaining Peoples Shares and to apply for a de-listing of Peoples Shares from the Stock Exchange pursuant to Rule 6.15 of the Listing Rules.

Pursuant to Rule 2.11 of the Takeovers Code, except with the consent of the Executive, where the Offeror seeks to acquire or privatise Peoples by means of the Share Offer and the use of compulsory acquisition rights, such rights may only be exercised if, in addition to satisfying any requirements imposed by the Companies Ordinance, acceptance of the Share Offer and purchases (in each case of the disinterested Peoples Shares) made by the Offeror and persons acting in concert with it during the period of four months after posting the Composite Document total 90% of the disinterested Peoples Shares.

According to Rule 15.6 of the Takeovers Code, as the Offeror may consider exercising its rights under the relevant provisions of the Companies Ordinance to compulsorily acquire those Peoples Shares not acquired by the Offeror under the Share Offer, the Share Offer may not remain open for acceptance for more than four months from the posting of the Composite Document, unless the Offeror has by that time become entitled to exercise the power of compulsory acquisition available to it under the Companies Ordinance, in which event, according to the “Letter from the Financial Advisers” contained in the Composite Document, the Offeror will do so without delay.

WARNING: Peoples Independent Shareholders should note that if the level of acceptances reaches the prescribed level under the Companies Ordinance and Rule 2.11 of the Takeovers Code permits a compulsory acquisition and the Offeror proceeds with the privatisation of Peoples, dealings in the securities of Peoples will be suspended from the Closing Date up to the withdrawal of listing of Peoples’ securities from the Stock Exchange pursuant to Rule 6.15 of the Listing Rules. If not less than 90% acceptances of the disinterested Peoples Shares are received, Peoples Shares held by Peoples Independent Shareholders who have not accepted the Offers will be subject to compulsory purchase on exercise of the compulsory acquisition rights by the Offeror.

In the event that the compulsory acquisition right is not available to the Offeror

In the event that the compulsory acquisition right is not available to the Offeror and the Offeror at its absolute discretion waives the condition in relation to receiving not less than 90% acceptances and the Offers close, the Offeror has stated that it will use its reasonable endeavours to maintain the listing of Peoples on the Stock Exchange. The directors of the Offeror and the new directors to be appointed to the board of Peoples will jointly and severally undertake to the Stock Exchange to take appropriate steps to ensure that not less than 25% of the Peoples Shares will be held by the public as soon as possible following the closing of the Share Offer in compliance with the Listing Rules.

Right of withdrawal

An acceptor of the relevant Offer shall be entitled to withdraw his/her/its acceptances after 21 days from the First Closing Date if the Share Offer has not by then become or been declared unconditional as to acceptances. Such entitlement to withdraw shall be exercisable only until such time the Share Offer becomes or declared unconditional as to acceptances.

In the situation where prior consent from the TA under section 7P(6) of the Telecommunications Ordinance is not obtained on or before 29 December 2005, an acceptor of the relevant Offer is entitled to withdraw his/her/its acceptance from 19 January 2006 if the Share Offer has not become or been declared unconditional as to acceptances. However, such entitlement to withdraw is exercisable only until such time as the Share Offer becomes or is declared unconditional as to acceptances. For further details, please refer the paragraph headed “Right of Withdrawal” in Appendix I to the Composite Document.

2. Financial performance of Peoples

(i) Summary of audited consolidated results of Peoples

The audited net asset value of Peoples was approximately HK\$1,106 million as at 31 December 2004. Peoples recorded an audited net profit attributable to Peoples Shareholders of approximately HK\$270 million and HK\$252 million for the years ended 31 December 2003 and 31 December 2004, respectively.

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The financial results of Peoples for the each of the previous three years ended 31 December 2004 and the six months ended 30 June 2005 are contained in Appendix II of the Composite Document. Set out below is a summary of the audited consolidated results of Peoples for each of the three years ended 31 December 2002, 2003 and 2004 and the unaudited financial results of Peoples for the six months ended 30 June 2005 extracted from Appendix II and the prospectus of Peoples dated 22 March 2004 (the “Prospectus”):

	Unaudited six months ended 30 June 2005 HK\$'000	Year ended 31 December		
		2004 HK\$'000	2003 HK\$'000	2002 HK\$'000
Income Statement				
Turnover	<u>896,176</u>	<u>1,681,994</u>	<u>1,642,301</u>	<u>1,505,155</u>
Profit attributable to Peoples Shareholders	<u>114,569</u>	<u>251,605</u>	<u>270,076</u>	<u>344,546</u>
Profit before interest, tax, depreciation and amortisation (“EBITDA”)	<u>257,378</u>	<u>535,421</u>	<u>581,012</u>	<u>506,096</u>
Balance sheet				
Non-current assets	1,173,303	1,202,157	1,227,053	1,184,196
Current assets	282,420	423,758	299,176	314,501
Current liabilities	(265,571)	(423,369)	(1,461,639)	(926,742)
Non-current liabilities	<u>(147,892)</u>	<u>(96,617)</u>	<u>—</u>	<u>(777,441)</u>
Shareholder's funds	<u>1,042,260</u>	<u>1,105,929</u>	<u>64,590</u>	<u>(205,486)</u>

Sources: The Prospectus, annual and interim reports of Peoples

(ii) *Discussion of the business and financial performance of Peoples since its listing on 1 April 2004*

(a) Financial year ended 31 December 2004

Turnover of Peoples was boosted for the year ended 31 December 2004 by approximately 2.4% over year 2003, to approximately HK\$1,682 million from approximately HK\$1,642 million for the year ended 31 December 2003.

The number of subscribers to Peoples' telecommunication services grew to 1.13 million in 2004 from 1.05 million in 2003, representing a growth rate of approximately 7.6%. According to the 2004 annual report of Peoples, improvement in customer services, network performances and brand recognition for mobile services were the main reasons behind such increase. Peoples' EBITDA was approximately HK\$535 million, and showed a decline of approximately 7.9% against approximately HK\$581 million in year 2003.

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Profit attributable to the Peoples Shareholders amounted to approximately HK\$252 million, which represented a 6.8% slide from approximately HK\$270 million in 2003. The capital expenditure of the Company was reduced by approximately 22.6% to approximately HK\$230 million in 2004 from approximately HK\$297 million in 2003 after the completion of phase 1 of the Enhanced Data rates for GSM Evolution (the “EDGE”) rollout in 2004. The EDGE network is a “2.75G” technology debuted on 31 August 2004 in the form of the “Mobile TV” data service. According to the 2004 annual report of Peoples, EDGE is a substantial technical enhancement over the existing GPRS (General Packet Radio Service) 2.5G data services by allowing the introduction of a more cutting edge and higher speed multimedia data service. The multimedia data services provided by EDGE are comparable to the 3G offerings as stated in the 2004 annual report of Peoples.

(b) For the six months ended 30 June 2005

The turnover of Peoples for the six months ended 30 June 2005 was about HK\$896 million, representing an approximately 7.9% increase as compared to about HK\$831 million for the corresponding period in 2004. According to the 2005 interim report of Peoples, the subscriber base has expanded to 1.21 million, an approximately 15.2% increase as compared to 1.05 million for the corresponding period in 2004. Peoples’s EBITDA for the six months ended 30 June 2005 was approximately HK\$257 million, which showed a slight decrease of approximately 3.1% against approximately HK\$265 million in the corresponding period in 2004. Profit attributable to the Peoples Shareholders amounted to approximately HK\$115 million, representing a slight decrease of about 3.5% from approximately HK\$119 million in the corresponding period in 2004.

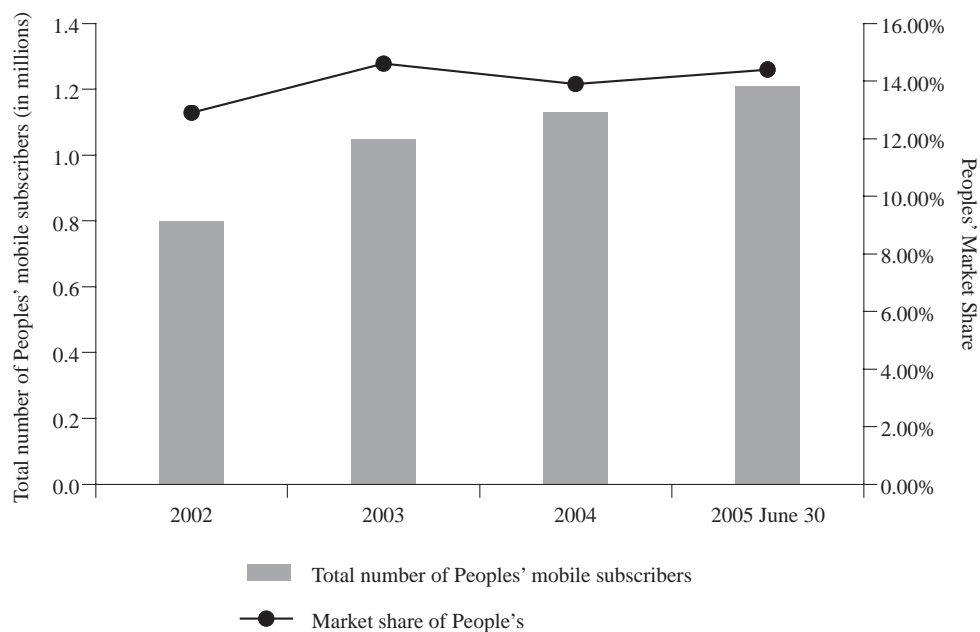
(c) Operational performance and market share of Peoples

The following table and chart show the number of subscribers of Peoples and total mobile customers in Hong Kong, which is based on the number of both pre-paid and post-paid SIM cards as at 31 December from 2002 to 2004 and as at 30 June 2005, and the respective market share of Peoples:

	2002	As at 31 December 2003	2004	As at 30 June 2005
Total number of Peoples’ mobile subscribers (in millions) (Note 1)	0.81	1.05	1.13	1.21
Total mobile customers in Hong Kong (in millions) (Note 2)	6.22	7.19	8.16	8.38
Peoples’ market share (Note 3)	12.9%	14.6%	13.9%	14.4%

Notes:

- Figures for 31 December 2002 to 2003 are from the Prospectus and figure for 31 December 2004 is from 2004 annual report of Peoples. The figure for 30 June 2005 is from 2005 interim report of Peoples.
- Statistics from OFTA.
- Total number of subscribers of Peoples as a percentage of total mobile customers in Hong Kong.



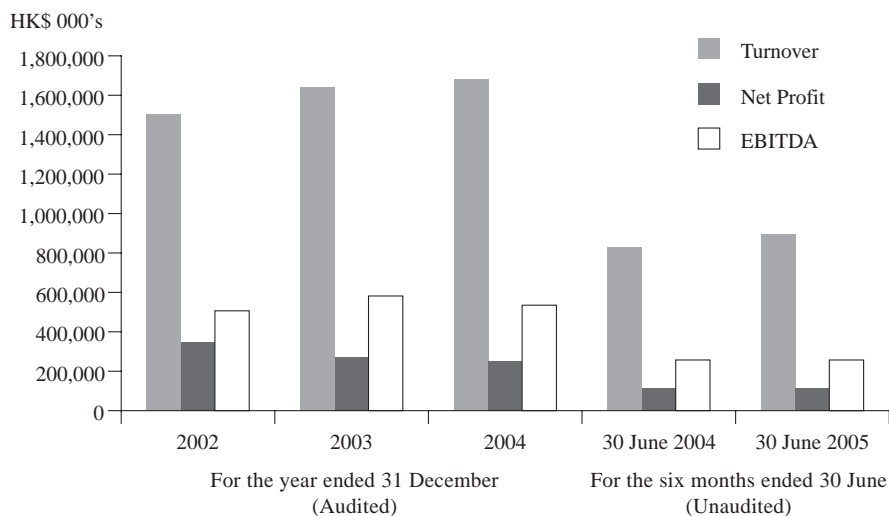
Source: Data from the above statistics table

As illustrated from the above table and chart, the number of Peoples' mobile subscribers climbed steadily from about 810,000 as at 31 December 2002 to about 1,210,000 as at 30 June 2005, representing an increase of approximately 49% or a compounded annual growth rate of approximately 17.41% from 2002 to 30 June 2005. However, the market share of Peoples in the mobile market in Hong Kong has been relatively flat, and dropped from 14.6% as at 31 December 2003 to 13.9% as at 31 December 2004 then rebounded to 14.4% as at 30 June 2005. In light of the “aggressive pricing behaviour of the competitors of Peoples” as stated in the 2005 interim report of Peoples, we are of the view that, based on the relatively flat market share trend of Peoples, Peoples' strategy and its marketing efforts were only sufficient for Peoples to maintain its market share in the mobile market of Hong Kong, but did not improve its profitability as discussed below.

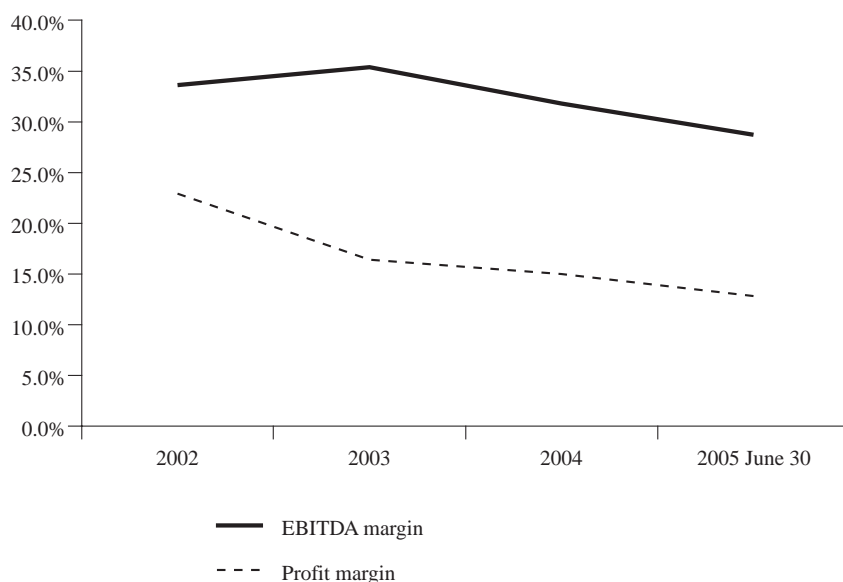
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The following charts illustrate other operating statistics of Peoples for reference:

Turnover, Net profit and EBITDA of Peoples



Operating Margins of Peoples



Source: The Prospectus, annual and interim report of Peoples

As illustrated in the above charts, annual turnover of Peoples has been on an upward trend from approximately HK\$1,505 million in 2002 to approximately HK\$1,682 million in 2004. However, profit attributable to Peoples Shareholders and the EBITDA has been on a downward trend since 2003 partly due to the price competition amongst the competitors. Net profit and EBITDA dropped from approximately HK\$270 million and

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HK\$581 million respectively in 2003 to approximately HK\$252 million and HK\$535 million respectively in 2004, representing a decline of approximately 6.7% and 7.9% respectively.

Operating margins of Peoples are also on a downward trend. The operating margin dropped from approximately 22.6% in 2002 to approximately 19.4% in 2004. The operating margin for the first six months in 2005 also dropped to 16.0% from 19.5% during the same period in 2004. The EBITDA margin also dropped slightly from approximately 33.6% in 2002 to approximately 31.8% in 2004 and decreased further to approximately 28.7% for the first six months in 2005.

The following table illustrates the average revenue per user (“ARPU”) information of Peoples for the year ended 31 December from 2001 to 2004.

	As at and for the year ended 31 December		
	2002	2003	2004
Number of Peoples’ subscribers (in millions)	0.81	1.05	1.13
Post-paid ARPU after rebate	HK\$177.8	HK\$171.2	HK\$159.7

Source: Statistics from Peoples and the Prospectus

As illustrated above, ARPU of Peoples is on a downward trend. The ARPU dropped from approximately HK\$177.8 in 2002 to approximately HK\$159.7 in 2004. The decline in ARPU is partly due to the competitive tariff offerings amongst the mobile operators in Hong Kong. We have also reviewed, amongst others, the publicly available information of other mobile operators in Hong Kong. We have reviewed respective published annual reports of all listed local mobile operators in Hong Kong namely, New World Mobile Holdings Limited (“NWM”), Sunday Communications Limited (“Sunday”), SmarTone Telecommunication Holdings Limited (“SmarTone”) and Hutchison Telecommunication International Limited (“HTIL”) and noted that save for SmarTone, the ARPU for the other mobile operators have also been on a downward trend since 2002 and the ARPU of Peoples is in the low end of the ARPU spectrum among such mobile operators in Hong Kong. Hong Kong CSL Limited (“CSL”) is another mobile operator in Hong Kong, but since it is not separately listed in Hong Kong, its annual report is not available for review.

(iii) *Liquidity, financial resources and capital structure*

According to the 2005 interim report of Peoples, the primary sources of funding of Peoples include cash resources generated internally and bank financing. Peoples’ funds for the six months ended 30 June 2005 were primarily used for the payment of capital expenditure, repayment of the short-term bank loan of HK\$225 million and payment of 2004 final dividend of HK\$134 million. Peoples had an outstanding borrowing of HK\$100 million as at 30 June 2005. The total debt to total assets ratio was reduced to approximately 6.8% from approximately 13.8% as at 31 December 2004.

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FUTURE PROSPECTS AND BUSINESS OUTLOOK OF PEOPLES GROUP

Industry Overview

Hong Kong has one of the most developed and competitive mobile telecommunications markets in the world. With reference to the figures released by OFTA, the mobile penetration rate in Hong Kong (being defined as total mobile subscribers as a percentage of the total Hong Kong population), increased from approximately 78.94% at the end of 2000 to approximately 120.75% as at the end of 30 June 2005, while the number of subscribers (both pre-paid and post-paid SIM card) increased from approximately 5.23 million to 8.38 million over the same period. The mobile penetration rate in Hong Kong is one of the highest penetration rates in the world. Given the high level of saturation in Hong Kong's telecommunications market, the mobile telecommunications segment is generally expected to grow at a modest rate in line with Hong Kong's annual population growth rate.

The tables below set out certain information relating to the mobile telecommunications industry in Hong Kong.

Telecommunications Services	Quantity
Mobile network operators (September 2005)	6
Mobile subscriber penetration per population (June 2005)	120.75%
Total mobile subscribers (June 2005)	8,384,880
2.5G and 3G mobile subscribers (June 2005)	1,618,656

Source: OFTA website

		As at 31 December				As at 30 June
	2000	2001	2002	2003	2004	2005
Total Hong Kong population (<i>millions</i>)	6.71	6.76	6.79	6.85	6.92	6.94
Total mobile subscriber (<i>millions</i>)	5.23	5.70	6.22	7.19	8.16	8.38
Mobile penetration rate	77.94%	84.32%	91.61%	104.96%	117.92%	120.75%

Source: Census and Statistics Department of Government, OFTA website

The Hong Kong mobile telecommunications market is highly competitive with six mobile network operators at the Latest Practicable Date, which are Peoples, CSL, NWM, Sunday, SmarTone and HTIL. From time to time, there have been periods of intense price competition amongst these mobile network operators. In October 2001, following a competitive process, the Government issued a 15-year 3G mobile license to each of CSL, Hutchison 3G, SmarTone 3G and SUNDAY 3G under a royalty payment scheme. Some of these operators have already launched their 3G services in Hong Kong.

Business outlook and future prospects of Peoples Group

Peoples was incorporated in 1994 in Hong Kong and is one of primary providers of the mobile voice and data communications services in Hong Kong. In 1996, Peoples obtained a Public Radiocommunication Service ("PRS") licence to construct and operate a PCS1800 network in Hong

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Kong, and on 28 January 1997, Peoples became the first Personal Communication Service (“PCS”) operator in Hong Kong to launch its service. On 25 February 2004, Peoples changed its legal name from “Peoples Telephone Company Limited” to “China Resources Peoples Telephone Company Limited”. Peoples was listed on the Main Board of the Stock Exchange on 1 April 2004.

The number of subscribers to Peoples’ telecommunication services has grown to 1.13 million in 2004 from 1.05 million in 2003, representing an increase of 7.6%. According to the 2005 interim report of Peoples, the subscriber base had further expanded to 1.21 million by the end of June 2005. However, the market share of Peoples in the mobile market in Hong Kong has been relatively flat.

In relation to the outlook of Peoples and its strategy to deal with the current 3G competition, according to the 2004 annual report of Peoples, Peoples will continue to focus on growing its data and prepaid segments of the business and continuing to develop its voice business with attractive tariffs and improved network quality. Peoples will launch more services that strive to further differentiate it from the other operators, based on its creative marketing strategies. The launch of the EDGE in the third quarter of 2004 has enabled Peoples’s customers to enjoy 3G-type services. Peoples has been in discussion with a number of Mobile Network Operators (the “MNOs”) with a view to becoming a Mobile Virtual Network Operator (the “MVNO”) at a point when the demand from its subscribers on multimedia data services could not be met with its existing technologies, such discussions are still in preliminary stage and no formal agreement has been entered into as at the Latest Practicable Date.

According to the 2005 interim report of Peoples, the adoption of 3G by other mobile operators in Hong Kong has further intensified the aggressive pricing behaviour of the competitors of Peoples. Peoples will continue to improve network coverage and launching more tailor-made voice services demanded by the market.

Peoples does not have a 3G licence and focuses on providing less advanced telecommunication services (including basic and up to 2.75G services) to its subscribers. Having reviewed the published annual report and interim reports of Peoples, in our opinion, Peoples uses a low-cost strategy and does not rely on large marketing campaigns, when compared to other major mobile operators in Hong Kong. Although such strategy may save Peoples capital expenditure and marketing expenses in relation to the provision of 3G services, it may however lower Peoples’s competitiveness in the Hong Kong mobile market. Peoples’ EDGE network and its indication that it may offer 3G telecommunication services via the MVNO route, however, the success of such strategy has yet to be proven. We believe that although Peoples has been able to maintain its market share in the Hong Kong mobile telecommunication market and steadily grown its subscriber base, it is now facing extraordinary challenges in three aspects (i) the aggressive pricing behaviour of Peoples’s competitors; (ii) the lack of the provision of 3G services to its subscribers; and (iii) diminishing profit margin and EBITDA margin. The profit attributable to the Peoples Shareholders has been on a downward trend from approximately HK\$345 million (including a tax credit of about HK\$92 million) in 2002 to approximately HK\$252 million in 2004 and the fact that ARPU, profit margin and EBITDA margin are also on the downward trends.

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3. Price performance of the Peoples Shares and trading liquidity

3.1 Price performance

For the purpose of analysis, we have set out the following monthly highest, lowest, average daily closing price of the Peoples Shares for the 12 months ended on 3 October 2005 (the “Pre MOU-Announcement Period”), being the last day on which trading in Peoples Shares took place prior to the date of the MOU Announcement (the “Last Pre MOU-Announcement Trading Day”) and the subsequent period from 5 October 2005, being the date on which the MOU Announcement was published, to the Latest Practicable Date (the “Post MOU-Announcement Period”):

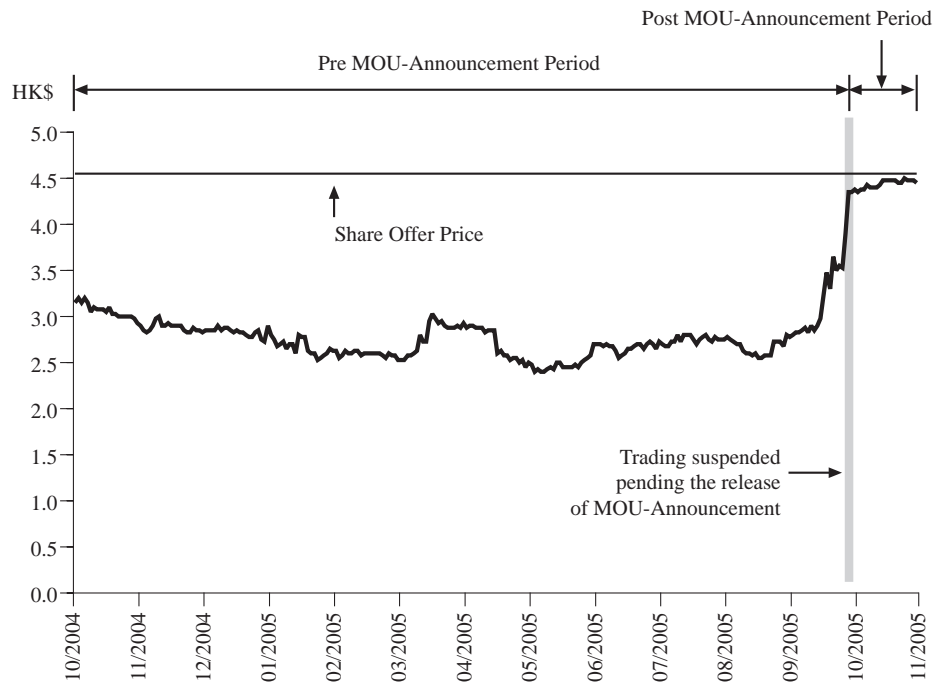
	Closing Price of Peoples Shares			Premium to the average daily closing price of the Peoples Shares represented by the Share Offer Price
	Highest HK\$	Lowest HK\$	Average HK\$	%
Pre MOU-Announcement Period				
2004				
October	3.200	3.000	3.075	47.97%
November	3.000	2.825	2.891	57.38%
December	2.900	2.725	2.832	60.66%
2005				
January	2.800	2.525	2.667	70.60%
February	2.625	2.550	2.596	75.27%
March	3.025	2.525	2.735	66.36%
April	2.925	2.525	2.785	63.38%
May	2.550	2.400	2.460	84.96%
June	2.700	2.450	2.627	73.20%
July	2.800	2.650	2.735	66.36%
August	2.775	2.550	2.671	70.35%
September	3.650	2.675	3.039	49.72%
October (Last Pre MOU- Announcement Trading Day only)	3.900	3.900	3.900	16.67%
Post MOU-Announcement Period				
October (starting 5 October) (Note)	4.475	4.350	4.417	3.01%
November (until Latest Practicable Date)	4.500	4.425	4.465	1.90%

Source: HKEx Website

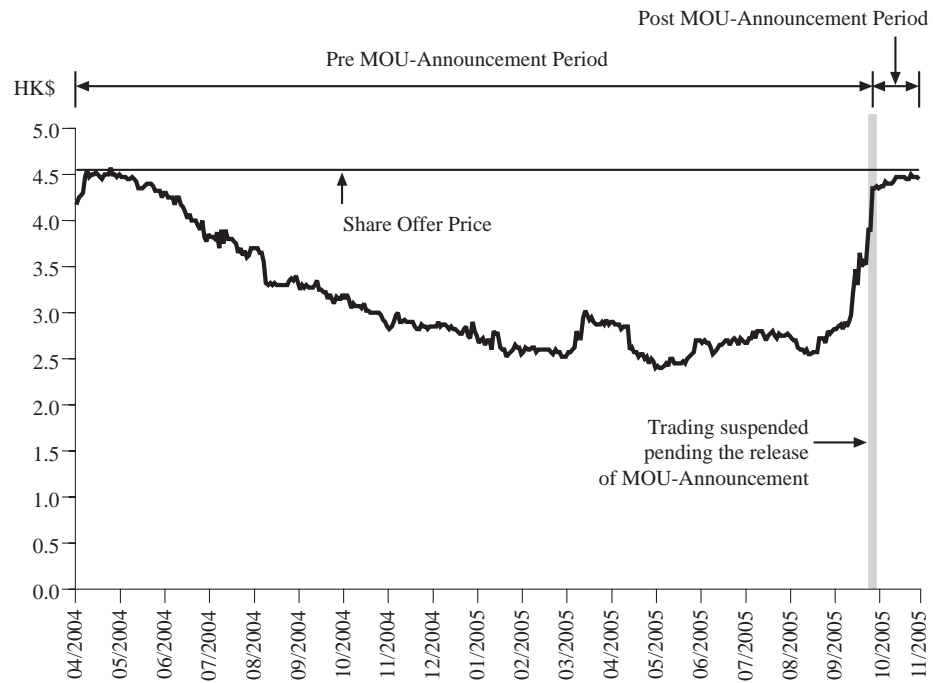
Note: Trading of the Peoples Shares was suspended on 4 October 2005 pending the release of the MOU Announcement.

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The following charts set out the daily historical closing prices of the Peoples Shares on the Stock Exchange (i) for the period commencing from 1 October 2004 to the Latest Practicable Date divided into the “Pre MOU-Announcement Period” and the “Post MOU-Announcement Period” and (ii) since the listing of Peoples:



Source: Bloomberg



Source: Bloomberg

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The price of Peoples Shares has been on a continuous downward trend since the listing of Peoples Shares on 1 April 2004. Other than the first three months following Peoples' initial public offering and the Post MOU-Announcement Period, the prices of Peoples Share mostly traded below the level of HK\$4.00 with the lowest closing price of HK\$2.40.

On the Last Pre MOU-Announcement Trading Day, the closing price of Peoples Shares was HK\$3.90, representing an one-day gain of 10.64%. The highest closing price of Peoples Shares in September 2005 of HK\$3.65 was recorded on 27 September 2005, and represented an increase of approximately 32% as compared to the highest closing price in August 2005 of HK\$2.775. We believe that, these increases were probably caused by the market speculation about a possible offer for Peoples. Excluding the trading of Peoples Shares in the month of October 2005 (which include one trading day only), the monthly average daily closing price of the Pre MOU-Announcement Period ranged from HK\$2.46 to HK\$3.075, of which the Share Offer Price represents a premium of approximately 84.96% and 47.97% to the lowest and highest monthly average daily closing price of the Peoples Shares respectively during such period. We are of the opinion that, excluding the trading of Peoples Shares in October 2005 (which include one trading day only), the Share Offer Price represents a significant premium to the prices at which the Peoples Shares were traded during the Pre MOU-Announcement Period.

The closing price of the Peoples Shares increased to HK\$4.35 on 5 October 2005, being the first trading day of the Post MOU-Announcement Period, representing an one day increase of approximately 11.54%. When the Announcement was subsequently made after the close of trading on 20 October 2005, the price of Peoples Shares closed 1.1% higher at HK\$4.475 on the following day. We believe that, these price increases reflect positive investor sentiment in response to the Offers.

During the Post MOU-Announcement Period, the lowest and highest closing price of the Peoples Shares was HK\$4.35 and HK\$4.50 respectively. This price range is close to the Share Offer Price with the closing price of Peoples Shares as at the Latest Practicable Date of HK\$4.45, it can be interpreted as a continuous positive response from the investing public to the Offers as the price of Peoples Share surged to and remained at the level that is slightly below the Share Offer Price during the Post MOU-Announcement Period.

Set out below are the premiums of the Share Offer Price to the closing/average closing prices for the respective dates/corresponding periods:

The Share Offer Price represents:

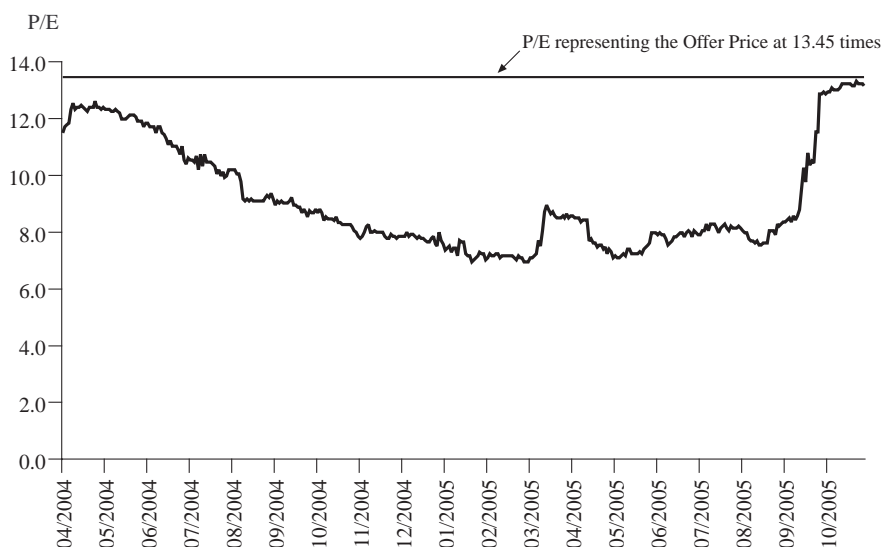
- (a) a premium of approximately 16.67% over the closing price of HK\$3.90 per Peoples Share as quoted on the Stock Exchange on 3 October 2005, being Last Pre MOU-Announcement Trading Day;
- (b) a premium of approximately 59.15% over the average closing price of approximately HK\$2.859 per Peoples Share for the six months up to and including the Last Trading Date;
- (c) a premium of approximately 45.69% over the average closing price of approximately HK\$3.123 per Peoples Share for the three months up to and including the Last Trading Date;

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- (d) a premium of approximately 26.68% over the average closing price of approximately HK\$3.592 per Peoples Share for the last 30 trading days up to and including the Last Trading Date;
- (e) a premium of approximately 3.70% over the average closing price of approximately HK\$4.388 per Peoples Share for the last 10 trading days up to and including the Last Trading Date;
- (f) a premium of approximately 3.17% over the average closing price of approximately HK\$4.410 per Peoples Share for the last five trading days up to and including the Last Trading Date;
- (g) a premium of approximately 2.82% over the closing price of HK\$4.425 per Peoples Share as quoted on the Stock Exchange on the Last Trading Date; and
- (h) a premium of approximately 2.25% over the closing price of HK\$4.45 per Peoples Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Peoples Shares have been trading at a level below the Share Offer Price at HK\$4.55 on the market at all times during the Pre MOU-Announcement Period and the Share Offer Price represents a significant premium over the closing price and average closing price for the different periods as described above. We are of the view that such premium can be interpreted as a continuously positive response from the investing public to the Offers as the price of the Peoples Shares surged to and remained at the level that is slightly below the Share Offer Price during the Post MOU-Announcement Period.

A chart of the daily historical P/E for Peoples Shares since its listing on the Stock Exchange on 1 April 2004 is set out below:



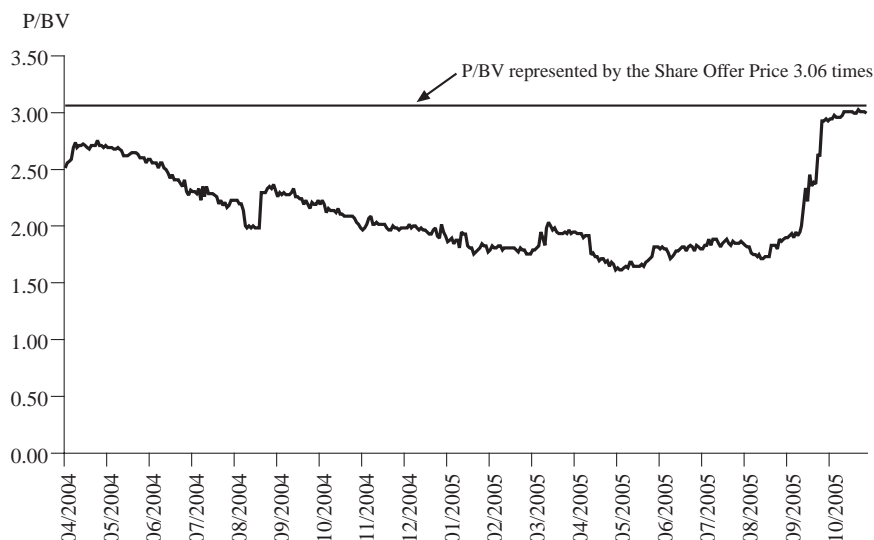
Notes:

1. From HKEx Website, annual report of Peoples.
2. The P/E on a particular day is calculated based on the closing price of the Peoples Shares divided by the latest audited earnings based on the issued Peoples Share publicly available on that particular day.

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We observed from the above chart that Peoples' P/E mostly remained at between 7 times to 10 times except for the first three months following Peoples' initial public offering and after the Post-MOU Announcement Period. Such range is significantly below the P/E of 13.45 times represented by the Share Offer Price. We are of the view that, given the historical trading record of the Peoples Shares and the positive investor sentiment in response to the Offers, it is quite unlikely for Peoples Shares to trade at the price levels represented by the Share Offer Price in the event that the Offers are not declared unconditional and lapse.

A chart of the daily historical P/BV for Peoples Shares since its listing on the Stock Exchange on 1 April 2004 is set out below:



Notes:

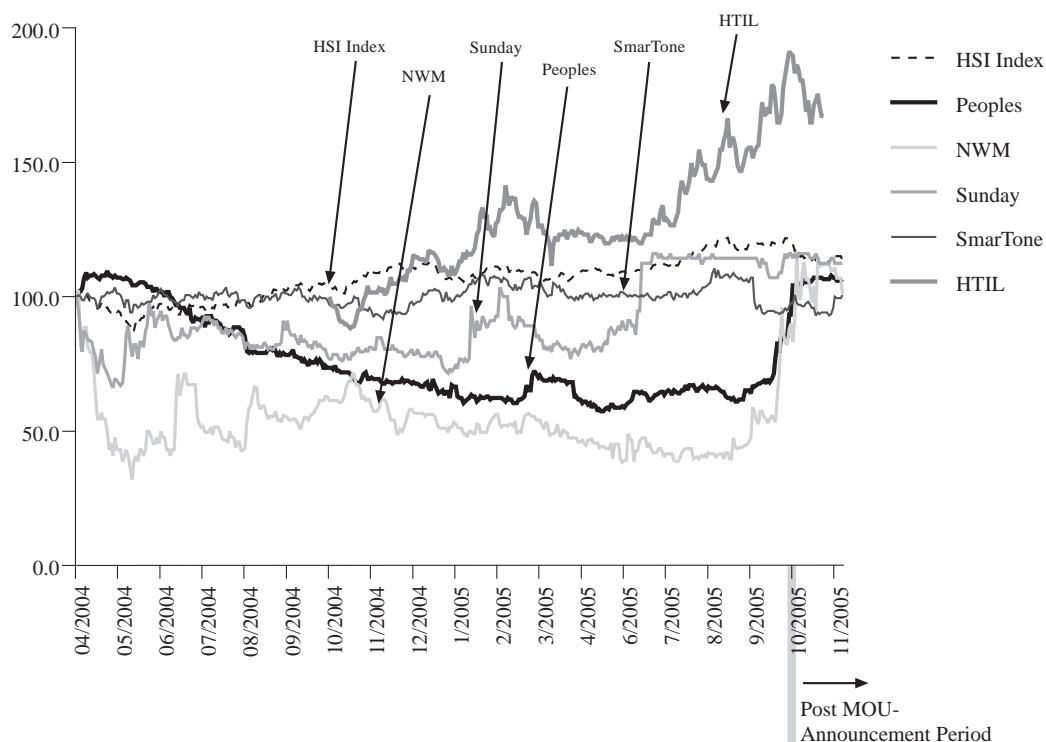
1. From HKEx Website, annual report of Peoples.
2. The P/BV on a particular day is calculated based on the price of the Peoples Shares divided by the last published book value based on the issued Peoples Share publicly available on that particular day, except for the period during 1 April 2004 to the date of 2004 interim report where the book value was referenced to the Prospectus plus the gross proceeds from the Peoples' initial public offering.

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We observe from the above chart that, except for the first three months following the initial public offering of Peoples on the Stock Exchange and the Post MOU-Announcement Period, Peoples' P/BV mostly remained in between 1.5 times and 2.5 times, such ranges are below the P/BV of 3.06 times represented by the Share Offer Price. We are of the view that, given the historical trading record of the Peoples Shares and the positive investor sentiment in response to the Offers, it is quite unlikely for Peoples Shares to trade at the price levels represented by the Share Offer Price in the event that the Offers are not declared unconditional and lapse.

3.2 Comparison of Peoples Shares prices with benchmark

The following chart shows the movement in the price of Peoples Shares since the commencement of its trading on 1 April 2004 to the Latest Practicable Date relative to the movement in Hang Seng Index ("HSI") as HSI is a major indicator of the share performance for listed stocks in Hong Kong and reflects the general trends of the stock market in Hong Kong and relative to all local mobile operators listed in Hong Kong including NWM, Sunday, SmarTone and HTIL (CSL is not included as it is not separately listed in Hong Kong):



Notes:

1. For comparison purposes, relative share price performance is calculated based on a base of 100 of the respective benchmark prices on 1 April 2004.
2. Source: HKEx website.
3. HTIL listed on the Stock Exchange on 15 October 2004.

As shown in the above chart, except for the first three months following the initial public offering of Peoples on the Stock Exchange and the Post MOU-Announcement Period, the prices of Peoples Shares has significantly under-performed the HSI during almost the entire period since the commencement of its trading on the Stock Exchange on 1 April 2004. Other than HTIL (its operations include fixed line business and mobile business in other geographical segments such as India, Thailand, etc), all the other mobile operators with principal market in Hong Kong also have under-performed the HSI. We believe one of the reasons for such under-performance was due to the continuous competitive operating environment in the Hong Kong mobile telecommunications market as well as limited growth in Hong Kong's mobile penetration rate. We noted that Peoples also under-performed most of the other mobile operators in Hong Kong, which may be attributed to the fact that Peoples does not have a 3G license which may have affected its competitiveness. We are of the view that, given the historical trading record of the Peoples Shares has under-performed the HSI as well as other major local mobile operators and the considerably better performance of the Peoples Shares during the Post MOU-Announcement Period, it is quite unlikely for Peoples Shares to trade at the price levels represented by the Share Offer Price in the event that the Offers are not declared unconditional and lapse.

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3.3 Trading Volume

The total number and average daily number of Peoples Shares traded per month and the respective percentage of monthly trading volume to the total issued share capital of Peoples during the Pre MOU-Announcement Period and Post MOU-Announcement Period are set out as follows:

	Total monthly trading volume (Number of Peoples Shares)	Average daily trading volume per month (Number of Peoples Shares)	Percentage of average daily trading volume for the month to total issued share capital of Peoples (Note 1)	Percentage of average daily trading volume for the month to total number of Peoples Shares in public hands (Note 2)
Pre MOU-Announcement Period				
2004				
October	1,045,000	55,000	0.007%	0.022%
November	1,322,500	60,114	0.008%	0.024%
December	1,268,500	57,659	0.008%	0.023%
2005				
January	2,226,000	106,000	0.014%	0.042%
February	5,286,500	310,971	0.042%	0.124%
March	7,374,000	351,143	0.047%	0.140%
April	4,062,000	203,100	0.027%	0.081%
May	4,133,500	206,675	0.028%	0.082%
June	3,563,000	161,955	0.022%	0.065%
July	3,138,000	156,900	0.021%	0.063%
August	3,007,000	130,739	0.018%	0.052%
September	15,198,000	723,714	0.097%	0.288%
October (Last Pre MOU- Announcement Trading Day only)	1,701,500	1,701,500	0.229%	0.678%
Post MOU-Announcement Period				
October (since 5 October)	33,378,918	1,854,384	0.249%	0.739%
November (until Latest Practicable Date)	31,220,500	6,244,100	0.840%	2.487%

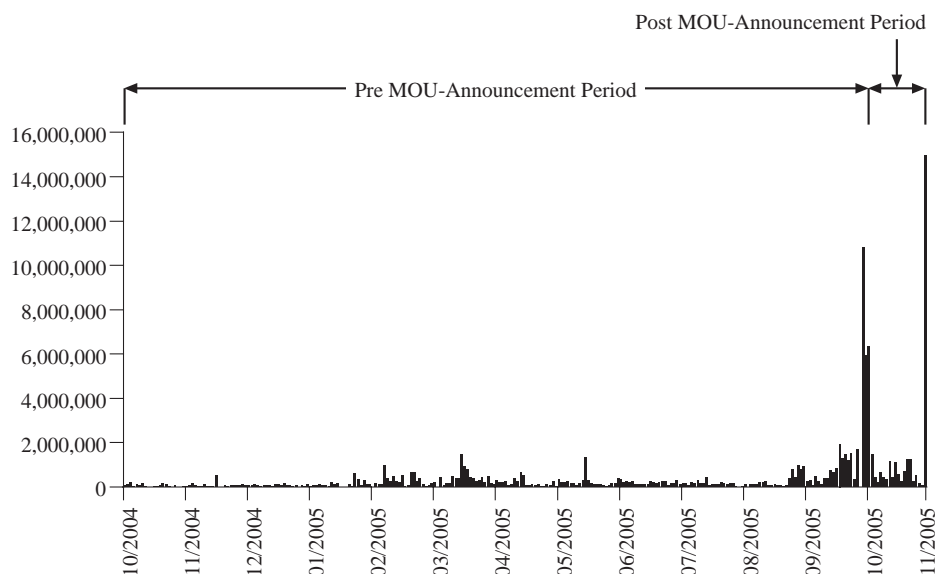
Source: HKEx website

Notes:

1. Based on 743,641,019 Peoples Shares in issue as at the Latest Practicable Date.
2. Based on 251,039,418 Peoples Shares held by the public as at the Latest Practicable Date.

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The following chart shows the daily trading volume of the Peoples Shares for the Pre MOU-Announcement Period and Post MOU-Announcement Period:



Source: HKEx website

Based on the above table, the average daily trading volume of the Peoples Shares was thin and was mostly around 0.022% to 0.678% to the total number of Peoples Shares in public hands during the Pre-MOU Announcement Period.

Exceptions have been seen in the month of September 2005 where there was a sharp rise in turnover in average daily trading volume from 0.052% in August 2005 to 0.288% in September 2005, which we believe to be attributable to market speculation about a possible offer for Peoples. Liquidity has increased but is still relatively low during the Post MOU-Announcement Period.

Given the relatively low level of liquidity of the Peoples Shares in the past, Peoples Independent Shareholders would unlikely be able to sell a significant number of their Peoples Shares in the market without depressing the market price of the Peoples Shares. We therefore consider the Share Offer represents an opportunity for Peoples Independent Shareholders to realise their investment in a significant number of Peoples Shares.

4. Valuation of the Peoples Group

4.1 Comparable Companies

Based on the nature of business and the availability of the financial information to the public, we have reviewed 4 other (figures for CSL are not available as it is not separately listed in Hong Kong) local mobile operators listed on the Stock Exchange and selected 3 listed companies having their principal market in Hong Kong (the “Comparable Companies”), which we considered to be broadly comparable to Peoples for comparison with reference to the Share Offer Price. HTIL is excluded from the Comparable Companies as it is not a pure mobile operator in Hong Kong and has business in other relatively high growth and low-penetration countries such as India, Thailand and also provides fixed line telecommunication services.

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While comparative analysis of the Comparable Companies can reflect current market sentiment toward the sector, we note that the analysis does not take into account differences in accounting policies and standards as well as possible unique characteristic(s) of respective Comparable Companies. No adjustments have been made to account for these differences.

In our assessment of the Share Offer Price, we have considered the enterprise value-to-EBITDA ratio (“EV/EBITDA”), price-to-earnings ratio (“P/E”) and the price-to-book value ratio (“P/BV”). Although these multiples are commonly used as analytical parameters, they may not necessarily fully reflect the possible unique characteristics of the Comparable Companies such as quality of management, growth profile and operational efficiency.

Comparable Companies	Stock Code	Closing share price HK\$ (Note 1)	Market capitalization HK\$ million (Note 2)	EV/ EBITDA (Note 3)	P/E (Note 3)	P/BV (Note 3)
NWM	862	2.55	201.9	5.7	2.2	N/A
SmarTone	315	8.55	4,982.9	5.1	14.7	1.4
Sunday	866	0.63	1,883.7	9.1	339.8	2.70
Average				6.63	8.45 (Note 4)	2.05
Excluded company (For illustration purpose only)						
HTIL (Note 5)	2332	10.20	48,476.0	13.20	637.3	3.39
Peoples	331	4.55	3,383.6	6.33	13.45	3.06

Sources: HKEx website, Bloomberg and latest published annual report of the respective Comparable Companies.

Notes:

- Being the closing share prices for the respective companies as at the Latest Practicable Date, except for Peoples where the Share Offer Price is used.
- Based on the closing price and, in the case of Peoples, the Share Offer Price and multiplied by the number of shares outstanding for the respective companies as at the Latest Practicable Date as disclosed in the official website of the Stock Exchange.
- Based on the closing share price as at the Latest Practicable Date for the Comparable Companies and the Share Offer Price for Peoples and the published financial information contained in the latest annual reports of the respective companies.
- Sunday is excluded from the calculation of the average of the Comparable Companies as its exceptionally high P/E was due to the fact that Sunday has relatively low earnings as the profit of Sunday was adversely affected by the 3G start up cost incurred during 2004.
- HTIL is excluded from the Comparable Companies as it is not a pure mobile operator in Hong Kong and has business in other countries such as India, Thailand and also provides fixed line telecommunication services.

EV/EBITDA

EV/EBITDA is calculated as market capitalization plus net debts or less net cash divided by EBITDA for the year. Such multiple is a common benchmark used for the valuation of telecommunication companies as it eliminates the differences in capital structures and depreciation policies between different comparables. On the basis of EBITDA of Peoples for the year ended 31 December 2004 of approximately HK\$535 million and 743,641,019 Peoples Shares in issue as at 31 December 2004, the Share Offer Price represents a EV/EBITDA of 6.33 times. The EV/EBITDA of Peoples based on the Share Offer Price is slightly lower than the average of 6.63 times for the Comparable Companies and within the range of 5.1 to 9.1 for the Comparable Companies. If Sunday is excluded in calculation, the average EV/EBITDA would be 5.4 times.

P/E

Based on the net profit attributable to the Peoples Shareholders for the year ended 31 December 2004 of approximately HK\$251.61 million and 743,641,019 Peoples Shares in issue as at 31 December 2004, the earnings per Peoples Share were approximately HK\$0.34. On this basis, the Share Offer Price of HK\$4.55 represents a P/E of 13.45 times. The P/E of 13.45 times based on the Share Offer Price is above the average of 8.45 times for the Comparable Companies, but is within the range of 2.2 to 14.7 for the Comparable Companies (excluding Sunday).

P/BV

The audited net asset value of Peoples and issued share capital was HK\$1,105.93 million and 743,641,019 Peoples Shares as at 31 December 2004 respectively. The Share Offer Price represents a premium of approximately 205.4% to the audited consolidated net asset value per Peoples Share of approximately HK\$1.49 as at 31 December 2004. The Share Offer Price represents a P/BV of approximately 3.06 times.

We noted that NWM has a negative book value and therefore the measure of P/BV is not applicable to this company. The P/BV of 3.06 times based on the Share Offer Price is above the average of 2.05 times for the Comparable Companies and slightly higher than the high end of the Comparable Companies with the range of 1.4 to 2.7.

Dividend yield

Total dividends per Peoples Share relating fiscal year 2004 (interim dividend HK\$0.13, final dividend HK\$0.18) were HK\$0.31, representing a dividend yield of approximately 6.81% on the basis of the Share Offer Price of HK\$4.55.

We have reviewed the dividend yield of the Comparable Companies based on the closing share prices as at the Latest Practicable Date and the dividend declared/paid in the latest financial year. The dividend yield for SmarTone and Peoples was 4.56% and 6.81% respectively while NWM and Sunday did not declare any dividend.

Amongst the Comparable Companies, we noted that only SmarTone has declared/paid dividends for the latest financial year. The dividend yield of Peoples Shares based on the Share Offer Price of 6.81% was approximately 49.34% higher than that of SmarTone. However, we are of the view this measure would not provide a reasonable benchmark to

assess the fairness of the Share Offer Price as the Comparable Companies may differ in dividend policy and resources allocation. Furthermore, considering the declining trend of Peoples's profits, the current level of dividend yield of Peoples may or may not be maintained.

After comparison of valuation multiples including the EV/EBITDA, P/E, P/BV and dividend yield of the Comparable Companies to assess the fairness and reasonableness of the Share Offer Price, we are of the view that given:

- the EV/EBITDA of Peoples of 6.33 based on the Share Offer Price is generally in line with the average of 6.63 for the Comparable Companies and within the range between 5.1 to 9.1 of the Comparable Companies;
- the P/E of 13.45 times based on the Share Offer Price is above the average of 8.45 times for the Comparable Companies, and is within the range of 2.2 to 14.7 for the Comparable Companies (excluding Sunday);
- the P/BV of 3.06 times based on the Share Offer Price is above the average of 2.05 times for the Comparable Companies and slightly higher than the high end of the Comparable Companies with the range of 1.4 to 2.7; and
- the dividend yield of Peoples Shares would not provide a reasonable benchmark to assess the fairness of the Share Offer Price as the Comparable Companies may differ in dividend policy and resources allocation,

the Share Offer Price is generally in line with the averages and within the ranges of the common valuation multiples represented by the Comparable Companies and is therefore considered as fair and reasonable.

4.2 *Comparable recent deals*

We have reviewed and included all acquisitions of Hong Kong listed telecommunications companies since October 2002 ("Recent Deals"). These transactions comprised the acquisition of equity stakes in which cash and/or share consideration was offered. We have set out in the following table the considerations offered and the premium or discount paid in these Recent Deals compared to that in the Share Offer.

We would like to highlight that the Recent Deals must each be judged on their own commercial and financial merits. The premium that any acquirer is prepared to pay in any particular takeover depends on various factors such as potential synergy that the acquirer can gain from its investment in the target company, the presence of competing bids for the target company, prevailing market conditions, attractiveness and profile of the target company's underlying business and assets, size, existing level of control in the target company, general economic and business risks. This analysis merely serves as a general indication of the pricing benchmark in the telecommunications industry.

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Target Companies	Date of announcement	Description of transaction	Stake acquired	Offer price (HK\$)	Premium/(discount) of offer price to				
					Last transacted price prior to initial announcement (HK\$)	Last transacted price prior to initial announcement	30-day average price	60-day average price	90-day average price
Mobile business									
SmarTone	30 December 2002	Cash Offer from Sun Hung Kai Properties Limited	20.76%	8.50 in cash	8.25	3.03%	(1.83)%	0.67%	2.42%
Sunday	13 June 2005	Possible mandatory cash offer by PCCW Limited	79.35%	0.65 in cash	0.53	22.64%	35.84%	37.96%	34.07%
Fixed lines business									
Hutchison Global Communications Holdings Limited	3 May 2005	Proposed privatization of Hutchison Global Communication Holdings Limited by HTIL	47.47%	0.65 in cash or 0.7048 in share	0.475	36.84%	43.33%	41.41%	44.55%
PCCW Limited	20 January 2005	China Network Communications Group Corporation	20%	5.90	4.70	25.53%	22.20%	22.41%	20.35%
Average						22.01%	24.89%	25.61%	25.35%
Peoples	20 October 2005	Conditional cash offer by CMHK	To be determined	4.55	4.425	2.82%	26.68%	44.90%	52.13%

Sources: Bloomberg and circular/announcement of respective target companies

Based on the above comparison table, other than the premium of the Share Offer Price on the last transacted price prior to the announcement is lower than the average of the Recent Deals (as the price of the Peoples Share has surged after the MOU Announcement), the premium represented by the Share Offer Price to each of the average of 30, 60 and 90 trading days immediately prior to the initial announcement date are higher than those of the Recent Deals. Despite the difference in the nature of business (fixed lines vs mobile services) as well as the stakes acquired (majority vs minority) in the Recent Deals, the offer prices in the Recent Deals mostly represented a premium over the historical trading price of those target companies. We are of the view that the premiums represented by the Share Offer Price over the historical trading prices of Peoples Shares as shown in the table above are either within the range of or comparable to that of the Recent Deals.

5. Background of the Offeror and the intention of the Offeror

Background of the Offeror

The Offeror is a company incorporated in the British Virgin Islands on 15 September 2005 and the directors of the Offeror are Mr. Wang Jianzhou, Mr. Xue Taohai and Mr. He Ning, all of whom are also executive directors of CMHK. The Offeror is an investment holding company set up for making the Offers and a wholly-owned subsidiary of CMHK, a company incorporated in Hong Kong in 1997 with limited liability whose shares are listed on the Main Board of the Stock Exchange and whose American depositary shares are listed on the New York Stock Exchange. As at the Latest Practicable Date, CMHK is in turn indirectly owned as to 75.31% by China Mobile Communications Corporation, a state-owned company established under the laws of the PRC.

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According to the “Letter from the Financial Advisers” contained in the Composite Document, CMHK is the leading mobile services provider in the PRC and operates nationwide mobile telecommunications services in all 31 provinces, autonomous regions and directly administered municipalities in the PRC.

A summary of the financial performance of CMHK for the three years ended 31 December 2004 is set out below:

	2004	2003	2002
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Operating Revenue	192,381	158,604	128,561
Profit from operations	59,734	53,203	48,796
Profit attributable to shareholders	42,004	35,556	32,601

Source: 2004 annual report of CMHK

As depicted in the table above, CMHK has been reporting profits throughout the illustrated period. According to the latest published audited financial statements of CMHK, CMHK recorded a consolidated profit of RMB42,004 million attributable to its shareholders for the year ended 31 December 2004, representing an increase of approximately 18.1% to the preceding year. The average annual growth rate of operating revenue from 2002 to 2004 is approximately 22.35%. After taking all these financial information into consideration, we are of the view that CMHK is a financially sound and profitable company. As such, we have no reason to doubt that CMHK, as the leading mobile services provider in the PRC, possesses good capability and experience in managing a telecommunications company such as Peoples, if the Offers become or are declared unconditional and are completed.

Intention of the Offeror in relation to business of Peoples

We should draw the Peoples Independent Shareholders’ attention that, if the Offeror receives valid acceptances of the Share Offer for not less than 90% of the disinterested Peoples Shares, the Offeror intends to apply the provisions of the Companies Ordinance to compulsorily acquire any remaining Peoples Shares and to apply for a de-listing of Peoples Shares from the Stock Exchange pursuant to Rule 6.15 of the Listing Rules. Peoples Shares held by Peoples Independent Shareholders who have not accepted the Offers will be subject to compulsory purchase on exercise of the compulsory acquisition rights by the Offeror.

It is the intention of CMHK and the Offeror that, if the Offers become or are declared unconditional and completed, Peoples will continue to carry on the business of engaging in providing mobile voice and data communications services in Hong Kong.

The CMHK Directors are of the view that the making of the Offers provides an opportunity for CMHK to enlarge its footprint into Hong Kong. Moreover, the Offers, if successfully concluded, are expected to bring, among others, synergies in areas such as procurement, marketing, and product development, etc. CMHK will provide assistance to Peoples in respect of operational, technical and financial matters after the close of the Offers to enhance Peoples’ competitiveness in the telecommunications market in Hong Kong. Moreover, Peoples would benefit from CMHK’s larger economies of scale and be able to provide better service on a lower cost base.

CMHK and the Offeror have no intention either to introduce any material changes to the business of the Peoples Group nor to redeploy its assets. In the absence of any evidence showing any specific strategy for Peoples that will be adopted by CMHK, we are unable to comment on the impact, if any, on Peoples and as such, we are unable to ascertain whether CMHK can improve the profitability of Peoples in the future (if the Offers become or are declared unconditional and completed).

We should draw the Peoples Independent Shareholders' attention the fact that, if the Offeror does not receive valid acceptances of the Share Offer for at least 90% of the disinterested Peoples Shares, the Offeror reserves its right, at its absolute discretion, to waive this condition of the Share Offer. In the event the Offeror does not waive such condition in such circumstances, the Offers will not be declared unconditional and will lapse. As such, Peoples will not enjoy the possible benefits from CMHK as claimed under the section headed "Reason and benefits for the Offers" contained in the "Letter from the Financial Advisers" and the Peoples Independent Shareholders may not be able to realise their investment at a price equivalent to the Share Offer Price given the Peoples Shares are mostly traded below the Share Offer Price with relatively low liquidity.

6. *Maintaining listing status of the Company*

In the event that the compulsory acquisition right is not available to the Offeror and the 90% acceptance condition is waived and the Offers close, the Offeror will use its reasonable endeavours to maintain the listing of Peoples on the Stock Exchange. The directors of the Offeror and the new directors to be appointed to the board of Peoples will jointly and severally undertake to the Stock Exchange to take appropriate steps to ensure that not less than 25% of the Peoples Shares will be held by the public as soon as possible following the closing of the Share Offer in compliance with the Listing Rules.

The Stock Exchange has stated that if, at the closing of the Share Offer, less than 25% of the Peoples Shares are held by the public or if the Stock Exchange believes that:

- a false market exists or may exist in the trading of the Peoples Shares; or
- there are insufficient Peoples Shares in public hands to maintain an orderly market,

then it will consider exercising its discretion to suspend trading in the Peoples Shares. In this connection, it should be noted that upon completion of the Share Offer, there may be insufficient public float for the Peoples Shares and therefore, trading in the Peoples Shares may be suspended until a prescribed level of public float is attained.

We advise the Peoples Independent Shareholders to note that in the situation where the Offeror is not entitled to exercise its compulsory acquisition right but at its absolute discretion waives the condition in relation to receiving not less than 90% acceptances, then upon the completion of the Offers, there is likely to be a decrease in the public float of the Peoples Shares, depending on the level of acceptances, which will have a negative impact on the trading liquidity of the Peoples Shares. In view of the relatively low liquidity of Peoples in the past, it may be difficult for certain Peoples Independent Shareholders to dispose of significant shareholdings in the stock market.

CONCLUSIONS AND RECOMMENDATION

Having considered the above principal factors and reasons, we draw your attention to the following key factors, which should be read in conjunction with the full text of this letter, in arriving at our conclusions:

Future prospects of Peoples and the challenges faced by Peoples

With one of the highest mobile penetration rates in the world, the Hong Kong mobile telecommunications market is highly competitive with 6 mobile network operators as at the Latest Practicable Date. The mobile telecommunications market is generally expected to grow at a modest rate in line with Hong Kong's annual population growth rate.

The number of Peoples' mobile subscribers climbed steadily for the past 3 years. We are of the view that, although Peoples has maintained a steady growth of its subscriber base, its market share in the mobile telecommunications market in Hong Kong has been relatively flat in light of the aggressive pricing behaviour of competitors. Peoples' strategy and its marketing efforts were only sufficient for Peoples to maintain its market share in the mobile market in Hong Kong, but did not improve its profitability.

The annual turnover of Peoples has been on an upward trend from approximately HK\$1,505 million in 2002 to approximately HK\$1,682 million in 2004. However, due to the aggressive price based competition in Hong Kong mobile telecommunication market, the profit attributable to Peoples Shareholders has been on a downward trend from approximately HK\$345 million in 2002 to approximately HK\$252 million in 2004, while ARPU, operating margin and EBITDA margin of Peoples are also on downward trends. We also note that the ARPU of Peoples is in the low end of the ARPU spectrum among mobile operators in Hong Kong.

Peoples does not have a 3G licence and focuses on providing basic telecommunication services to its subscribers. Peoples has followed a low-cost strategy and does not rely on large marketing campaigns, when compared to other major mobile operators in Hong Kong. Although this may save Peoples capital expenditure and marketing expenses in relation to the provision of 3G services, it may also lower Peoples' competitiveness in the Hong Kong mobile market as compared to operators offering 3G services. Peoples' EDGE network and its indication that it may offer 3G services via the MVNO route could save capital expenditure and marketing expenses, however, the success of such strategy has yet to be proven. We believe that although Peoples has been able to maintain its market share in the Hong Kong mobile telecommunication market and steadily grown its subscriber base, it is now facing extraordinary challenges in three aspects (i) the aggressive pricing behaviour of Peoples' competitors; (ii) the lack of the provision of 3G services to its subscribers; and (iii) diminishing profit margin and EBITDA margin.

The fairness and reasonableness of the Share Offer Price

The price of Peoples Shares has been on a downward trend since Peoples' listing on 1 April 2004. Other than the first three months following Peoples' initial listing and the Post MOU-Announcement Period, Peoples Shares were mostly traded below the level of HK\$4.00 with the lowest closing price of HK\$2.40. Excluding the trading of Peoples Shares in the month of October 2005 (one trading day only), the monthly average daily closing price during the Pre MOU-Announcement Period ranged from HK\$2.460 to HK\$3.075, to which the Share Offer Price represents a premium of approximately 84.96% and 47.97% to the lowest and highest monthly average daily closing price of the Peoples Shares respectively during such period. We believe the

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trading price of Peoples Share during the Post MOU-Announcement Period with a significant premium to the historical trading price during the aforementioned periods has reflected the positive response from the investing public to the Offers. The Share Offer Price represents a premium of approximately 2.25%, 2.82% and 16.67% to the closing price of the Peoples Shares as quoted on the Stock Exchange on the Latest Practicable Date, on the Last Trading Date and on the Last Pre MOU-Announcement Trading Day respectively.

The liquidity of the Peoples Shares has been relatively low. Given the relatively low level of liquidity of the Peoples Shares in the past, the Peoples Independent Shareholders would unlikely be able to sell a significant number of their Peoples Shares in the market without depressing the market price of the Peoples Shares. We therefore consider the Share Offer represents an opportunity for the Peoples Independent Shareholders to realise their investment in a significant number of Peoples Shares.

After comparison of valuation multiples including the EV/EBITDA, P/E, P/BV and dividend yield of the Comparable Companies to assess the fairness and reasonableness of the Share Offer Price, we are of the view that given:

- the EV/EBITDA of Peoples of 6.33 based on the Share Offer Price is generally in line with the average of 6.63 for the Comparable Companies and within the range between 5.1 to 9.1 of the Comparable Companies;
- the P/E of 13.45 times based on the Share Offer Price is above the average of 8.45 times for the Comparable Companies, and is within the range of 2.2 to 14.7 for the Comparable Companies;
- the P/BV of 3.06 times based on the Share Offer Price is above the average of 2.05 times for the Comparable Companies and slightly higher than the high end of the Comparable Companies with the range of 1.4 to 2.7; and
- the dividend yield of Peoples Shares would not provide a reasonable benchmark to assess the fairness of the Share Offer Price as the Comparable Companies may differ in dividend policy and resources allocation,

the Share Offer Price is generally in line with the averages and within the ranges of the common valuation multiples represented by the Comparable Companies.

The price of Peoples Shares significantly under-performed the HSI during almost the entire period since the commencement of its trading on the Stock Exchange on 1 April 2004 and also under-performed most of the other mobile operators in Hong Kong. We are of the view that, given the historical trading record of the Peoples Shares and the considerably better performance of the Peoples Shares during the Post MOU-Announcement Period, it is quite unlikely for Peoples Shares to trade at the price levels represented by the Share Offer Price in the event that the Offers are not declared unconditional and lapse.

Accordingly, having considered:

- the challenges faced by Peoples against the aggressive pricing behavior of its competitors in the mobile telecommunication market;
- lack of the provision of 3G services by Peoples;

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- diminishing operating margin and EBITDA margin of Peoples;
- significant premium of the Share Offer Price over the prices traded historically;
- positive investor sentiment in response to the Offers; and
- the average EV/EBITDA, P/E and P/BV for the Comparable Companies are comparable to that represented by the Share Offer Price,

we are of the view that the Share Offer Price of HK\$4.55 is fair and reasonable.

Intention of the Offeror

We should draw the Peoples Independent Shareholders' attention that, if the Offeror receives valid acceptances of the Share Offer for not less than 90% of the disinterested Peoples Shares, the Offeror intends to apply the provisions of the Companies Ordinance to compulsorily acquire any remaining Peoples Shares and to apply for a de-listing of Peoples Shares from the Stock Exchange pursuant to Rule 6.15 of the Listing Rules. Peoples Shares held by Peoples Independent Shareholders who have not accepted the Offers will be subject to compulsory purchase on exercise of the compulsory acquisition rights by the Offeror.

Other remarks

For the past several months, we noted that there is a new wave of merger and acquisition activity surrounding the Hong Kong telecommunications market. Therefore, a future offer for Peoples from a third party or a revised offer from the Offeror cannot be ruled out. However, as at the Latest Practicable Date, no third party offer has been made for Peoples.

Consequences of different outcomes of the Offers

We have listed out the following three different possible outcomes of the Share Offers for easy reference, consequences are discussed separately under the same paragraph:

- (1) 90% valid acceptances on the Share Offer with other Conditions fulfilled, the Offers become unconditional and the Offeror will proceed with the privatisation of Peoples and Peoples will be delisted; or
- (2) less than 90% valid acceptance on the Share Offer with other Conditions fulfilled, the Offeror does not waive such condition and the Share Offer will not be declared unconditional and the Offers will lapse; or
- (3) less than 90% but with at least 50% valid acceptance of the Share Offer with other Conditions fulfilled, the Offeror at its absolute discretion waives such condition and the Offers will become unconditional where the Offeror will maintain the listing of Peoples.

Under possible outcome (1) as mentioned above, if the Offeror receives valid acceptances of the Share Offer for not less than 90% of the disinterested Peoples Shares, the Offeror intends to apply the provisions of the Companies Ordinance to compulsorily acquire any remaining Peoples Shares and to apply for a de-listing of the Peoples Shares from the Stock Exchange pursuant to Rule

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6.15 of the Listing Rules. The Peoples Shares held by the Peoples Independent Shareholders who have not accepted the Offers will be subject to compulsory purchase on exercise of the compulsory acquisition rights by the Offeror.

Having taken into account of the Irrevocable Undertakings from China Resources and Michael Leung that they will accept the Share Offer, valid acceptances of the Share Offer in respect of additional 176,675,317 Peoples Shares have to be received from the Peoples Shareholders in order to reach the Percentage Threshold, representing approximately 70.38% of the Peoples Shares held by the Peoples Independent Shareholders (other than China Resources and Michael Leung).

Under possible outcome (2) as mentioned above, we should draw the Peoples Independent Shareholders' attention that, if the Offeror does not receive valid acceptances of the Share Offer for not less than 90% of the disinterested Peoples Shares, the Offeror reserves its right, at its absolute discretion, on whether to waive this condition of the Share Offer. In the event the Offeror does not waive such condition in such circumstances, the Offers will not be declared unconditional and will lapse. As such, Peoples will not enjoy the possible benefits from CMHK as claimed under the section headed "Reasons and benefits for the Offers" contained in the "Letter from the Financial Advisers" and the Peoples Independent Shareholders may not be able to realise their investment at a price equivalent to the Share Offer Price given the Peoples Shares are mostly traded below the Share Offer Price with relatively low liquidity.

Under the possible outcome (3) as mentioned above, in the event that the Offeror is not entitled to exercise its compulsory acquisition right but at its absolute discretion waives the condition in relation to receiving not less than 90% acceptances, which results the Offers being declared unconditional, the Offeror will use its reasonable endeavours to maintain the listing of Peoples on the Stock Exchange. The directors of the Offeror and the new directors to be appointed to the board of Peoples will jointly and severally undertake to the Stock Exchange to take appropriate steps to ensure that not less than 25% of the Peoples Shares will be held by the public as soon as possible following the closing of the Share Offer in compliance with the Listing Rules.

We are of the view that CMHK is a financially sound and profitable company. As such, we have no reason to doubt that CMHK, as the leading mobile services provider in the PRC, possesses good capability and experience in managing a telecommunication company such as Peoples. We believe that Peoples would enjoy the potential benefit from CMHK as mentioned in the "Letter from the Financial Advisers" (subject to the Offers becoming or being declared unconditional). However, CMHK and the Offeror have no intention either to introduce any material changes to the business of the Peoples Group nor to redeploy its assets. In the absence of any evidence showing any specific strategy for Peoples that will be adopted by CMHK, we are unable to comment on the impact, if any, on Peoples and as such, we are unable to ascertain whether CMHK can improve the profitability of Peoples in the future, given the Offers become unconditional and completed. Peoples Independent Shareholders should note the following matters before making a decision to accept or not to accept the Share Offer:

- If the Peoples Independent Shareholders wish to retain part or all of their investments in the Peoples Shares, he/she should closely monitor the Peoples Shares' price performance during the Offer Period and evaluate the future prospects of Peoples following the close of the Offers; and
- Peoples Independent Shareholders should note that, if at the close of the Offers, the Offeror is not entitled to exercise such right of compulsory acquisition and the number of Peoples Shares held by the public comprises less than 25% of the issued share capital of

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Peoples, trading in the Peoples Shares may be suspended. Should this happen, the Peoples Independent Shareholders who choose not to accept the Offers will not be able to sell their Peoples Shares on the Stock Exchange until trading in the Peoples Shares resumes.

Conclusion

Based on the above, we are of the opinion that the terms of the Share Offer, including the Share Offer Price, are fair and reasonable so far as the Peoples Independent Shareholders are concerned. **We recommend the Peoples Independent Board Committee to advise the Peoples Independent Shareholders to accept the Share Offer.**

Peoples Shareholders should read carefully the procedures for accepting the Share Offer as detailed in Appendix I to the Composite Document and are strongly advised that the decision to realise or to hold their Peoples Shares is subject to individual circumstances and investment objectives.

However, should the market price of the Peoples Shares exceed the Share Offer Price during the Offer Period and the Peoples Independent Shareholders wish to realise a higher value for their Peoples Shares, they should consider selling their Peoples Shares in the market, if the net proceeds after deducting the expenses from such sale would be greater than the net proceeds receivable pursuant to the Share Offer.

OPTION OFFER

At the Latest Practicable Date, there were 492 Peoples Options, involving 50,650,000 Peoples Shares, outstanding as at the date of the Announcement. Peoples has no other options, warrants or other securities issued by Peoples that carry a right to subscribe for or which are convertible into Peoples Shares.

The exercise price for the outstanding Peoples Options is HK\$4.55 per Peoples Share, which equals the Share Offer Price, as such, the outstanding Peoples Options carry no intrinsic value under the Share Offer and therefore, the Option Offer Price of HK\$1 in cash per each of the 492 outstanding Peoples Option is a nominal value. **Given the fact that the exercise price for the outstanding Peoples Options is HK\$4.55 per Peoples Share, we should draw Peoples Optionholders attention to the fact that it would not be advisable for them to exercise the Peoples Options since they can only receive the same amount of HK\$4.55 for accepting the Share Offer as and when the Offers are declared unconditional. Therefore, we recommend the Peoples Independent Board Committee to advise the Peoples Optionholders to accept the Option Offer.**

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However, should the market price of the Peoples Shares exceed the Share Offer Price for the Peoples Shares during the Offer Period and Peoples Optionholders wish to realise a higher value for their outstanding Peoples Options, they should consider exercising their Peoples Options in accordance with the Peoples' Pre-IPO Share Option Scheme and selling in the market the Peoples Shares issued to them, if the net proceeds after deducting the expenses from such sale would be greater than the net proceeds receivable pursuant to the Option Offer.

Yours faithfully,
For and on behalf of
BARON CAPITAL LIMITED
Chiu Sui Keung, Thomas
Managing Director

1. PROCEDURES FOR ACCEPTANCE AND SETTLEMENT

A. The Share Offer

- (a) If the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Peoples Shares is/are in your name, and you wish to accept the Share Offer in respect of your Peoples Shares, you must send the **WHITE** Form of Acceptance duly completed together with the relevant share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof), to the Registrar.
- (b) If the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Peoples Shares is/are in the name of a nominee company or a name other than your own, and you wish to accept the Share Offer in respect of your Peoples Shares, you must either:
 - (i) lodge your share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) with the nominee company, or other nominee, with instructions authorising it to accept the Share Offer on your behalf and requesting it to deliver the **WHITE** Form of Acceptance duly completed together with the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof), to the Registrar; or
 - (ii) arrange for the Peoples Shares to be registered in your name by Peoples through the Registrar, and deliver the **WHITE** Form of Acceptance duly completed together with the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof), to the Registrar; or
 - (iii) if your Peoples Shares have been lodged with your licensed securities dealer/registered institution in securities/custodian bank through CCASS, instruct your licensed securities dealer/registered institution in securities/custodian bank to authorise HKSCC to accept the Share Offer on your behalf on or before the deadline set out by HKSCC. In order to meet the deadline set by HKSCC, you should check with your licensed securities dealer/registered institution in securities/custodian bank for the timing on the processing of your instruction, and submit your instruction to your licensed securities dealer/registered institution in securities/custodian bank as required by them; or
 - (iv) if your Peoples Shares have been lodged with your Investor Participant Account with CCASS, authorise your instruction via the CCASS Phone System or CCASS Internet System no later than the deadline set out by HKSCC.
- (c) If you have lodged transfer(s) of any of your Peoples Shares for registration in your name and have not yet received your share certificate(s), and you wish to accept the Share Offer in respect of your Peoples Shares, you should nevertheless complete the **WHITE** Form of Acceptance and deliver it to the Registrar together with the

transfer receipt(s) duly signed by yourself. Such action will constitute an authority to the Financial Advisers and/or the Offeror or their respective agent(s) to collect from Peoples or the Registrar on your behalf the relevant share certificate(s) when issued and to deliver such share certificate(s) to the Registrar as if it was/they were delivered to the Registrar with the **WHITE** Form of Acceptance.

- (d) If the share certificate(s) and/or transfer receipt(s) and/or other document(s) of title in respect of your Peoples Shares is/are not readily available and/or is/are lost and you wish to accept the Share Offer in respect of your Peoples Shares, you should nevertheless complete the **WHITE** Form of Acceptance and deliver it to the Registrar together with a letter stating that you have lost one or more of your share certificate(s) and/or transfer receipt(s) and/or other document(s) of title or that it/they is/are not readily available. If you find such document(s) or if it/they become(s) available, the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title should be forwarded to the Registrar as soon as possible thereafter. If you have lost your share certificate(s) and/or transfer receipt(s) and/or other document(s) of title, you should also write to the Registrar for a letter of indemnity which, when completed in accordance with the instructions given, should be returned to the Registrar.
- (e) Acceptance of the Share Offer will be treated as valid only if the completed **WHITE** Form of Acceptance is received by the Registrar by no later than 4:00 p.m. on Thursday, 29 December 2005 (or such later time and/or date as the Offeror may determine and announce as permitted under the Takeovers Code) and the Registrar has recorded that the acceptance and any relevant documents required by Note 1 to Rule 30.2 of the Takeovers Code have been so received, and is:
 - (i) accompanied by the relevant share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) and, if those share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) is/are not in your name, such other documents in order to establish your right to become the registered holder of the relevant Peoples Shares; or
 - (ii) from a registered Peoples Shareholder or his/her personal representative (but only up to the amount of the registered holding and only to the extent that the acceptance relates to the Peoples Shares which are not taken into account under another subparagraph under this paragraph (e)); or
 - (iii) certified by the Registrar or the Stock Exchange.

If the **WHITE** Form of Acceptance is executed by a person other than the registered Peoples Shareholder, appropriate documentary evidence of authority to the satisfaction of the Registrar must be produced.

- (f) No acknowledgement of receipt of any **WHITE** Form(s) of Acceptance, share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given.

- (g) In accordance with Rule 20.1 of the Takeovers Code, payment will be posted to the accepting Peoples Shareholders by ordinary post at their own risk as soon as possible but in any event within 10 days of the date of receipt by the Registrar of the complete and valid **WHITE** Form of Acceptance, or the Unconditional Date, whichever is later. Relevant documents of title must be received by the Registrar to render each acceptance of the Share Offer complete and valid.
- (h) If the Share Offer does not become, or is not declared, unconditional in all respects within the time permitted by the Takeovers Code, the share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) received by the Registrar will be returned to the Peoples Shareholders who have accepted the Share Offer by post as soon as possible but in any event within 10 days after the Share Offer has lapsed.
- (i) The address of the Registrar is at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.

B. The Option Offer

- (a) If you wish to accept the Option Offer in respect of your outstanding Peoples Options, you should complete the **YELLOW** Form of Acceptance accompanying this document in accordance with the instructions printed thereon, which instructions form part of the terms of the Option Offer.
- (b) The completed **YELLOW** Form of Acceptance should be forwarded, together with the certificates of the relevant Peoples Options stating the number of outstanding Peoples Options for not less than the number of outstanding Peoples Options in respect of which you intend to accept the Option Offer, to the company secretary of Peoples at 8th Floor, Manhattan Centre, 8 Kwai Cheong Road, Kwai Chung, Kowloon, Hong Kong, as soon as possible and in any event so as to reach the company secretary of Peoples at the aforesaid address by no later than 4:00 p.m. on Thursday, 29 December 2005 (or such later time and/or date as the Offeror may determine and announce as permitted under the Takeovers Code).
- (c) No acknowledgement of receipt of any **YELLOW** Form(s) of Acceptance and/or certificate(s) of Peoples Options will be given to the accepting Peoples Optionholders.
- (d) If the certificate(s) of your outstanding Peoples Options is/are not readily available and/or is/are lost and you wish to accept the Option Offer in respect of your outstanding Peoples Options, you should nevertheless complete the **YELLOW** Form of Acceptance and deliver it to the company secretary of Peoples together with a letter stating that you have lost one or more of your Peoples Options certificate(s) or that it/they is/are not readily available. If you find such document(s) or if it/they become(s) available, the relevant Peoples Options certificate(s) should be forwarded to the company secretary of Peoples as soon as possible thereafter.
- (e) In accordance with Rule 20.1 of the Takeovers Code, payment will be made available for collection by the accepting Peoples Optionholders as soon as possible but in any event within 10 days of the date of receipt by the company secretary of

Peoples of complete and valid **YELLOW** Form of Acceptance, or the Unconditional Date, whichever is later. Relevant certificate(s) of Peoples Options must be received by the company secretary of Peoples to render each acceptance of the Option Offer complete and valid.

- (f) If the Option Offer does not become, or is not declared, unconditional in all respects within the time permitted by the Takeovers Code, the certificate(s) of your outstanding Peoples Options received by the company secretary of Peoples will be made available by the company secretary of Peoples for collection by the accepting Peoples Optionholders at the registered office of Peoples as soon as possible but in any event within 10 days after the Option Offer has lapsed.

2. ACCEPTANCE PERIOD AND REVISIONS

- (a) The Offers are made on 10 November 2005, namely the date of posting of this document, and are capable of acceptance on and from this date.
- (b) Unless the Offers have previously been revised or extended with the consent of the Executive, or have previously become or been declared unconditional, all acceptances must be received by 4:00 p.m. on Thursday, 29 December 2005, being the First Closing Date. In accordance with Rule 15.3 of the Takeovers Code, where the Offers become or are declared unconditional (whether as to acceptances or in all respects), they should remain open for acceptance for not less than 14 days thereafter. In such case, at least 14 days' notice in writing must be given before the Offers are closed to the Peoples Independent Shareholders and the Peoples Optionholders who have not accepted the Offers. The Offeror will make an announcement as and when the Offers become or are declared unconditional.
- (c) The Offeror reserves the right to extend or revise the Offers in accordance with the relevant provisions of the Takeovers Code although the Offeror does not currently intend to revise the terms of the Offer. If the Offers are extended, the announcement of such extension will state the next closing date of the Offers.
- (d) If the Offers (in their original or any previously revised form(s)) are revised (either in their terms and conditions or in the value or nature of the consideration offered or otherwise) and such revision represents, on the date on which such revision is announced (on such basis as the Financial Advisers may reasonably consider appropriate), no diminution in the value of the Offers as so revised (compared with the consideration or terms previously offered), the benefit of the revised Offers will, subject to paragraphs 2(f) and (g) below, be made available to any Peoples Shareholders and Peoples Optionholders who have accepted the Offers in their original or any previously revised form(s) ("**Previous Acceptor**"). The revised Offers will be kept open for at least 14 days following the date on which the revised offer document is posted.

The acceptance by or on behalf of a Previous Acceptor of an Offer in its original or any previously revised form(s) shall, subject as provided in paragraphs 2(f) and (g) below, be treated as an acceptance of the relevant Offer as so revised. It shall also constitute an authority to any director of the Offeror or of the Financial Advisers as his agent:

- (i) to accept the relevant revised Offer on behalf of such Previous Acceptor;
- (ii) if any revised or previously revised Offer includes alternative forms of consideration, to make such elections for and accept such alternative forms of consideration in such proportions (as nearly as practicable) as those made by such Previous Acceptor in the Form(s) of Acceptance previously executed by him/her/it or on his/her/its behalf (or, if no such alternatives were previously available, to make an election for the consideration in the previous form); and
- (iii) to execute on behalf of and in the name of such Previous Acceptor all such further documents (if any) as may be required to give effect to such acceptances and/or elections.

In making any such election and/or acceptance, such agent shall take into account the nature of any previous acceptances made by or on behalf of the Previous Acceptor and such other facts or matters as he may reasonably consider relevant.

- (e) Subject to paragraph 2(f) below, the authorities conferred by paragraphs 2(d) to (g) (inclusive) and any acceptance of a revised Offer and/or any election pursuant thereto shall be irrevocable unless and until the Previous Acceptor becomes entitled to withdraw his acceptance under paragraph headed “**Right of Withdrawal**” and duly does so.
- (f) The deemed acceptance referred to in paragraph 2(d) above shall not apply, and the authority conferred on any director of the Offeror or of the Financial Advisers by that paragraph shall be ineffective, if a Previous Acceptor shall lodge, within 14 days of the posting of the document pursuant to which the revision of the Offers referred to in paragraph 2(d) above is made available to the Peoples Shareholders and Peoples Optionholders, a form (which will be provided by the Offeror and the Financial Advisers in the revised offer document) in which he/she/it validly elects to receive the consideration receivable by him/her/it in some other manner.
- (g) The deemed acceptance referred to in paragraph 2(d) above shall not apply, and the authorities conferred on any director of the Offeror or of the Financial Advisers by such paragraph shall not be exercised by any director of the Offeror or of the Financial Advisers, if as a result thereof the Previous Acceptor would (on such basis as the Financial Advisers may reasonably consider appropriate) thereby receive less in aggregate in cash than he would have received in aggregate in cash (if any) as a result of acceptance of any previously revised Offers in the form in which it was previously accepted by him/her/it. The authority conferred by paragraph 2(d) above shall not be exercised in respect of any election available under the revised Offers save in accordance with this paragraph.

3. ANNOUNCEMENTS

- (a) By 6:00 p.m. (or such later time as the Executive may in exceptional circumstances permit) on a Closing Date (the First Closing Date being Thursday, 29 December 2005), the Offeror must inform the Executive and the Stock Exchange of its decision in relation

to the revision, extension, expiry or unconditionality of the Offers. The Offeror must publish an announcement on the Stock Exchange's website by 7:00 p.m. on the Closing Date stating whether the Offers have been revised or extended, have expired or have become or been declared unconditional (whether as to acceptances or in all respects). Such announcement must be republished in accordance with the requirements set out below on the next Business Day.

The announcement will state the total number of Peoples Shares and Peoples Options:

- (i) for which acceptances of the Offers have been received;
- (ii) held, controlled or directed by the Offeror or the Concert Parties before the Offer Period; and
- (iii) acquired or agreed to be acquired during the Offer Period by the Offeror or any Concert Parties.

The announcement will specify the percentages of the issued share capital of Peoples, and the percentages of voting rights, represented by these numbers.

- (b) As required under the Takeovers Code regarding the publication of documents, all announcements in relation to the Offers will be made in accordance with the requirements of the Listing Rules.

4. RIGHT OF WITHDRAWAL

An acceptor of the relevant Offer shall be entitled to withdraw his/her/its acceptance after 21 days from the First Closing Date if the Share Offer has not by then become unconditional as to acceptances. An acceptor of the Share Offer may withdraw his/her/its acceptance by lodging a notice in writing signed by the acceptor (or his/her/its agent duly appointed in writing and evidence of whose appointment is produced together with the notice) to the Registrar. In the case of an acceptor of the Option Offer, he/she may withdraw his/her acceptance by lodging a notice in writing signed by him/her to the company secretary of Peoples.

Such entitlement to withdraw shall be exercisable only until such time as the Share Offer becomes or is declared unconditional as to acceptances. Furthermore, in the circumstances set out in Rule 19.2 of the Takeovers Code (which is to the effect that if the Offeror is unable to comply with any of the requirements of making announcements relating to the Offers as described under the paragraph headed "Announcements" above), the Executive may require that acceptors be granted a right of withdrawal, on terms acceptable to the Executive, until such requirements can be met. Save as aforesaid, acceptances of the Offers shall be irrevocable and not capable of being withdrawn.

In the situation where prior consent from the TA under section 7P(6) of the Telecommunications Ordinance is not obtained on or before 29 December 2005, an acceptor of the relevant Offer is entitled to withdraw his/her/its acceptance from 19 January 2006 if the Share Offer has not become or been declared unconditional as to acceptances by then. However, such entitlement to withdraw is exercisable only until such time as the Share Offer becomes or is declared unconditional as to acceptances.

5. GENERAL

- (a) All communications, notices, Forms of Acceptance, certificates of Peoples Shares, transfer receipts, other documents of title or indemnities, certificates of Peoples Options and remittances to be delivered by or sent to or from the Peoples Shareholders and the Peoples Optionholders will be delivered by or sent to or from them, or their designated agents, at their own risk, and none of the Offeror, CMHK, the Financial Advisers, Peoples, the Registrar or any of their respective directors, or any other person involved in the Offers, accepts any liability for any loss in postage or any other liabilities that may arise as a result.
- (b) Subject to the terms of the Takeovers Code, acceptance(s) of the Offers may, at the discretion of the Offeror, be treated as valid even if not accompanied by the relevant share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities in respect thereof), or (as the case may be) relevant certificate(s) for the Peoples Options, but, in such cases, the cheque(s) for the consideration due will not be despatched or (as the case may be) made available for collection until the share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities in respect thereof), or (as the case may be) the relevant certificate(s) for the Peoples Options, has/have been received by the Registrar or (as the case may be) the company secretary of Peoples. However, such acceptances to the Share Offer will not be counted towards fulfilling the acceptance condition unless Rule 30.2 of the Takeovers Code has been fully complied with.
- (c) If no number of Peoples Shares or Peoples Options, as the case may be, is specified in the applicable Form of Acceptance or the number of Peoples Shares or Peoples Options, as the case may be, specified by the acceptor in the applicable Form of Acceptance is greater than the number of the Peoples Shares or Peoples Options, as the case may be, registered in the name of the acceptor as holder, the acceptor shall be deemed to have accepted the Offers in respect of the entire holding of the Peoples Shares or Peoples Options, as the case may be, registered in the acceptor's name.
- (d) Subject to paragraph (b), if the number of Peoples Shares or Peoples Options, as the case may be, specified by the acceptor in the applicable Form of Acceptance is greater than the relevant share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities in respect thereof), or (as the case may be) the relevant certificate(s) of the Peoples Options, that are forwarded by the acceptor to the Registrar or (as the case may be) the company secretary of Peoples, the acceptor shall be deemed to have accepted the relevant Offer only in respect of the number of Peoples Shares represented by the relevant share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities in respect thereof) received by the Registrar, or (as the case may be) the number of Peoples Options represented by the relevant certificate(s) of the Peoples Options received by the company secretary of Peoples, in good order before 4:00 p.m. on the First Closing Date (or such later time and/or date as the Offeror may determine and announce as permitted under the Takeovers Code).
- (e) The provisions set out in the accompanying Form(s) of Acceptance form part of the terms of the relevant Offer.

- (f) The accidental omission to despatch this document and/or Form(s) of Acceptance or any of them to any person to whom the relevant Offer is made will not invalidate the Offers in any way.
- (g) The Offers and all acceptances will be governed by and construed in accordance with the laws of Hong Kong.
- (h) Due execution of the Form(s) of Acceptance will constitute an irrevocable authority to the Offeror and/or the Financial Advisers (or such person or persons as the Offeror and/or the Financial Advisers may direct) to complete and execute any document on behalf of the person accepting the Offers and to do any other act that may be necessary or expedient for the purposes of vesting in the Offeror (or such person or persons as it may direct) the Peoples Shares in respect of which such person has accepted the Share Offer, or for the purpose of cancelling the Peoples Options which such person has accepted the Option Offer.
- (i) Acceptance of the Share Offer by any person or persons will constitute a warranty by such person or persons to the Offeror that the Peoples Shares acquired under the Share Offer are sold by any such person or persons free from all third party rights, liens, charges, equities and encumbrances and together with all rights attaching thereto as at the date of the Announcement or subsequently becoming attached to them, including (as appropriate) the right to receive all dividends and distributions declared, made or paid on or after the date of the Announcement.
- (j) Acceptance of the Option Offer by any person or persons will constitute a warranty by such person or persons to the Offeror that the Peoples Options are free from all third party rights, liens, charges, equities and encumbrances and are to be cancelled and renounced together with all rights attaching thereto as at the date of the Announcement or subsequently becoming attached to them.
- (k) References to the Offers in this document and in the Forms of Acceptance shall include any extension and/or revision thereof and references to the Offers becoming unconditional shall include a reference to the Offers being declared unconditional.
- (l) Sellers' ad valorem stamp duty for the Peoples Shares arising in connection with the acceptance of the Share Offer will be payable by the Peoples Shareholders, at the rate of HK\$1.00 for every HK\$1,000 or part thereof of the consideration payable by the Offeror for such person's Peoples Shares or the market value of such person's Peoples Shares, and will be deducted from the cash amount due to such person under the Share Offer. The Offeror will pay the buyer's ad valorem stamp duty on its own behalf and the seller's ad valorem stamp duty on behalf of the accepting Peoples Shareholders in respect of the Peoples Shares accepted under the Share Offer. No stamp duty is payable in connection with acceptance of the Option Offer.
- (m) Settlement of the consideration to which any Peoples Shareholder or Peoples Optionholder is entitled under the Offers will be implemented in full in accordance with the terms of the Offers without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such Peoples Shareholder or Peoples Optionholder.
- (n) The making of the Offers to persons with a registered address in jurisdictions outside Hong Kong may be prohibited or affected by the laws of the relevant jurisdictions. Peoples Shareholders or Peoples Optionholders who are citizens or residents or nationals

of jurisdictions outside Hong Kong should inform themselves about and observe any applicable legal requirements. It is the responsibility of any such person who wishes to accept the Offers to satisfy himself/herself/itself as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consent which may be required or the compliance with other necessary formalities or legal requirements and the payment of any transfer or other taxes due in respect of such jurisdiction. The Offeror, the Financial Advisers and any other person involved in the Offers shall be entitled to be fully indemnified and held harmless by such person for any taxes as such person may be required to pay.

- (o) The English text of this document and of the Forms of Acceptance shall prevail over the Chinese text for the purpose of interpretation.

I. THREE-YEAR FINANCIAL SUMMARY

Set out below is a summary of the income statement of the Peoples Group for each of the three years ended 31 December 2004 and the balance sheets as at 31 December 2002, 2003, and 2004. The information is extracted from Peoples' audited accounts which are prepared in accordance with accounting principles generally accepted in Hong Kong ("HKGAAP") and complying with accounting standards issued by the Hong Kong Institute of Certified Public Accountants for each of the three years ended 31 December 2004. The auditors' reports in respect of Peoples' audited accounts for the three years ended 31 December 2004 did not contain any qualification. Peoples has declared and paid dividends in 2004. Peoples has no exceptional/extraordinary items/minority interests during the periods and there is no requirement under HKGAAP to present negative statement in the audit accounts.

Summary Income Statements for the last 3 financial years

	For the year ended 31 December		
	2004	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	1,681,994	1,642,301	1,505,155
Direct cost for goods sold and services provided			
— Cost of handset and accessories	(327,689)	(271,517)	(263,883)
— Interconnection costs	<u>(210,677)</u>	<u>(186,568)</u>	<u>(175,533)</u>
	1,143,628	1,184,216	1,065,739
Other revenue	3,383	3,903	2,264
Other net income	154	705	165
Operating expenses	<u>(821,021)</u>	<u>(798,320)</u>	<u>(728,356)</u>
Profit from operations	326,144	390,504	339,812
Finance costs	<u>(16,879)</u>	<u>(64,516)</u>	<u>(87,221)</u>
Profit from ordinary activities before taxation	309,265	325,988	252,591
Income tax (expense)/credit	<u>(57,660)</u>	<u>(55,912)</u>	<u>91,955</u>
Profit attributable to shareholders	<u>251,605</u>	<u>270,076</u>	<u>344,546</u>
Dividend			
Interim dividend	96,673	—	—
Final dividend	<u>133,855</u>	<u>—</u>	<u>—</u>
	<u>230,528</u>	<u>—</u>	<u>—</u>
Earnings per share (in HK\$)			
— Basic	0.38	0.62	0.80
— Diluted	<u>0.38</u>	<u>0.49</u>	<u>0.61</u>
Dividends per share (in HK\$)			
Interim dividend	0.13	—	—
Final dividend	<u>0.18</u>	<u>—</u>	<u>—</u>
	<u>0.31</u>	<u>—</u>	<u>—</u>

Balance Sheet

	As at 31 December		
	2004	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets			
Fixed assets	1,167,152	1,149,770	1,032,544
Construction in progress	9,049	8,762	18,443
Secured deposits	—	1,631	2,563
Intangible assets	25,956	30,847	38,691
Deferred tax assets	—	36,043	91,955
	<u>1,202,157</u>	<u>1,227,053</u>	<u>1,184,196</u>
Current assets			
Inventories	28,493	18,932	17,805
Amounts due from shareholders	—	20,595	38,735
Amounts due from fellow subsidiaries	—	330	227
Amount due from related companies	20,965	—	—
Secured deposits	23,221	69,252	—
Trade and other receivables	154,330	143,946	132,925
Cash and cash equivalents	<u>196,749</u>	<u>46,121</u>	<u>124,809</u>
	<u>423,758</u>	<u>299,176</u>	<u>314,501</u>
Current liabilities			
Trade and other payables	(269,466)	(618,619)	(479,396)
Current portion of interest-bearing borrowings	(150,000)	(624,869)	(240,897)
Amounts due to shareholders	—	(3,610)	(7,014)
Amounts due to fellow subsidiaries	—	—	(306)
Amount due to related companies	(3,903)	—	—
Convertible preference shares	<u>—</u>	<u>(214,541)</u>	<u>(199,129)</u>
	<u>(423,369)</u>	<u>(1,461,639)</u>	<u>(926,742)</u>
Net current assets/(liabilities)	389	(1,162,463)	(612,241)
Total assets less current liabilities	1,202,546	64,590	571,955
Non-current liabilities			
Interest-bearing borrowings	(75,000)	—	(52,572)
Shareholders' loans	—	—	(724,869)
Deferred tax liabilities	<u>(21,617)</u>	<u>—</u>	<u>—</u>
	<u>(96,617)</u>	<u>—</u>	<u>(777,441)</u>
Net assets/(liabilities)	<u>1,105,929</u>	<u>64,590</u>	<u>(205,486)</u>
Capital and reserves			
Share capital	356,948	433,000	433,000
Reserves	<u>748,981</u>	<u>(368,410)</u>	<u>(638,486)</u>
	<u>1,105,929</u>	<u>64,590</u>	<u>(205,486)</u>

II. FINANCIAL INFORMATION

Set out below are the income statement of Peoples for each of the two years ended 31 December 2004 and the balance sheets as at 31 December 2004 and 2003 together with the relevant notes thereto as extracted from Peoples' audited accounts. The accounts are prepared in accordance with accounting principals generally accepted in Hong Kong and complying with accounting standards issued by the Hong Kong Institute of Certified Public Accountants, as set out in Peoples' 2004 annual report.

Income Statement

For the year ended 31 December 2004

	<i>Note</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Turnover	4	1,681,994	1,642,301
Direct cost of goods sold and services provided			
— Cost of handsets and accessories		(327,689)	(271,517)
— Interconnection costs		<u>(210,677)</u>	<u>(186,568)</u>
		1,143,628	1,184,216
Other revenue	6	3,383	3,903
Other net income	6	154	705
Operating expenses	7	<u>(821,021)</u>	<u>(798,320)</u>
Profit from operations		326,144	390,504
Finance costs	8(i)	<u>(16,879)</u>	<u>(64,516)</u>
Profit from ordinary activities before taxation	8	309,265	325,988
Income tax	11	<u>(57,660)</u>	<u>(55,912)</u>
Profit attributable to shareholders		<u><u>251,605</u></u>	<u><u>270,076</u></u>
Dividend			
Interim dividend declared and paid during the year	12	96,673	—
Final dividend proposed after the balance sheet date	12	<u>133,855</u>	<u>—</u>
		<u><u>230,528</u></u>	<u><u>—</u></u>
Earnings per share (in HK\$)			
— Basic	13	0.38	0.62
— Diluted	13	<u>0.38</u>	<u>0.49</u>
EBITDA	14	<u><u>535,421</u></u>	<u><u>581,012</u></u>

Balance Sheet

As at 31 December 2004

		2004	2003
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets			
Fixed assets	15	1,167,152	1,149,770
Construction in progress	16	9,049	8,762
Secured deposits	17	—	1,631
Intangible assets	18	25,956	30,847
Deferred tax assets	27	—	36,043
		<u>1,202,157</u>	<u>1,227,053</u>
Current assets			
Inventories	19	28,493	18,932
Amounts due from shareholders	24	—	20,595
Amounts due from fellow subsidiaries	24	—	330
Amounts due from related companies	25	20,965	—
Secured deposits	17	23,221	69,252
Trade and other receivables	20	154,330	143,946
Cash and cash equivalents	21	<u>196,749</u>	<u>46,121</u>
		<u>423,758</u>	<u>299,176</u>
Current liabilities			
Trade and other payables	22	(269,466)	(618,619)
Current portion of interest-bearing borrowings	23	(150,000)	(624,869)
Amounts due to shareholders	24	—	(3,610)
Amounts due to related companies	25	(3,903)	—
Convertible Preference Shares	26	<u>—</u>	<u>(214,541)</u>
		<u>(423,369)</u>	<u>(1,461,639)</u>
Net current assets/(liabilities)		<u>389</u>	<u>(1,162,463)</u>
Total assets less current liabilities		<u>1,202,546</u>	<u>64,590</u>
Non-current liabilities			
Interest-bearing borrowings	23	(75,000)	—
Deferred tax liabilities	27	<u>(21,617)</u>	<u>—</u>
		<u>(96,617)</u>	<u>—</u>
Net assets		<u><u>1,105,929</u></u>	<u><u>64,590</u></u>
Capital and reserves			
Share capital	28	356,948	433,000
Reserves	30	<u>748,981</u>	<u>(368,410)</u>
		<u><u>1,105,929</u></u>	<u><u>64,590</u></u>

Statements of Changes in Shareholders' Equity

For the year ended 31 December 2004

	Share Capital	Share Premium	Other Reserve	Retained Profits/ (Accumulated Losses)	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
As at 1 January 2004	433,000	—	—	(368,410)	64,590
Capital reduction (note 28a)	(225,160)	—	—	305,305	80,145
Issue of new shares (net of listing expenses) (note 28b)	71,736	597,491	—	—	669,227
Issue of new shares upon conversion of Preference Shares (note 26, 28c & 30)	73,980	—	63,055	—	137,035
Capitalisation issue (note 28d)	3,392	(3,392)	—	—	—
Dividends declared and approved during the year	—	—	—	(96,673)	(96,673)
Profit for the year	—	—	—	251,605	251,605
As at 31 December 2004	<u>356,948</u>	<u>594,099</u>	<u>63,055</u>	<u>91,827</u>	<u>1,105,929</u>

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

Cash Flow Statement
For the year ended 31 December 2004

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Operating activities		
Profit from ordinary activities before taxation	309,265	325,988
Adjustments for:		
Depreciation	196,782	174,464
Amortisation of intangible assets	12,495	16,044
Finance costs	16,879	64,516
Interest income	(584)	(882)
Loss on sale of fixed assets	<u>254</u>	<u>6,658</u>
Operating profit before changes in working capital	535,091	586,788
Decrease/(increase) in secured deposits	47,662	(68,320)
Increase in inventories	(9,561)	(1,127)
Decrease in amounts due from shareholders	20,595	18,140
Decrease/(increase) in amounts due from fellow subsidiaries	330	(103)
Increase in amounts due from related companies	(20,965)	—
Increase in trade and other receivables	(10,384)	(11,021)
Increase in trade and other payables	26,121	6,810
Decrease in amounts due to shareholders	(3,610)	(3,404)
Decrease in amounts due to fellow subsidiaries	—	(306)
Increase in amounts due to related companies	<u>3,903</u>	<u>—</u>
Cash generated from operations	589,182	527,457
Interest received	<u>420</u>	<u>882</u>
Net cash from operating activities	<u>589,602</u>	<u>528,339</u>

Cash Flow Statement (continued)
For the year ended 31 December 2004

	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Investing activities		
Payment for purchase of fixed assets	(219,072)	(75,742)
Payment for purchase of construction in progress	(78,529)	(122,506)
Payment for purchase of intangible assets	(7,605)	(8,200)
Proceeds from sale of fixed assets	<u>73</u>	<u>4</u>
Net cash used in investing activities	<u>(305,133)</u>	<u>(206,444)</u>
Financing activities		
Proceeds from bank and other loans	300,000	20,909
Proceeds from issue of new shares upon the Global Offering (net of listing expenses)	669,227	—
Repayment of bank and other interest-bearing borrowings	(75,000)	(214,378)
Repayment of shareholders' loans	(624,869)	(200,000)
Payment of accrued interest on shareholders' loans	(304,334)	—
Payment of other interest	(2,192)	(7,114)
Dividends paid	<u>(96,673)</u>	<u>—</u>
Net cash used in financing activities	<u>(133,841)</u>	<u>(400,583)</u>
Net increase/(decrease) in cash and cash equivalents	150,628	(78,688)
Cash and cash equivalents at 1 January	<u>46,121</u>	<u>124,809</u>
Cash and cash equivalents at 31 December	<u><u>196,749</u></u>	<u><u>46,121</u></u>

Notes to the Accounts

1. BASIS OF PREPARATION

The accounts have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”)

2. RECENTLY ISSUED ACCOUNTING STANDARDS

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and related interpretations (“new HKFRS”) which are effective for accounting periods beginning on or after 1 January 2005. The Company has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Company has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

3. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below.

a. Revenue recognition

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

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

b. Fixed assets and depreciation

- (i) Fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 3(e)). The cost of the computer, billing, office and telephone equipment, and network and testing equipment comprises network assets and equipment purchased at cost, together with direct payroll and overheads attributable to the cost of construction and installation of the network.
- (ii) Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Company. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.
- (iii) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the income statement on the date of retirement or disposal.

(iv) Depreciation is calculated to write off the cost of fixed assets on a straight-line basis over their estimated useful lives as follows:

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

Leasehold land is amortised on a straight line basis over the terms of the leases. Buildings are depreciated on a straight line basis at rates calculated to write off the costs of the buildings over their estimated useful lives of 40 years or the remaining lease periods of the land on which they are situated, whichever is the shorter.

c. Construction in progress

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

d. Intangible assets

Intangible assets comprise the initial licence fee for the provision of Personal Communication Services (“PCS”) and the access fee for the utilisation of a distributed communication system and customers retention cost which mainly represents the discount amount on sales handsets to existing subscribers.

Intangible assets are stated at cost less accumulated amortisation and impairment losses (see note 3(e)). Initial licence fee is amortised on a straight line basis over the remaining period of the PCS licence. Access fees and customer costs are amortised on a straight line basis over their estimated useful lives in accordance with the lease period of the base stations and the terms of service agreements respectively.

e. Impairment of assets

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

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

(i) Calculation of recoverable amount

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

(ii) Reversals of impairment losses

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

f. Inventories

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

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

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

g. Translation of foreign currencies

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

h. Operating leases

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

i. Provisions and contingent liabilities

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

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

j. Deferred taxation

- (i) Deferred tax assets and liabilities arise from deductible and taxable temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax bases respectively. Deferred tax assets also arise from unused tax losses and unused tax credits.
- (ii) All deferred tax liabilities and deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided that those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible

temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

- (iii) The amount of deferred tax provided is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.
- (iv) The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

k. Employee benefits

- (i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Company of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Company. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.
- (ii) Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance are recognised as an expense in the income statement as incurred.
- (iii) Long service payments are accrued when the company becomes liable for payment to employees eligible under the Employment Ordinance on termination of their employment.
- (iv) Termination benefits are recognised when, and only when, the Company demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.
- (v) When the Company grants employees options to acquire shares of the Company at nominal consideration, no employee benefit cost or obligation is recognised at the date of grant. When the options are exercised, equity is increased by the amount of the proceeds received.

l. Borrowing costs

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

m. Related parties

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

n. Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within

three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the company’s cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

o. Segment reporting

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

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

p. Off balance sheet financial instruments

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

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

A hedging relationship exists where:

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

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

4. 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:

	2004 HK\$'000	2003 HK\$'000
Sales of handsets and accessories	358,363	297,445
Airtime and service charges	<u>1,323,631</u>	<u>1,344,856</u>
	<u>1,681,994</u>	<u>1,642,301</u>

5. SEGMENT REPORTING

For the year ended 31 December 2004, the Company’s turnover and operating profit were solely 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.

6. OTHER INCOME

	2004	2003
	HK\$'000	HK\$'000
Other revenue		
Bank interest income	584	882
Commission income	66	136
Sundry income	2,733	2,885
	3,383	3,903
Other net income		
Exchange gain	154	705

7. OPERATING EXPENSES

	2004	2003
	HK\$'000	HK\$'000
Network maintenance costs	254,111	245,066
Sales and marketing costs	93,866	87,910
Administrative expenses	54,862	51,290
Staff costs	142,930	149,952
Depreciation and amortisation	209,277	190,508
Other operating expenses	65,975	73,594
	821,021	798,320

8. PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

Profit from ordinary activities before taxation is arrived at after charging/(crediting) the following:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
(i) Finance costs:		
Interest on bank and other loans repayable within five years	3,335	2,248
Interest on shareholders' loans	10,905	47,807
Dividends on convertible preference shares	1,942	7,706
Redemption premium on convertible preference shares	<u>697</u>	<u>7,706</u>
	16,879	65,467
Less: Borrowing costs capitalised	<u>—</u>	<u>(951)</u>
	<u><u>16,879</u></u>	<u><u>64,516</u></u>
(ii) Staff costs:		
Retirement costs	8,502	7,434
Salaries, wages and other benefits	<u>163,600</u>	<u>169,113</u>
	172,102	176,547
Less: Staff costs capitalised	<u>(29,172)</u>	<u>(26,595)</u>
	<u><u>142,930</u></u>	<u><u>149,952</u></u>
(iii) Other items:		
Depreciation	196,782	174,464
Amortisation of intangible assets	12,495	16,044
Auditors' remuneration	400	330
Other professional services	344	27
Cost of inventories sold	327,689	271,517
Loss on sale of fixed assets	254	6,658
Operating lease rentals in respect of properties	184,487	175,079
Provision for bad and doubtful debts	<u>24,794</u>	<u>30,895</u>

The borrowing cost attributable to the construction of assets have been capitalised at a rate of nil for the year ended 31 December 2004 (2003: 2.26 per cent.–7 per cent. per annum) and are included under network and testing equipment, computer, billing, office and telephone equipment and construction in progress.

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

9. DIRECTORS' REMUNERATION

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

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Fees	1,040	—
Salaries, allowances and benefits in kind	9,495	—
Retirement benefits	893	—
Bonuses	<u>744</u>	<u>—</u>
	<u><u>12,172</u></u>	<u><u>—</u></u>

Included in the directors’ remuneration were fees of HK\$480,000 (2003: Nil) paid to the Independent Non-executive Directors during the year.

During the year ended 31 December 2004, ten directors were granted share options under the Company’s Pre-IPO Share Option Scheme. The details of the share option scheme are disclosed in note 29.

No director has waived or agreed to waive any emoluments in 2004. No amounts was paid during 2004 or receivable by any of our Directors as an inducement to join or upon joining our Company.

An analysis of Directors’ remuneration by the number of Directors and remuneration range is as follows:

	Number of directors	
	2004	2003
HK\$0–HK\$1,000,000	11	—
HK\$2,500,001–HK\$3,000,000	1	—
HK\$3,000,001–HK\$3,500,000	1	—
HK\$5,000,001–HK\$5,500,000	1	—
	<u>1</u>	<u>—</u>

10. SENIOR MANAGEMENT REMUNERATION

The five highest paid individuals of the Company included three directors (2003: Nil) whose remuneration are reflected in note 9. Details of remuneration paid to the remaining highest paid individuals of the Company are as follows:

	2004	2003
	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	4,672	10,877
Retirement benefits	415	1,004
Bonuses	<u>352</u>	<u>1,974</u>
	<u>5,439</u>	<u>13,855</u>

During the year ended 31 December 2004, the two highest paid individuals were granted share options under the Company’s Pre-IPO Share Option Scheme. The details of the share option scheme are set out in note 29.

The emoluments of the two (2003: five) highest paid individuals are within the following bands:

	Number of individuals	
	2004	2003
HK\$1,500,001–HK\$2,000,000	—	2
HK\$2,000,001–HK\$2,500,000	1	1
HK\$2,500,001–HK\$3,000,000	—	1
HK\$3,000,001–HK\$3,500,000	1	—
HK\$5,000,001–HK\$5,500,000	<u>—</u>	<u>1</u>

11. TAXATION

- a. Hong Kong Profits Tax is calculated at 17.5 per cent. (2003: 17.5 per cent.) on the estimated assessable profit for the year. No provision for Hong Kong Profits Tax has been made for the year ended 31 December 2004 as the Company has sufficient tax losses brought forward to offset the assessable profits for the year (2003: Nil).

- b. Income tax expenses represents:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Current tax		
Hong Kong Profits Tax for the year	52,399	44,516
Benefit of unused tax losses brought forward	<u>(52,399)</u>	<u>(44,516)</u>
	<u>—</u>	<u>—</u>
Deferred tax		
Origination and reversal of temporary differences	57,660	64,533
Effect of increase in tax rate on deferred tax at 1 January	<u>—</u>	<u>(8,621)</u>
Total income tax expense	<u>57,660</u>	<u>55,912</u>

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

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Profit before taxation	<u>309,265</u>	<u>325,988</u>
Notional tax on profit before tax, calculated at 17.5 per cent.	54,121	57,047
Tax effect of non-deductible expenses	3,539	7,486
Effect on opening deferred tax balances resulting from increase in tax rate during the year	<u>—</u>	<u>(8,621)</u>
Actual tax expense	<u>57,660</u>	<u>55,912</u>

12. DIVIDENDS

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Interim dividend declared and paid, of HK\$0.13 (2003: Nil) per share	96,673	—
Final dividend proposed after the balance sheet date, of HK\$0.18 (2003: Nil) per share	<u>133,855</u>	<u>—</u>
	<u>230,528</u>	<u>—</u>

At a Board meeting held on 17 March 2005, the Directors proposed a final dividend of HK\$0.18 per share for the year ended 31 December 2004. This proposed dividend is not reflected as a dividend payable as at 31 December 2004 but will be reflected as an appropriation of retained profits for the year ending 31 December 2005.

13. BASIC AND DILUTED EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of HK\$251,605,000 (2003: HK\$270,076,000) and the weighted average number of Ordinary Shares outstanding during the year of 666,405,137 (2003: 433,000,000).

	Number of shares
Reconciliation:	
At 1 January 2004	433,000,000
Weighted average number of Ordinary Shares for new issued shares	115,804,303
Weighted average number of Ordinary Shares upon conversion of Preference Shares	112,291,667
Weighted average number of Ordinary Shares issued pursuant to the Capitalisation Issue	<u>5,309,167</u>
At 31 December 2004	<u><u>666,405,137</u></u>

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to Ordinary Shareholders of HK\$251,605,000 (2003: HK\$285,489,000) and the weighted average number of Ordinary Shares of 666,405,137 as at 31 December 2004 (2003: 587,125,000).

	2004 HK\$'000	2003 HK\$'000
Profit attributable to shareholders	251,605	270,076
Adjusted for:		
Accrued dividend and accrued redemption premium on Convertible Preference Shares	<u>—</u>	<u>15,413</u>
Profit attributable to Ordinary Shareholders	<u><u>251,605</u></u>	<u><u>285,489</u></u>
	Number of shares	
Weighted average number of Ordinary Shares	666,405,137	433,000,000
Deemed conversion of Preference Shares	<u>—</u>	<u>154,125,000</u>
Weighted average number of Ordinary Shares in calculating diluted earning per share	<u><u>666,405,137</u></u>	<u><u>587,125,000</u></u>

The existence of unexercised options during the year ended 31 December 2004 (see note 29) has no dilutive effect on the calculation of diluted earnings per share for the year ended 31 December 2004.

14. EBITDA

EBITDA represents earnings before interest, taxation, depreciation and amortisation expenses. It is a financial measure prepared under basis other than the accounting principles generally accepted in Hong Kong.

15. FIXED ASSETS

	Network and testing equipment <i>HK\$'000</i>	Computer, billing, office and telephone equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Office furniture and fixtures <i>HK\$'000</i>	Land and Buildings <i>HK\$'000</i>	Total <i>HK\$'000</i>
<i>Cost:</i>							
At 1 January 2004	1,706,375	137,680	3,565	35,033	4,978	26,421	1,914,052
Additions	117,565	16,748	721	1,047	169	—	136,250
Transfer from construction in progress (<i>note 16</i>)	78,242	—	—	—	—	—	78,242
Disposals	(446)	(2,227)	(774)	(13)	(12)	—	(3,472)
At 31 December 2004	1,901,736	152,201	3,512	36,067	5,135	26,421	2,125,072
<i>Accumulated depreciation:</i>							
At 1 January 2004	657,279	64,728	3,289	30,547	4,588	3,851	764,282
Charge for the year	180,223	13,476	201	2,093	193	596	196,782
Written back on disposals	(148)	(2,205)	(774)	(5)	(12)	—	(3,144)
At 31 December 2004	837,354	75,999	2,716	32,635	4,769	4,447	957,920
<i>Net book value at 31 December 2004</i>	<u>1,064,382</u>	<u>76,202</u>	<u>796</u>	<u>3,432</u>	<u>366</u>	<u>21,974</u>	<u>1,167,152</u>
<i>Net book value at 31 December 2003</i>	<u>1,049,096</u>	<u>72,952</u>	<u>276</u>	<u>4,486</u>	<u>390</u>	<u>22,570</u>	<u>1,149,770</u>

The net book value of fixed assets of the Company includes an amount of HK\$21,974,000 at 31 December 2004 in respect of assets pledged against letters of credit issued by the bank on behalf of the Company (2003: HK\$22,570,000).

Included in additions are capitalised staff costs of HK\$29,172,000 (2003: HK\$26,595,000).

A valuation was performed on the land and buildings as at 31 January 2004 in connection with the Company's Global Offering. The amount of such valuation was HK\$9,070,000. The revalued amount was not incorporated in the financial statements of the Company for the year ended 31 December 2004. Had the revaluation been incorporated in the Company's financial statements, the annual depreciation charged to the income statement would have amounted to HK\$237,000 for the year ended 31 December 2004.

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

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
In Hong Kong		
— medium-term leases	18,093	18,583
— long-term lease	<u>3,881</u>	<u>3,987</u>
	<u>21,974</u>	<u>22,570</u>

16. CONSTRUCTION IN PROGRESS

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
<i>Cost:</i>		
At 1 January	8,762	18,443
Additions	78,529	122,506
Disposals	—	(847)
Transfer to fixed assets (<i>note 15</i>)	<u>(78,242)</u>	<u>(131,340)</u>
At 31 December	<u><u>9,049</u></u>	<u><u>8,762</u></u>

17. SECURED DEPOSITS

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

18. INTANGIBLE ASSETS

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
<i>Cost:</i>		
At 1 January	30,847	38,691
Additions	15,240	8,200
Refund	(7,636)	—
Amortisation	<u>(12,495)</u>	<u>(16,044)</u>
At 31 December	<u><u>25,956</u></u>	<u><u>30,847</u></u>

During the year ended 31 December 2004, Access Fees of HK\$7,636,000 were refunded from other mobile operators and system owners due to extra networks joining the Integrated Radio System (2003: HK\$84,000 was refunded and credited to additions during the year).

19. INVENTORIES

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Handsets	24,935	15,590
Accessories	<u>3,558</u>	<u>3,342</u>
	<u><u>28,493</u></u>	<u><u>18,932</u></u>

Included in the above inventories, handsets valued at HK\$452,000 (2003: HK\$355,000) are stated at net realisable value. Accessories are stated net of a general provision that is made in order to state these assets at the lower of their cost and estimated net realisable value.

20. TRADE AND OTHER RECEIVABLES

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Trade receivables, net of provision for bad and doubtful debts	90,062	79,094
Other receivables and prepayments	<u>64,268</u>	<u>64,852</u>
	<u><u>154,330</u></u>	<u><u>143,946</u></u>

APPENDIX II FINANCIAL INFORMATION ON THE PEOPLES GROUP

The amount of provision for bad and doubtful debts as at 31 December 2004 was HK\$26,310,000 (2003: HK\$39,594,000).

The Company makes a general bad debt provision estimated at 2.5 per cent. of the monthly billings. The Company allows an average credit period of 18 days to its subscribers.

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 is as follows:

	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current	63,622	55,666
Over 1 month but less than 3 months	20,935	19,126
Over 3 months but less than one year	<u>5,505</u>	<u>4,302</u>
	<u>90,062</u>	<u>79,094</u>

21. CASH AND CASH EQUIVALENTS

	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Deposits with banks	155,850	22,980
Cash at bank and in hand	<u>40,899</u>	<u>23,141</u>
	<u>196,749</u>	<u>46,121</u>

22. TRADE AND OTHER PAYABLES

	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bills payable	78,164	151,210
Trade payables	111,278	94,542
Other payables and accruals	<u>80,024</u>	<u>372,867</u>
	<u>269,466</u>	<u>618,619</u>

Except for provision for long service payments of HK\$3,412,000 at 31 December 2004 (2003: HK\$2,824,000), all of the trade and other payables are expected to be settled within one year.

At 31 December 2004, no accrued interest payable to shareholders was included in other payables and accruals (2003: HK\$293,428,000) because the amounts were fully settled on 1 April 2004.

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

	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current	57,649	52,531
Aged over 1 month but less than 2 months	30,126	24,131
Aged over 2 months but less than 3 months	4,397	6,940
Aged over 3 months	<u>19,106</u>	<u>10,940</u>
	<u>111,278</u>	<u>94,542</u>

23. BANK AND OTHER INTEREST-BEARING BORROWINGS

At 31 December 2004, the bank loans and other interest-bearing borrowings are repayable as follows:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Within 1 year	150,000	624,869
After 1 year but within 2 years	<u>75,000</u>	<u>—</u>
	<u><u>225,000</u></u>	<u><u>624,869</u></u>

On 10 March 2004, the Company entered into an unsecured HK\$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 profit, net worth, cap on capital expenditure, liquidity and interest coverage. One of the events of default under the loan facility will be triggered if China Resources, the Company's controlling shareholder, ceases either (i) to be the single largest shareholder or (ii) to hold 30 per cent or more of the Company's Ordinary Shares.

On 1 April 2004, the facility was fully drawn down and the first two instalments were repaid to the bank on 12 July 2004 and 10 March 2005 respectively.

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

24. AMOUNTS DUE FROM/ TO SHAREHOLDERS AND FELLOW SUBSIDIARIES

The amounts due from/to shareholders and fellow subsidiaries are unsecured, interest free and have no fixed terms of repayment. Of the amounts due from/to shareholders, amounts were due from/to Telepaging Limited, former shareholder of the Company, as at 31 December 2003. On 2 January 2004, Telepaging Limited transferred its shareholding in the Company to Onwel Capital Company Limited. Consequently, Telepaging Limited became a related company for the year ended 31 December 2004 (notes 25 and 33)

25. AMOUNTS DUE FROM/ TO RELATED COMPANIES

The amounts due from/to related companies, which are controlled by a Director and the Controlling Shareholder of the Company, are unsecured, interest free and have no fixed terms of repayment.

26. CONVERTIBLE PREFERENCE SHARES

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
5 per cent. convertible, redeemable, cumulative and participating Preference Shares of HK\$1 each	154,125	154,125
Cumulative preference dividend	32,150	30,208
Redemption premium	30,905	30,208
Capital Reduction (<i>note 28a</i>)	(80,145)	—
Conversion of Preference Shares to Ordinary Shares (<i>note 28c</i>)	(73,980)	—
Transferred to Other Reserve (<i>note 28c & 30</i>)	<u>(63,055)</u>	<u>—</u>
	<u><u>—</u></u>	<u><u>214,541</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 the accrued preference dividends lapsed pursuant to the Capitalisation Issue. These amounts have been transferred to the "Other Reserve" account.

27. DEFERRED TAXATION

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

	Depreciation allowances in excess of related depreciation <i>HK\$'000</i>	General provision for bad debts <i>HK\$'000</i>	Tax losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
Deferred tax arising from:				
At 1 January 2003	(96,644)	12,746	175,853	91,955
Charged to income statement	<u>(22,079)</u>	<u>(5,817)</u>	<u>(28,016)</u>	<u>(55,912)</u>
At 31 December 2003	<u>(118,723)</u>	<u>6,929</u>	<u>147,837</u>	<u>36,043</u>
At 1 January 2004	(118,723)	6,929	147,837	36,043
Charged to income statement	<u>(3,090)</u>	<u>(2,325)</u>	<u>(52,245)</u>	<u>(57,660)</u>
At 31 December 2004	<u>(121,813)</u>	<u>4,604</u>	<u>95,592</u>	<u>(21,617)</u>
			2004	2003
			<i>HK\$'000</i>	<i>HK\$'000</i>
Net deferred tax assets recognised on the balance sheet			100,196	154,766
Net deferred tax liability recognised on the balance sheet			<u>(121,813)</u>	<u>(118,723)</u>
			<u>(21,617)</u>	<u>36,043</u>

The Company had no significant unprovided deferred tax assets or liabilities at the balance sheet date.

28. SHARE CAPITAL

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
<i>Authorised:</i>		
2,500,000,000 Ordinary Shares of HK\$0.48 each		
(2003: 433,000,000 Ordinary Shares of HK\$1.00 each)	1,200,000	433,000
154,125,000 Preference Shares of HK\$0.48 each		
(2003: 200,000,000 Preference Shares of HK\$1.00 each)	<u>73,980</u>	<u>200,000</u>
	<u>1,273,980</u>	<u>633,000</u>
<i>Issued and fully paid:</i>		
743,641,019 Ordinary Shares of HK\$0.48 each		
(2003: 433,000,000 Ordinary Shares of HK\$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 year ended 31 December 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 HK\$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 HK\$1.00 to HK\$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 HK\$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 Shares 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.
- d. On 1 April 2004, pursuant to the Capitalisation Issue whereby the Preference Shareholders agreed to convert their respective Preference Shares and thereby forfeited their respective rights to any cumulative preferential dividend that may be paid to them by the Company in the future, 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 (HK\$4.55) of the Company’s shares pursuant to the Global Offering.

29. EMPLOYEE SHARE OPTION SCHEME

On 4 March 2004, the shareholders of the Company approved and adopted a 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 HK\$591. Each option has a 10-year exercise period within which there is a total vesting period of five years. Commencing from the first, second, third, forth, and fifth anniversaries of the date of grant of an option, the relevant grantee may exercise up to 20%, 40%, 60%, 80% and 100% respectively of the shares comprised in his or her option. 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 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.

At 31 December 2004, the outstanding options granted under the Company’s share option scheme were as follows:

Date granted	Exercise Period	Exercised Price per share	Number of options		
			Exercise during the year	Cancelled during the year	At 31 December 2004
11 March 2004	11 March 2004 to 10 March 2014	HK\$4.55	—	53	538

30. RESERVES

	Share Premium HK\$'000	Other Reserve HK\$'000	Retained Profits/ (Accumulated Losses) HK\$'000	Total HK\$'000
As at 1 January 2003	—	—	(638,486)	(638,486)
Profit for the year	—	—	270,076	270,076
As at 31 December 2003	—	—	(368,410)	(368,410)
As at 1 January 2004	—	—	(368,410)	(368,410)
Capital Reduction (<i>note 28a</i>)	—	—	305,305	305,305
Issue of new shares (net of listing expenses) (<i>note 28b</i>)	597,491	—	—	597,491
Issue of new shares upon conversion of Preference Shares (<i>note 26 & 28c</i>)	—	63,055	—	63,055
Capitalisation issue (<i>note 28d</i>)	(3,392)	—	—	(3,392)
Dividend declared and approved during the year	—	—	(96,673)	(96,673)
Profit for the year	—	—	251,605	251,605
As at 31 December 2004	594,099	63,055	91,827	748,981

Notes:

1. The application of the share premium account is governed by Section 48B of the Hong Kong Companies Ordinance.
2. As at 31 December 2004, the Company had HK\$154,882,000 reserve available for distribution to its shareholders.

31. RETIREMENT BENEFITS

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

32. COMMITMENTS

a. Commitments under operating leases

At 31 December 2004, the total future minimum lease payments under non-cancellable operating leases in respect of property rentals are payable as follows:

	2004 HK\$'000	2003 HK\$'000
Within 1 year	131,806	123,204
After 1 year but within 5 years	49,181	54,006
	<u>180,987</u>	<u>177,210</u>

The Company leases a number of properties under operating leases. The leases typically run for an initial period of 1 to 56 months, with an option to renew the lease when all terms are renegotiated. Three of the leases of the retail premises include contingent rentals that are payable a fixed percentage of the monthly gross receipts of the retail outlets.

b. Capital commitments

	2004 HK\$'000	2003 HK\$'000
Contracted but not provided for	<u>29,367</u>	<u>34,150</u>

c. Foreign currency exchange contracts

At 31 December 2004, the Company had no commitments in respect of outstanding forward exchange contracts in the ordinary course of business (2003: approximately HK\$98,388,000).

33. MATERIAL RELATED PARTY TRANSACTIONS

During the year, certain significant transactions with the following parties are considered as related party transactions.

Name of party	Relationship
China Resources Group Companies	Each an associate or subsidiary of China Resources (Holdings) Company Limited, the Controlling Shareholder of the Company
Onwel Group	Each an associate or subsidiary of Onwel Capital Company Limited, a company controlled by a Director of the Company
Telepaging Limited (“Telepaging”)	A company which is approximately 33.3 per cent. owned by a Director and approximately 33.3 per cent. owned by the Controlling Shareholder of the Company
mVantage Limited (“mVantage”)	A company controlled by the spouse of a Director of the Company

Particulars of material related party transactions for the year ended 31 December 2004 are as follows:

a. Recurring transactions

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
(i) Telepaging Limited ⁽¹⁾		
Sales of handsets and accessories	55,124	47,022
Commission paid on SIM activation and airtime	40,003	43,542
Fees paid for provision of information and content	561	663
Fees paid for returned mail and outbound call service	<u>472</u>	<u>102</u>
(ii) mVantage Limited ⁽²⁾		
Sales of secondhand and obsolete handsets	10,006	9,319
Consultancy fee paid	<u>1,200</u>	<u>1,200</u>
(iii) China Resources Group Companies ⁽³⁾		
Property rental paid	4,071	4,597
Commissions paid on sales of prepaid cards	<u>58</u>	<u>65</u>
(iv) Onwel Group ⁽⁴⁾		
Property rental paid	448	451
Property rental received	<u>5</u>	<u>18</u>
(v) China Resources Insurance Consultants Limited ⁽⁵⁾		
Insurance premium paid	<u>1,250</u>	<u>666</u>

- (1) Telepaging was appointed as a content provider and a dealer for selling the Company's PCS handsets on a consignment basis. The consignment arrangement ceases when the handsets are sold to subscribers and sale of the handsets is made from the Company to Telepaging. The Company also pays commissions to Telepaging on SIM activation and airtime on those subscribers acquired through Telepaging's outlets. The Company has also engaged Telepaging to provide administrative and logistical support in following up with returned mail received from its customers.

The sales of handsets are at the same price as those charged by Telepaging to its customers. After the sale, Telepaging receives a commission of HK\$120 for each handset sold. The Company pays activation commission depending on the particular tariff plan selected by the customer and monthly usage commission of 5 per cent. of the total monthly billing of each Telepaging enlisted customer. Telepaging charges a fixed monthly fee, depending on the type and nature of the information and content provided during the month. Fees for returned mail are payable at pre-determined amounts by reference to per man hour basis similar to that paid to part-time employees.

- (2) mVantage 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 consultancy fees are payable at pre-determined amounts by reference to market rates in accordance with the terms of the consultancy agreement signed.
- (3) China Resources Group Companies lease sites to the Company, on which base stations are situated. Rental expenses are payable at pre-determined amount per month in accordance with the terms of the license agreement signed.
- (4) Onwel Group leases certain properties to the Company. These include the storage of equipment, installation of base stations and advertisements. The Company has also leased its owned premises to Onwel Group as it is not able to fully utilise the premises which it has rented for its base stations. The leases or licence fees payable under these leases or license agreements are payable monthly or quarterly.

- (5) The Company purchases insurance policies covering property, car, computer, public liability and other matters through China Resources Insurance Consultants Limited. None of these insurance policies were issued by a China Resources Group Company.

b. Non-recurring transactions

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Shareholders' loan interest paid to:		
China Resources	8,188	36,048
Onwel Group ⁽¹⁾	79	—
Telepaging ⁽¹⁾	<u>—</u>	<u>304</u>
	<u>8,267</u>	<u>36,352</u>

Notes:

- (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 year ended 31 December 2004 were HK\$1,199,000 (2003: HK\$5,260,000), HK\$1,199,000 (2003: HK\$5,261,000) and HK\$240,000 (2003: HK\$ 934,000) respectively.

c. Amount due from/(to) related parties

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
(i) Telepaging Limited		
Amount due from	20,933	20,495
Amount due to	<u>(3,895)</u>	<u>(3,610)</u>
(ii) mVantage Limited		
Amount due from	—	1,531
Amount due to	<u>—</u>	<u>(200)</u>
(iii) China Resources Group Companies		
Amount due from	31	51
Amount due to	<u>(8)</u>	<u>—</u>

34. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 17 March 2005.

III. INTERIM FINANCIAL INFORMATION

The financial information set out below is extracted from the interim report of Peoples for the six months ended 30 June 2005. Peoples has no exceptional/extraordinary items/minority interests during the period and there is no requirement under HKGAAP to present negative statement in the interim accounts. The unaudited results of Peoples have been reviewed by Peoples' external auditors, KPMG, and the relevant report prepared by the auditors is reproduced as follows:

Condensed Income Statement

For the six months ended 30 June 2005

		Unaudited six months ended 30 June	
		2005	2004
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
			(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		<u>(108,413)</u>	<u>(101,073)</u>
		568,254	570,439
Other revenue	4	2,980	1,730
Other net income	4	57	40
Operating expenses		<u>(428,252)</u>	<u>(410,145)</u>
Profit from operations		143,039	162,064
Finance costs	5	<u>(2,195)</u>	<u>(14,647)</u>
Profit before taxation	5	140,844	147,417
Income tax	6	<u>(26,275)</u>	<u>(28,697)</u>
Profit attributable to shareholders		<u><u>114,569</u></u>	<u><u>118,720</u></u>
Dividend			
In respect of the period	7	<u><u>100,391</u></u>	<u><u>96,673</u></u>
Earnings per share (in HK\$)			
— Basic	8	0.15	0.20
— Diluted	8	<u><u>0.15</u></u>	<u><u>0.20</u></u>
EBITDA	9	<u><u>257,378</u></u>	<u><u>265,495</u></u>

Condensed Balance Sheet
As at 30 June 2005

		Unaudited 30 June 2005	Audited 31 December 2004
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i> (Restated)
Non-current assets			
Fixed assets	10	1,129,097	1,155,920
Construction in progress	11	9,927	9,049
Intangible assets	12	23,180	25,956
Interest in leasehold land held for own use under an operating lease		<u>11,099</u>	<u>11,232</u>
		<u>1,173,303</u>	<u>1,202,157</u>
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	13	135,161	154,330
Cash and cash equivalents	14	<u>101,705</u>	<u>196,749</u>
		<u>282,420</u>	<u>423,758</u>
Current liabilities			
Trade and other payables	15	(217,396)	(269,466)
Dividend payable		(44,618)	—
Current portion of interest-bearing borrowings	16	—	(150,000)
Amount due to related companies		<u>(3,557)</u>	<u>(3,903)</u>
		<u>(265,571)</u>	<u>(423,369)</u>
Net current assets		<u>16,849</u>	<u>389</u>
Total assets less current liabilities		1,190,152	1,202,546
Non-current liabilities			
Interest-bearing borrowings	16	(100,000)	(75,000)
Deferred tax liabilities	17	<u>(47,892)</u>	<u>(21,617)</u>
		<u>(147,892)</u>	<u>(96,617)</u>
Net assets		<u><u>1,042,260</u></u>	<u><u>1,105,929</u></u>
Capital and reserves			
Share capital	18	356,948	356,948
Reserves	20	<u>685,312</u>	<u>748,981</u>
		<u><u>1,042,260</u></u>	<u><u>1,105,929</u></u>

APPENDIX II FINANCIAL INFORMATION ON THE PEOPLES GROUP

Statement of Changes in Equity

For the six months ended 30 June 2005

	Ordinary Share Capital <i>HK\$'000</i>	Share Premium <i>HK\$'000</i>	Employee Share Based Compensation Reserve <i>HK\$'000</i>	Other Reserve <i>HK\$'000</i>	Retained Profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 1 January 2005						
(as previously reported)	356,948	594,099	—	63,055	91,827	1,105,929
Prior period adjustment arising from change of accounting policy	—	—	947	—	(947)	—
As at 1 January 2005						
(as restated)	356,948	594,099	947	63,055	90,880	1,105,929
Payment of 2004 final dividend (<i>note 7(b)</i>)	—	—	—	(63,055)	(70,800)	(133,855)
Payment of 2005 first quarter dividend (<i>note 7(a)</i>)	—	—	—	—	(44,618)	(44,618)
Employee share option benefits	—	—	235	—	—	235
Profit for the period	—	—	—	—	114,569	114,569
As at 30 June 2005	<u>356,948</u>	<u>594,099</u>	<u>1,182</u>	<u>—</u>	<u>90,031</u>	<u>1,042,260</u>
	Ordinary Share Capital <i>HK\$'000</i>	Share Premium <i>HK\$'000</i>	Employee Share Based Compensation Reserve <i>HK\$'000</i>	Other Reserve <i>HK\$'000</i>	Retained Profit/ (Accumulated Losses) <i>HK\$'000</i>	Total <i>HK\$'000</i>
(restated)						
As at 1 January 2004	433,000	—	—	—	(368,410)	64,590
Capital Reduction	(225,160)	—	—	—	305,305	80,145
Issue of new shares (net of listing expenses)	71,736	596,654	—	—	—	668,390
Issue of new shares upon conversion of Preference Shares	73,980	—	—	63,055	—	137,035
Capitalisation issue	3,392	(3,392)	—	—	—	—
Employee share option benefits (as restated)	—	—	316	—	—	316
Profit for the period (as restated)	—	—	—	—	118,720	118,720
As at 30 June 2004						
(as restated)	<u>356,948</u>	<u>593,262</u>	<u>316</u>	<u>63,055</u>	<u>55,615</u>	<u>1,069,196</u>

Condensed Cash Flow Statement

For the six months ended 30 June 2005

	Unaudited six months ended 30 June	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash inflow from operating activities	<u>286,950</u>	<u>303,674</u>
Investing activities		
Payment for fixed assets	(96,244)	(143,521)
Payment for construction in progress	(17,251)	(58,498)
Payment for the purchase of intangible assets	(6,332)	(9,058)
Proceeds from sales of fixed assets	<u>12</u>	<u>53</u>
Net cash used in investing activities	<u>(119,815)</u>	<u>(211,024)</u>
Financing activities		
Proceeds from bank loans	100,000	300,000
Proceeds from issue of new shares upon the Global Offering	—	679,997
Payment of listing expenses	—	(4,983)
Repayment of bank borrowings	(225,000)	—
Repayment of shareholders' loans	—	(624,869)
Payment of accrued interest on shareholders' loans	—	(304,361)
Payment of bank and other interest	(3,324)	—
Payment of dividend	<u>(133,855)</u>	<u>—</u>
Net cash (used in)/from financing activities	<u>(262,179)</u>	<u>45,784</u>
Net (decrease)/increase in cash and cash equivalents	(95,044)	138,434
Cash and cash equivalents at 1 January	<u>196,749</u>	<u>46,121</u>
Cash and cash equivalents at 30 June	<u><u>101,705</u></u>	<u><u>184,555</u></u>

1. (I) SIGNIFICANT ACCOUNTING POLICIES**Statement of Compliance**

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (“HKAS”) 34, Interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). It was authorised for issuance on 29 August 2005.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2004 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2005 annual financial statements. Details of these changes in accounting policies are set out in note 1(II).

Basis of Preparation

The preparation of interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Company since the 2004 annual financial statements. The condensed interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”).

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700, Engagements to review interim financial reports, issued by the HKICPA.

The financial information relating to the financial year ended 31 December 2004 that is included in the interim financial report as being previously reported information does not constitute the Company’s statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2004 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 17 March 2005.

1. (II) CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards (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 this 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 tables 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.

(a) 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. These 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 Profits HK\$'000	Employee Share Based Compensation Reserve HK\$'000	Total Equity HK\$'000
<i>Prior period adjustment:</i>				
<i>HKFRS 2</i>				
Equity settled share-based transactions	1(III)	(947)	947	—
<i>HKAS 17</i>				
Leasehold land and buildings held for own use	1(IV)	—	—	—
<i>Total effect at 1 January 2005</i>		<u>(947)</u>	<u>947</u>	<u>—</u>

(b) Summary on profit after taxation for the six months ended 30 June 2005 (estimated) and 30 June 2004 (as adjusted)

In respect of the six months period ended 30 June 2005, the following table provides estimates of the extent to which the profit for that period are higher or lower than they would have been had the previous policies still been applied in the interim period, where it is practicable to make such estimates.

In respect of the six months period ended 30 June 2004, the table discloses that adjustments that have been made to the profits as previously reported for that period, in accordance with the transitional provisions of the respective HKFRSs. As retrospective adjustments have not been made for all changes in policies, as explained in note 1(III) and 1(IV), the amounts shown for the six months period ended 30 June 2004 may not be comparable to the amounts shown for the current interim period.

Effect of new policy ((decrease)/increase)	Note	Six months ended 30 June 2005 HK\$'000	2004 HK\$'000
<i>HKFRS 2</i>			
Equity settled share-based transactions	1(III)	(235)	(316)
<i>HKAS 17</i>			
Leasehold land and buildings held for own use	1(IV)	—	—
<i>Total effect for the period</i>		<u>(235)</u>	<u>(316)</u>
<i>Effect on earnings per share:</i>			
— basic		0.03 cents	0.05 cents
— diluted		<u>0.03 cents</u>	<u>0.05 cents</u>

1. (III) 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 HK\$235,000 (six months ended 30 June 2004: HK\$316,000) with the corresponding amounts credited to the capital reserve.

Details of the employee share option scheme can be found in the Company's annual report for the year ended 31 December 2004 and note 19 on this interim financial report.

1. (IV) LEASEHOLD LAND AND BUILDINGS HELD FOR OWN USE (HKAS 17, LEASE)

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 prepaid 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
	HK\$'000	HK\$'000
		(restated)
Sales of handsets and accessories	232,324	176,652
Airtime and service charges	<u>663,852</u>	<u>654,134</u>
	<u>896,176</u>	<u>830,786</u>

3. SEGMENT REPORTING

For the six months ended 30 June 2005, the Company’s turnover and operating profit were solely 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.

4. OTHER INCOME

	Six months ended 30 June	
	2005	2004
	HK\$'000	HK\$'000
		(restated)
Other revenue		
Bank interest income	1,074	218
Commission income	21	37
Sundry income	<u>1,885</u>	<u>1,475</u>
	<u>2,980</u>	<u>1,730</u>
Other net income		
Exchange gain	<u>57</u>	<u>40</u>

5. PROFIT BEFORE TAXATION

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

	Six months ended 30 June	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
		(restated)
(i) Finance costs:		
Interest on bank and other loans repayable within 5 years	2,203	1,103
Interest on shareholders' loans	—	10,905
Dividend on convertible Preference Shares	—	1,942
Redemption premium on convertible Preference Shares	—	697
	<u>2,203</u>	<u>14,647</u>
Less: Borrowing costs capitalised ⁽¹⁾	<u>(8)</u>	<u>—</u>
	<u>2,195</u>	<u>14,647</u>
(ii) Staff costs		
Retirement costs	4,230	4,199
Salaries, wages and other benefits	<u>88,923</u>	<u>79,765</u>
	<u>93,153</u>	<u>83,964</u>
Less: Staff costs capitalised ⁽²⁾	<u>(13,745)</u>	<u>(14,341)</u>
	<u>79,408</u>	<u>69,623</u>
Other items:		
Depreciation	105,097	93,932
Amortisation of leasehold land	133	133
Amortisation of intangible assets	9,108	9,366
Cost of inventories sold	219,509	159,274
Inventory write down	552	—
Loss on disposal of fixed assets	114	270
Operating lease rentals in respect of properties	91,359	93,480
Provision for bad and doubtful debts	<u>12,078</u>	<u>12,545</u>

(1) The borrowing costs attributable to the construction of assets have been capitalised at a rate of 4.20 per cent — 4.22 per cent (2004: Nil).

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

6. 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
	HK\$'000	HK\$'000
		(restated)
Deferred tax		
Reversal of temporary differences	26,275	28,697

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

	Six months ended 30 June	
	2005	2004
	HK\$'000	HK\$'000
		(restated)
Profit before taxation	140,844	147,417
Notional tax on profit before tax, calculated at 17.5 per cent.	24,648	25,798
Tax effect of non-deductible expenses	1,815	3,043
Tax effect of non-taxable revenue	(188)	(144)
	26,275	28,697

7. DIVIDEND

(a) Dividend attributable to interim period

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

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

(b) Dividend attributable to the previous financial year, approved and paid during the interim period

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

Notes:

- (1) The first quarter dividend of HK\$44,618,000 was paid on 13 July 2005.
- (2) At a Board meeting held on 29 August 2005, the Directors declared the second quarter dividend of HK\$55,773,000 (HK\$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.

8. BASIC AND DILUTED EARNINGS PER SHARE

a. Basic earnings per share

	Six months ended 30 June	
	2005	2004
	HK\$'000	HK\$'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 (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).

9. EBITDA

EBITDA represents earnings before interest, taxation, depreciation and amortisation expenses. It is a financial measure prepared under a basis other than accounting principles generally accepted in Hong Kong.

10. FIXED ASSETS

HK\$'000
(restated)

Cost:

At 1 January 2005	2,111,861
Additions	62,027
Transfer from construction in progress (<i>Note 11</i>)	16,373
Disposals/write-off	(238)

At 30 June 2005	2,190,023
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Accumulated depreciation:

At 1 January 2005	955,941
Charge for the period	105,097
Disposals/write-off	(112)

At 30 June 2005	1,060,926
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Net book value:

At 30 June 2005	1,129,097
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At 31 December 2004	1,155,920
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At 30 June 2005, the net book value of fixed assets held by the Company under finance leases amounted to HK\$183,000 (31 December 2004: HK\$220,000)

11. CONSTRUCTION IN PROGRESS

HK\$'000
(restated)

Costs:

At 1 January 2005	9,049
Additions	17,251
Transfer to fixed assets (<i>Note 10</i>)	(16,373)

At 30 June 2005	9,927
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12. INTANGIBLE ASSETS

HK\$'000
(restated)

Costs:

At 1 January 2005	25,956
Additions	6,332
Amortisation	(9,108)

At 30 June 2005	23,180
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Intangible assets comprise of the initial licence fee for the provision of 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 license fee and customer 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.

13. TRADE AND OTHER RECEIVABLES

	30 June 2005 <i>HK\$'000</i>	31 December 2004 <i>HK\$'000</i> (restated)
Trade receivables, net of provision for bad and doubtful debts	79,335	90,062
Other receivables and prepayments	<u>55,826</u>	<u>64,268</u>
	<u>135,161</u>	<u>154,330</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:

	30 June 2005 <i>HK\$'000</i>	31 December 2004 <i>HK\$'000</i> (restated)
Current	57,533	63,622
Over 1 month but less than 3 months	17,869	20,935
Over 3 months but less than one year	<u>3,933</u>	<u>5,505</u>
	<u>79,335</u>	<u>90,062</u>

14. CASH & CASH EQUIVALENTS

	30 June 2005 <i>HK\$'000</i>	31 December 2004 <i>HK\$'000</i> (restated)
Deposits with banks	74,140	155,850
Cash at banks and in hand	<u>27,565</u>	<u>40,899</u>
	<u>101,705</u>	<u>196,749</u>

15. TRADE AND OTHER PAYABLES

	30 June 2005 <i>HK\$'000</i>	31 December 2004 <i>HK\$'000</i> (restated)
Trade payables	100,958	111,278
Bills payable	27,269	78,164
Other payables and accruals	<u>89,169</u>	<u>80,024</u>
	<u>217,396</u>	<u>269,466</u>

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

	30 June 2005	31 December 2004
	<i>HK\$'000</i>	<i>HK\$'000</i> (restated)
Current	57,420	57,649
Over 1 month but less than 2 months	23,252	30,126
Over 2 months but less than 3 months	3,155	4,397
Over 3 months	17,131	19,106
	<u>100,958</u>	<u>111,278</u>

16. BANK LOANS

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

	30 June 2005	31 December 2004
	<i>HK\$'000</i>	<i>HK\$'000</i> (restated)
Within 1 year	—	150,000
After 1 year but within 2 years	100,000	75,000
	<u>100,000</u>	<u>225,000</u>

On 5 May 2005, the Company entered into a new unsecured HK\$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 HK\$100 million was drawn down under this loan facility.

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

17. DEFERRED TAXATION

The components of deferred tax (assets)/liabilities recognised in the balance sheet and movement during the period are as follows:

	30 June 2005	31 December 2004
	<i>HK\$'000</i>	<i>HK\$'000</i> (restated)
Depreciation allowance in excess of related depreciation	112,884	121,813
General provision for bad debts	(4,864)	(4,604)
Tax losses	<u>(60,128)</u>	<u>(95,592)</u>
Total	<u>(47,892)</u>	<u>21,617</u>

18. SHARE CAPITAL

	30 June 2005	31 December 2004
	<i>HK\$'000</i>	<i>HK\$'000</i> (restated)
<i>Authorised:</i>		
2,500,000,000 Ordinary Shares of HK\$0.48 each	1,200,000	1,200,000
154,125,000 Preference Shares of HK\$0.48 each	<u>73,980</u>	<u>73,980</u>
	<u><u>1,273,980</u></u>	<u><u>1,273,980</u></u>
<i>Issued and fully paid:</i>		
743,641,019 Ordinary Shares of HK\$0.48 each	<u><u>356,948</u></u>	<u><u>356,948</u></u>

19. EMPLOYEE SHARE OPTION SCHEME

On 4 March 2004, the Company has adopted a Pre-IPO Share Option Scheme that entitles participants, including Directors and employees, to purchase shares in the Company. On 11 March 2004, 591 options to subscribe 58,100,000 shares were granted to employees and Directors for a total consideration of \$591. The terms and conditions of the share option scheme and grants made during the year ended 31 December 2004 are set out in the 2004 Annual Report. 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 2005, 36 options to subscribe for 3,200,000 shares were cancelled upon termination of employment of certain employees (2004: 53 options to subscribe 3,750,000 shares were cancelled) and no options were exercised during the period.

20. RESERVES

	Share Premium	Employee Share Based Compensation Reserve	Other Reserve	Retained Profits	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
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	<u>—</u>	<u>947</u>	<u>—</u>	<u>(947)</u>	<u>—</u>
As at 1 January 2005					
(as restated)	594,099	947	63,055	90,880	748,981
Payment of 2004 final dividend (note 7(b))	—	—	(63,055)	(70,800)	(133,855)
Payment of 2005 first quarter dividend (note 7(a))	—	—	—	(44,618)	(44,618)
Employee share option benefits	—	235	—	—	235
Profit for the period	<u>—</u>	<u>—</u>	<u>—</u>	<u>114,569</u>	<u>114,569</u>
As at 30 June 2005	<u><u>594,099</u></u>	<u><u>1,182</u></u>	<u><u>—</u></u>	<u><u>90,031</u></u>	<u><u>685,312</u></u>

	Share Premium <i>HK\$'000</i>	Employee Share Based Compensation Reserve <i>HK\$'000</i>	Other Reserve <i>HK\$'000</i>	Retained Profits/ (Accumulated Losses) <i>HK\$'000</i>	Total <i>HK\$'000</i>
(restated)					
As at 1 January 2004	—	—	—	(368,410)	(368,410)
Capital Reduction	—	—	—	305,305	305,305
Issue of new shares (net of listing expenses)	596,654	—	—	—	596,654
Issue of new shares upon conversion of Preference Shares	—	—	63,055	—	63,055
Capitalization Issue	(3,392)	—	—	—	(3,392)
Employee share option benefits (as restated)	—	316	—	—	316
Profit for the period (as restated)	—	—	—	118,720	118,720
As at 30 June 2004 (as restated)	<u>593,262</u>	<u>316</u>	<u>63,055</u>	<u>55,615</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 2005, the Company had \$90,031,000 reserve available for distribution to its shareholders.

21. COMMITMENTS

a. Commitments under operating leases

At 30 June 2005, the total future minimum lease payments under non-cancellable operating leases in respect of property rentals are payable as follows:

	30 June 2005 <i>HK\$'000</i>	31 December 2004 <i>HK\$'000</i>
Within 1 year	125,323	131,806
After 1 year but within 5 years	53,209	49,181
Over 5 years	<u>2,880</u>	<u>—</u>
	<u>181,412</u>	<u>180,987</u>

b. Capital commitments

	30 June 2005 <i>HK\$'000</i>	31 December 2004 <i>HK\$'000</i>
Contracted but not provided for	<u>20,547</u>	<u>29,367</u>

22. MATERIAL RELATED PARTY TRANSACTIONS

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

Name of party	Relationship
China Resources Group of Companies	Each an associate or subsidiary of China Resources (Holdings) Company Limited, the controlling shareholder of this Company.
Onwel Group	Each an associate or subsidiary of Onwel Capital Company Limited, a company controlled by a Director of the Company.
Telepaging Limited	A company owned by a Director and the controlling shareholder of the Company.
mVantage Limited	A company controlled by the spouse of a Director of the Company.

Recurring transactions

		Six months ended 30 June	
		2005	2004
		HK\$'000	HK\$'000
			(restated)
(i)	China Resources Group of Companies		
	Property rental paid	2,163	1,998
	Commissions paid on sales of prepaid cards	<u>68</u>	<u>32</u>
(ii)	Onwel Group		
	Property rental paid	224	224
	Property rental received	<u>—</u>	<u>5</u>
(iii)	Telepaging Limited		
	Sales of handsets and accessories	28,237	28,641
	Commission paid on SIM activation and airtime	18,884	20,095
	Fees paid for the provision of information and content	266	298
	Fees paid for the returned mail and outbound call service	<u>760</u>	<u>—</u>
(iv)	mVantage Limited		
	Sales of secondhand and obsolete handsets	4,365	6,528
	Consultancy fee paid	<u>600</u>	<u>600</u>
(v)	China Resources Insurance Consultants Limited		
	Insurance premium paid	<u>1,372</u>	<u>710</u>

IV. INDEBTEDNESS STATEMENT

As at the close of business on 30 September 2005, being the latest practicable date for the purpose of this indebtedness statement, Peoples had an outstanding borrowings of HK\$100 million, which was drawn down under an unsecured HK\$150 million loan facility entered into with CITIC Ka Wah Bank on 5 May 2005. The loan facility was used to finance the capital expenditure and general working capital requirements of Peoples.

As at 30 September 2005, Peoples had capital commitments in respect of acquisition of fixed assets amounting to HK\$13,432,771.

As at 30 September 2005, six properties owned by Peoples with an aggregate carrying value of HK\$21,527,095 were pledged to CITIC Ka Wah Bank to secure the bank facilities offered to Peoples. Peoples has drawn down HK\$34,417,239 of the banking facilities as at 30 September 2005.

As at 30 September 2005, Peoples had pledged bank deposits in aggregate of HK\$1,224,069 to CITIC Ka Wah Bank in return for obtaining certain letters of guarantee of HK\$1,224,069.

As at 30 September 2005, Peoples had a finance lease obligation of HK\$163,800.

As at 30 September 2005, Peoples had commitments in respect of outstanding forward exchange contract in the ordinary course of business amounting to HK\$15,062,493.

Save as aforesaid, Peoples did not have outstanding liabilities or any mortgage, charges, debentures or other loan capital, bank overdrafts, loans, liabilities under acceptance (other than normal trade bills) or other similar indebtedness or any guarantee or other material contingent liabilities as the close of business on 30 September 2005.

Save as disclosed above, the Peoples Directors have confirmed that there have been no material changes in the commitments and contingent liabilities of Peoples since 31 December 2004 and up to the Latest Practicable Date.

V. MATERIAL CHANGE

Peoples had entered into an unsecured HK\$150 million loan facility agreement with CITIC Ka Wah Bank Limited on 5 May 2005, details of which were announced by Peoples on 5 May 2005. Peoples had drawn down HK\$100 million as at the Latest Practicable Date.

Under Clause 13.1(e) of the loan facility agreement, China Resources, the controlling shareholder of Peoples, is required at all times to remain the single largest shareholder of Peoples and at all times to beneficially own not less than 30% of the issued capital of Peoples.

Under Clause 14.1(m) of the loan facility agreement, cessation of the listing status of Peoples on the Stock Exchange will constitute an event of default.

Failure to comply with the two covenants may entitle CITIC Ka Wah Bank Limited to declare the outstanding amounts under the facility immediately due and payable without further demand.

On 12 October 2005, Peoples obtained a letter from CITIC Ka Wah Bank Limited to waive Clause 13.1(e) and Clause 14.1(m) as stipulated in the loan facility agreement. Clause 13.1(e) is amended to the effect that CMHK will remain as the single largest shareholder of Peoples, with effect from the date of completion of the Share Offer.

Save as disclosed above, the Peoples Board is not aware of any material changes in the financial or trading position or outlook of Peoples subsequent to 31 December 2004, the date to which the latest audited financial statements of Peoples were made up.

1. RESPONSIBILITY

- 1.1 The issue of this document has been approved by the directors of the Offeror and CMHK.
- 1.2 This document includes particulars given in compliance with the Takeovers Code for the purpose of giving information with regard to the Offeror, CMHK and the Offers.
- 1.3 The directors of CMHK jointly and severally accept full responsibility for the accuracy of the information contained in this document (other than that relating to the Peoples Group) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this document (other than as specified above) have been arrived at after due and careful consideration and there are no other facts (other than those relating to the Peoples Group) not contained in this document, the omission of which would make any of the statements in this document misleading.

2. INTEREST AND DEALINGS IN THE SECURITIES OF PEOPLES

- 2.1 Save as disclosed in the paragraphs headed “Irrevocable Undertakings to Accept the Offers” and “Interest of the Offeror and the Concert Parties in Peoples” in the section headed “Letter from the Financial Advisers” in this document:

- (a) neither the Offeror, nor any Concert Parties, owned or controlled;
- (b) none of the directors of the Offeror (including their respective spouses, children under the age of 18, related trusts and companies controlled by any of them) was beneficially interested in; and
- (c) none of the persons who, prior to the posting of this document, have irrevocably committed themselves to accept or reject the Offers, owned or controlled,

directly or indirectly, any Peoples Shares as at the Latest Practicable Date and, save as disclosed in the paragraph headed “Interest of the Offeror and the Concert Parties in Peoples” in the section headed “Letter from the Financial Advisers” in this document, no such person has dealt for value in any Peoples Shares, option, warrants, derivatives or any securities convertible into Peoples Shares, during the period beginning six months prior to the Offer Period and ending with the Latest Practicable Date.

- 2.2 No arrangement, agreement or undertaking has been entered into by the Offeror, the directors of the Offeror or any Concert Parties for the transfer by any of them to any other person of any Peoples Shares acquired pursuant to the Share Offer.
- 2.3 No benefit had been, or will any benefit be given, by the Offeror to any Peoples Director as compensation for loss of office or otherwise in connection with the Offers (save as statutory compensation required under the appropriate laws).
- 2.4 Except for the irrevocable undertakings dated 20 October 2005 given by each of China Resources and Michael Leung respectively in favour of CMHK in respect of the Committed Shares and (in the case of Michael Leung) his Peoples Option, there is no agreement, arrangement or understanding (including any compensation arrangement)

between the Offeror or any Concert Parties and any of the Peoples Directors or recent Peoples Directors, Peoples Shareholders or recent Peoples Shareholders having any connection with or dependence upon the Offers.

- 2.5 No arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code has been entered into between the Offeror or any Concert Parties and any other person.
- 2.6 There is no agreement or arrangement to which the Offeror is a party which relates to the circumstances in which the Offeror may or may not invoke or seek to invoke a condition to the Offers.

3. INFORMATION ON THE OFFEROR AND CMHK

The Offeror is a company incorporated in the British Virgin Islands on 15 September 2005 and the directors of the Offeror are Mr. Wang Jianzhou, Mr. Xue Taohai and Mr. He Ning, all of whom are also executive directors of CMHK. The Offeror is a wholly-owned subsidiary of CMHK, a company incorporated in Hong Kong with limited liability whose shares are listed on the Main Board of the Stock Exchange and whose American depositary shares are listed on the New York Stock Exchange. As at the Latest Practicable Date, CMHK was in turn indirectly owned as to 75.31% by China Mobile Communications Corporation, a state-owned company established under the laws of the PRC. The Offeror is an investment holding company set up for making the Offers. The Offers will not affect the shareholding structure of CMHK.

CMHK was incorporated in Hong Kong in 1997 and was listed on the New York Stock Exchange and the Stock Exchange in the same year. As the leading mobile services provider in the PRC, CMHK operates nationwide mobile telecommunications services in all 31 provinces, autonomous regions and directly-administered municipalities in the PRC. The board of directors of CMHK comprises Mr. Wang Jianzhou, Mr. Li Yue, Mr. Lu Xiangdong, Mr. Xue Taohai, Mr. Zhang Chenshuang, Madam Li Mofang, Mr. He Ning, Mr. Li Gang and Mr. Xu Long as executive directors, Dr. Lo Ka Shui, Mr. Frank Wong Kwong Shing and Mr. Moses Cheng Mo Chi as independent non-executive directors and Sir Julian Michael Horn-Smith as a non-executive director.

The registered office of the Offeror is situated at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands. The correspondence address of the Offeror and the registered address of CMHK are both situated at 60th Floor, The Center, 99 Queen's Road Central, Hong Kong.

The principal member of the Concert Parties is CMHK.

4. EXPERTS

The following are the qualifications of the Financial Advisers whose letter is contained in this document:

Name	Qualification
CICC	a licensed corporation for type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO
Merrill Lynch	a licensed corporation for type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 7 (providing automated trading services) regulated activities under the SFO

CICC and Merrill Lynch have given and have not withdrawn their respective written consents to the issue of this document with the inclusion of their letter and references to their names in the form and context in which they respectively appear.

5. MISCELLANEOUS

- 5.1

The address of CICC is at Suite 2307, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong.
- 5.2

The address of Merrill Lynch is at 17th Floor, ICBC Tower, 3 Garden Road, Central, Hong Kong.
- 5.3

The English text of this document and the Forms of Acceptance shall prevail over the Chinese text for the purpose of interpretation.

1. RESPONSIBILITY

- 1.1 The issue of this document has been approved by the Peoples Directors.
- 1.2 This document includes particulars given in compliance with the Takeovers Code for the purpose of giving information in respect of Peoples.
- 1.3 The Peoples Directors jointly and severally accept full responsibility for the accuracy of the information contained in this document in respect of the Peoples Group and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this document in respect of the Peoples Group have been arrived at after due and careful consideration and there are no other facts not contained in this document in respect of the Peoples Group, the omission of which would make any statements in this document in respect of the Peoples Group misleading.

2. SHARE CAPITAL OF PEOPLES

- 2.1 As at the Latest Practicable Date, the authorised share capital of Peoples was HK\$1,273,980,000 divided into 2,500,000,000 Peoples Shares of HK\$0.48 each and 154,125,000 cumulative redeemable convertible participating preference shares of HK\$0.48 each. As at the Latest Practicable Date, the issued share capital of Peoples comprised 743,641,019 Peoples Shares, which were fully paid up. No Peoples Shares had been issued since 31 December 2004, being the end of the latest financial year of Peoples, and up to the Latest Practicable Date. All of the Peoples Shares currently in issue rank pari passu in all respects with each other, including the rights in respect of capital, dividends and voting.
- 2.2 As at the Latest Practicable Date, save and except for the 492 outstanding Peoples Options involving 50,650,000 Peoples Shares, there were no outstanding options, warrants, derivatives or convertible securities issued by Peoples. The number of Peoples Options included in the Announcement did not include (i) Peoples Options which have been informally surrendered through, in most cases, delivery of the relevant option certificates to Peoples by employees on their resignation and (ii) Peoples Options held by other employees of Peoples who had resigned as at the date of the Announcement, although in each case such Peoples Options were not formally cancelled.

3. DISCLOSURE OF INTERESTS OF PEOPLES

3.1 As at the Latest Practicable Date, the interests or short positions of the Peoples Directors and their respective associates in the securities of Peoples and its associated corporations, within the meaning of Part XV of the SFO, which were required to be notified to Peoples and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests and short positions which they were deemed or taken to have under such provisions of the SFO, or which are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, to be notified to Peoples and the Stock Exchange, were as follows:

Name of Director	Peoples Shares		Equity derivatives		Percentage of aggregate interests in issued capital
	Beneficial owner	Controlled corporation	Share options ⁽⁴⁾	Aggregate interests	
Leung Kai Hung, Michael	13,970,000(L) 13,970,000(S) ⁽³⁾	119,412,831(L) ⁽¹⁾⁽²⁾ 119,412,831(S) ⁽²⁾⁽³⁾	4,500,000(L) 4,500,000(S) ⁽³⁾	137,882,831(L) 137,882,831(S) ⁽³⁾	18.54%
Henshaw Charles Guy	—	—	3,000,000(L)	3,000,000(L)	0.40%
Wong Man Kwan, Willie	—	—	3,000,000(L)	3,000,000(L)	0.40%
Wong Leung Ka On, Charlotte	—	—	3,000,000(L)	3,000,000(L)	0.40%
Jiang Wei	—	—	800,000(L)	800,000(L)	0.11%
Li Fu Zuo	—	—	600,000(L)	600,000(L)	0.08%
Wu Jun	—	—	600,000(L)	600,000(L)	0.08%
Huang Zhi Jian	—	—	400,000(L)	400,000(L)	0.05%
Sinn Chung Ming, Anthony	—	—	400,000(L)	400,000(L)	0.05%
Lam Kwong Yu	12,000(L)	—	—	12,000(L)	0.00%

Notes:

- (1) The letters “L” and “S” denote a person’s long position and short position in such securities, respectively.
- (2) These Peoples Shares are held by Onwel Capital Company Limited, a company wholly-owned by Mr. Leung Kai Hung, Michael.
- (3) These securities are the subject of the irrevocable undertaking dated 20 October 2005 given by Michael Leung to CMHK.
- (4) The Peoples Options are exercisable at HK\$4.55 per Peoples Share during the period from 11 March 2004 to 10 March 2014. The Peoples 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 in whole from 11 March 2009.

3.2 As at the Latest Practicable Date, Mr. Wu Jun, a non-executive director of Peoples, was beneficially interested in 5,000 ordinary shares in CMHK.

- 3.3

As at the Latest Practicable Date, save as disclosed in paragraph 3.2 above, none of Peoples or the Peoples Directors was interested in any shares of the Offeror or CMHK.
- 3.4

As at the Latest Practicable Date, no subsidiary of Peoples, or any pension fund of Peoples or any member of the Peoples Group or any adviser to Peoples as specified in class (2) of the definition of “associate” under the Takeovers Code, but excluding exempt principal traders, owned or controlled any Peoples Shares or convertible securities, warrants, options or derivatives in respect of Peoples Shares.
- 3.5

As at the Latest Practicable Date, to the best of the knowledge of the Peoples Directors, after making reasonable enquiries, there were no holdings of Peoples Shares or convertible securities, warrants, options or derivatives in respect of Peoples Shares, owned or controlled by any person with whom Peoples or any of its associates by virtue of classes (1), (2), (3) or (4) of the definition of “associate” under the Takeovers Code has an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code.
- 3.6

As at the Latest Practicable Date, to the best of the knowledge of the Peoples Directors, after making reasonable enquiries, there was no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code between Peoples or any of its associates (as defined in the Takeovers Code) or any other person.
- 3.7

As at the Latest Practicable Date, no shareholding in Peoples was managed on a discretionary basis by fund managers (other than exempt fund managers) connected with Peoples.
- 3.8

As at the Latest Practicable Date, except for the irrevocable undertaking dated 20 October 2005 given by Michael Leung, there were no material contracts entered into by the Offeror in which the Peoples Directors have a material personal interest.

4. DEALINGS IN SHARES

- 4.1

During the period beginning six months prior to the Offer Period and ending with the Latest Practicable Date:
- (a)

dealings for value in Peoples Shares by Mr. Wong Man Kwan, Willie were as follows:
- | Date | Number of Peoples Shares | | Dealing price per |
|-------------------|--------------------------|--------|-------------------|
| | Purchased | Sold | Peoples Share |
| 28 September 2005 | — | 30,000 | 3.525 |
- (b)

save as disclosed above, none of the Peoples Directors had dealt for value in any securities of Peoples;

(c) dealings for value in the ordinary shares of CMHK by Ms. Wong Leung Ka On, Charlotte were as follows:

Date	Number of ordinary shares in CMHK		Dealing price per CMHK share
	Purchased	Sold	
18 April 2005	4,000	—	25.05
21 April 2005	—	4,000	25.80

(d) dealings for value in the ordinary shares of CMHK by Mr. Wu Jun were as follows:

Date	Number of ordinary shares in CMHK		Dealing price per CMHK share
	Purchased	Sold	
22 June 2005	8,000	—	31.00
27 June 2005	—	8,000	31.10
6 September 2005	1,000	—	34.90
21 September 2005	—	1,000	36.50
20 October 2005	5,000	—	34.70

- (e) Peoples had not dealt for value in the securities of the Offeror or CMHK;
- (f) save as disclosed above, none of the Peoples Directors had dealt for value in the securities of the Offeror or CMHK;
- (g) none of the subsidiaries of Peoples, any pension fund of Peoples or any of its subsidiaries or the Independent Financial Adviser or any adviser to Peoples as specified in class (2) of the definition of “associate” under the Takeovers Code (but excluding exempt principal traders) had dealt for value in any securities of Peoples;
- (h) no fund managers (other than exempted fund managers) connected with Peoples and who managed funds on a discretionary basis had dealt for value in any securities in Peoples; and
- (i) no person with whom Peoples or any of its associates by virtue of classes (1), (2), (3) or (4) of the definition of “associate” under the Takeovers Code has an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code had dealt for value in any securities in Peoples.

5. MARKET PRICES

5.1 The table below sets out the closing prices of Peoples Shares as quoted on the Stock Exchange on the last trading day of each of the calendar months during the period commencing six months preceding the commencement of the Offer Period and ending on the Latest Practicable Date:

	Closing price (HK\$)
29 April 2005	2.55
31 May 2005	2.475
30 June 2005	2.65
29 July 2005	2.80
31 August 2005	2.725
30 September 2005	3.525
31 October 2005	4.45

5.2 The closing prices of Peoples Shares as quoted on the Stock Exchange on the last trading day immediately before the MOU Announcement and on the Last Trading Date were HK\$3.90 and HK\$4.425, respectively.

5.3 The highest and lowest prices at which Peoples Shares were traded on the Stock Exchange in the six-month period immediately prior to the commencement of the Offer Period and up to and including the Latest Practicable Date were HK\$4.50 on 1 November 2005 and HK\$2.40 on 11 May 2005, 13 May 2005 and 17 May 2005, respectively.

6. LITIGATION

None of Peoples or any of its subsidiaries are engaged in any litigation or arbitration or claim of material importance and no litigation or claim of material importance is known to the Peoples Directors to be pending or threatened by or against Peoples or any of its subsidiaries.

7. MATERIAL CONTRACTS

The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by members of the Peoples Group after the date two years before the commencement of the Offer Period and up to the Latest Practicable Date:

- (a) a deed of termination dated 12 January 2004 between China Resources, Telepaging Limited, Onwel Capital Company Limited, Celtel International B.V. (previously known as Mobile Systems International Cellular Investments Holdings B.V.), Overseas Telecom AB, KPN Telecom B.V. and Peoples in respect of the termination of a joint venture agreement entered into between the same parties in respect of Peoples on 10 March 1995 upon the commencement of trading in the Peoples Shares on the Stock Exchange. No consideration was payable to or by Peoples pursuant to the terms of the deed of termination;
- (b) a deed of undertaking dated 3 February 2004 between Peoples, Overseas Telecom AB, KPN Telecom B.V., China Resources, Onwel Capital Company Limited and Celtel International B.V. (previously known as Mobile Systems International Cellular Investments Holdings B.V.) pursuant to which each of China Resources, Onwel Capital

Company Limited and Celtel International B.V. (the “Preference Shareholders”) undertook to Peoples, Overseas Telecom AB and KPN Telecom B.V. (i) to convert the 112,511,339, 37,247,507 and 4,366,154 cumulative redeemable convertible participating preference shares of HK\$1.00 each in the capital of Peoples (“Preference Shares”) respectively held by the Preference Shareholders into Peoples Shares upon completion of the global offering of Peoples at the conversion rate of one Peoples Share for every one Preference Share and (ii) upon the capitalisation of part of the share premium account of Peoples and the issue by Peoples of such number of Peoples Shares, credited as fully paid at par at the same price as the offer price of the Peoples Shares under the global offering of Peoples, as represents the value of the preference dividends payable to the Preference Shareholders as at the date of conversion, to waive any right to receive the preference dividends in respect of the Preference Shares and (iii) that it will not exercise its rights of redemption under the articles of association of Peoples;

- (c) a deed on use of name dated 9 February 2004 between Peoples and China Resources pursuant to which China Resources agreed to the use by Peoples of the name “China Resources Peoples Telephone Company Limited” 華潤萬眾電話有限公司 without payment of any fee, consideration or charge by Peoples;
- (d) a dealership agreement dated 14 March 2004 between Peoples and Telepaging Limited (“Telepaging”) pursuant to which Peoples appointed Telepaging as its dealer for the purposes of (i) selling mobile telephone handsets and accessories, (ii) selling Peoples’ tariff plans, (iii) selling Peoples’ value added services, (iv) selling Peoples’ pre-paid SIM cards and (iv) the collection of service fees or tariffs on behalf of Peoples and providing customer service support, for the period from 14 March 2004 to 31 December 2006, which period shall automatically renew for further periods of three years unless terminated by either party giving the other at least three months’ written notice. Pursuant to the agreement, Peoples agrees to pay Telepaging (i) a commission of HK\$120 for each handset sold, (ii) a one-off activation commission which varies depending on the relevant tariff plan sold (iii) a monthly usage commission of 5% of the total monthly billing of each customer enlisted by Telepaging, from the second to the thirty-sixth month following activation, assuming the customer continues subscribing for Peoples’ services and (iv) commissions on the sales of pre-paid cards and other miscellaneous products;
- (e) an underwriting agreement dated 19 March 2004 between (i) Peoples, and (ii) UBS AG, ABN AMRO Asia Corporate Finance Limited and NM Rothschild & Sons (Hong Kong) Limited (each trading as ABN AMRO Rothschild), BOCI Asia Limited, CLSA Limited, The Bank of East Asia, Limited, CAF Securities Company Limited, Dao Heng Securities Limited, First Shanghai Securities Limited and Kingsway Financial Services Group Limited (together, the “Hong Kong Underwriters”), and (iii) China Resources and Onwel Capital Limited (as covenantors) and (iv) Celtel International B.V., in respect of Peoples’ Hong Kong public offering of 26,852,500 Peoples Shares (the “Public Offer Shares”) at an offer price of not more than HK\$5.65 per Peoples Share, pursuant to which the Hong Kong Underwriters agreed to underwrite the issue of the Public Offer Shares in consideration for an underwriting commission payable by Peoples of 2.5% of the aggregate offer price of the Public Offer Shares; and
- (f) an international underwriting agreement dated 29 March 2004 between (i) Peoples, (ii) KPN Telecom B.V., Overseas Telecom AB and Celtel International B.V. (together, the “Selling Shareholders”), (iii) China Resources and Onwel Capital Company Limited (as covenantors) and (iv) UBS AG, ABN AMRO Asia Corporate Finance Limited and NM

Rothschild & Sons (Hong Kong) Limited (each trading as ABN AMRO Rothschild) and CLSA Limited (together, the “Placing Underwriters”) relating to the international placing of 241,672,500 Peoples Shares (as to 122,597,500 Peoples Shares to be offered for subscription by Peoples and as to 119,075,000 Peoples Shares to be offered for sale by the Selling Shareholders) (the “International Placing Shares”) at the offer price of HK\$4.55 per Peoples Share, pursuant to which the Placing Underwriters agreed to underwrite the international placing of the International Placing Shares in consideration for an underwriting commission of 2.5% of the aggregate offer price of the International Placing Shares (payable, as between Peoples and the Selling Shareholders, in proportion to the number of International Placing Shares offered by each of them).

8. DIRECTORS SERVICE AGREEMENTS

- 8.1 Each of Mr. Charles Guy Henshaw, Mr. Wong Man Kwan, Willie and Ms. Wong Leung Ka On, Charlotte entered into a service contract with Peoples on 14 March 2004 for a term of three years from 31 March 2004 until 31 March 2007 unless and until such employment is terminated by Peoples or by the relevant Peoples Director giving to the other party not less than six months’ notice in writing. The aggregate fixed remuneration payable in 2005 under these service contracts, excluding arrangements for pension payments, performance bonus and other benefits in kind, is HK\$11,915,254. Under the terms of these service contracts, each of Mr. Charles Guy Henshaw, Mr. Wong Man Kwan, Willie and Ms. Wong Leung Ka On, Charlotte may also be entitled to receive discretionary bonuses. Such bonuses, if any, are gratuitous in nature and shall be such amounts as the Peoples Board, in its absolute discretion, may from time to time determine.
- 8.2 Save as disclosed in paragraph 8.1 above, as at the Latest Practicable Date, none of the Peoples Directors had entered into any service contract with Peoples or any of its subsidiaries or associated companies:
- (i) which (including both continuous or fixed term contracts) had been entered into or amended within 6 months before the commencement of the Offer Period;
 - (ii) which are continuous contracts with a notice period of 12 months or more; or
 - (iii) which are fixed term contracts with more than 12 months to run irrespective of the notice period.

9. EXPERTS

The following are the qualifications of the Independent Financial Adviser whose letter is contained in this document:

Name	Qualification
Baron Capital Limited	A corporation licensed to perform type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO

Details of the Financial Advisers are set out in the paragraph headed “Experts” in Appendix III to this document.

10. CONSENT

Baron Capital Limited has given and has not withdrawn its written consent to the issue of this composite offer document with the inclusion in this composite offer document of the text of its letter and references to its name in the form and context in which it is included.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection from 9:30 a.m. to 5:30 p.m., Monday to Friday (other than public holidays) at the office of Herbert Smith at 23rd Floor, Gloucester Tower, 11 Pedder Street, Central, Hong Kong while the Offers remain open for acceptance.

- (a) the memorandum and articles of association of the Offeror;
- (b) the memorandum and articles of association of Peoples;
- (c) the annual reports of Peoples for the two years ended 31 December 2004;
- (d) the interim report of Peoples for the six months ended 30 June 2005;
- (e) the letter from CICC and Merrill Lynch, the text of which is set out on pages 5 to 17 of this composite offer document;
- (f) the letter of recommendation of the Peoples Independent Board Committee, the text of which is set out on pages 26 to 27 of this composite offer document;
- (g) the letter of advice from Baron Capital Limited, the text of which is set out on pages 28 to 62 of this composite offer document;
- (h) the material contracts set out under the paragraph headed “Material Contracts” in Appendix IV to this composite offer document;
- (i) each service contract referred to in the paragraph headed “Directors Service Agreements” in Appendix IV to this composite offer document;
- (j) the written consents referred to in the paragraph headed “Experts” in Appendix III and “Consent” in Appendix IV to this composite offer document; and
- (k) the Irrevocable Undertakings.

12. MISCELLANEOUS

- (a) None of the Peoples Directors will be given any benefit as compensation for loss of office or otherwise in connection with the Offers (save for statutory compensation required under the appropriate laws).
- (b) Except for the irrevocable undertaking dated 20 October 2005 given by Michael Leung in favour of CMHK, there is no agreement or arrangement between any Peoples Director and any other person which is conditional on or dependent on or otherwise connected with the outcome of the Offers.

- (c) The Secretary of Peoples is Mr. Kong Kin Sing, James who is a certified Public Accountant of the Hong Kong Institute of Certified Public Accountants.
- (d) The registered office and principal place of business of Peoples is situated at 8th Floor, Manhattan Centre, 8 Kwai Cheong Road, Kwai Chung, Kowloon, Hong Kong.
- (e) The share registrar and transfer office of Peoples is Tricor Investor Services Limited, which is situated at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.
- (f) The principal place of business of Baron Capital Limited is 4th Floor, Aon China Building, 29 Queen's Road Central, Hong Kong.
- (g) The English language text of this composite offer document shall prevail over the Chinese language text.