

## REPORT OF THE DIRECTORS

The Directors have pleasure in presenting their report together with the audited financial statements of the Company for the year ended 31 December 2004.

## PRINCIPAL ACTIVITIES

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

## CHANGE OF COMPANY'S NAME

On 25 February 2004, the name of the Company was changed from "Peoples Telephone Company Limited" to "China Resources Peoples Telephone Company Limited" and the Company adopted the Chinese name: 華潤萬眾電話有限公司.

## INCOME STATEMENT

The results of the Company for the year ended 31 December 2004 are set out in the Income Statement on page 39.

## DIVIDEND

The Directors recommend the payment of a final dividend of \$0.18 per share to the shareholders registered in the Company's register of members as at the close of business on 25 April 2005. The proposed final dividend, together with the interim dividend of \$0.13 per share paid by the Company during the year, make a total dividend of \$0.31 per share (2003: Nil) for the financial year ended 31 December 2004.

## CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Tuesday, 26 April 2005 to Thursday, 28 April 2005 (both days inclusive) during which period no transfer of shares will be registered. In order to qualify for the aforesaid final dividend, all transfers of shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's Share Registrar in Hong Kong, Tricor Investor Services Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong by no later than 4:00 p.m. on Monday, 25 April 2005.

## RESERVES

Movements in the reserves of the Company during the year are set out on page 71. Profit attributable to shareholders before dividend of \$251,605,000 (2003: \$270,076,000) have been transferred to reserves.

The reserves available for distribution to the shareholders of the Company amounted to \$154,882,000 at 31 December 2004 (2003: Accumulated losses \$368,410,000).

## REPORT OF THE DIRECTORS

### DONATION

During the year, charitable and other donations made by the Company amounted to \$1,002,000 (2003: \$74,240). The entire amount went to the Community Chest.

### FIXED ASSETS

Details of the movements in fixed assets are shown in note 13 to the financial statements.

### SHARE CAPITAL

Details of movements in the share capital of the Company during the year are shown in note 26 to the financial statements. Shares were issued during the year in connection with the completion of the Company's Global Offering, conversion of Preference Shares and capitalisation issue.

### DIRECTORS

The Directors during the year and up to the date of this report were:

#### Chairman & Non-Executive Director

Mr. **JIANG** Wei

*(Appointed Chairman on 17 March 2005)*

Mr. **NING** Gao Ning

*(Resigned on 31 December 2004)*

#### 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

*(Appointed on 17 March 2005)*

#### Independent Non-Executive Directors

Professor **CHEN** Kwan Yiu, Edward

Mr. **LAM** Kwong Yu

Mr. **MA** Chiu Cheung, Andrew

Mr. **TAN** Henry

## REPORT OF THE DIRECTORS

On 4 March 2004, Mr. Ekman Anders, Mr. Mohamed Ibrahim and Mr. Eric Maria Johannes Werner de Jong resigned as Directors of the Company.

Brief biographical details of the Directors and senior management are set out on pages 32 to 37.

In accordance with Article 153 of the Company's Articles of Association, Ms. Wong Leung Ka On, Charlotte, Mr. Li Fu Zuo and Dr. Huang Zhi Jian will retire by rotation. Mr. Henshaw Charles Guy, Mr. Wong Man Kwan, Willie, Mr. Yan Biao, Mr. Ma Chiu Cheung, Andrew, Professor Chen Kwan Yiu, Edward, Mr. Tan Henry and Mr. Lam Kwong Yu will retire in accordance with Article 131 of the Company's Articles of Association at the next annual general meeting. All retiring Directors, being eligible for re-election, offer himself or herself for re-election. All remaining Directors shall continue in office.

### DIRECTORS' SERVICE CONTRACTS

Under an employment contract between the Company and Mr. Henshaw Charles Guy dated 14 March 2004, Mr. Henshaw has been appointed to act as Executive Director and Chief Executive Officer of the Company with effect from 31 March 2004 until 31 March 2007. The contract can be terminated by the Company by not less than six months' notice or payment in lieu of notice.

Under an employment contract between the Company and Mr. Wong Man Kwan, Willie and Ms. Wong Leung Ka On, Charlotte respectively dated 14 March 2004, Mr. Wong and Ms. Wong have been appointed to act as Executive Director of the Company with effect from 31 March 2004 until 31 March 2007. The contract can be terminated by the Company by not less than six months' notice or payment in lieu of notice.

Apart from the above, none of the Directors has a service contract with the Company with a term of more than 3 years and which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

## REPORT OF THE DIRECTORS

### DIRECTORS' INTERESTS IN CONTRACTS

Details of the Directors and Controlling Shareholder of the Company which had direct or indirect interests in contracts with the Company are as follows:

Name of Company	Nature of Interest
1. China Resources Group Companies	The associates and subsidiaries of China Resources (Holdings) Company Limited, the Controlling Shareholder of the Company.
2. Telepaging Limited	A company which is approximately 33.33 per cent. owned by Mr. Leung Kai Hung, Michael and approximately 33.33 per cents. owned by China Resources (Holdings) Company Limited.
3. mVantage Limited	A company which is controlled by the spouse of Ms. Wong Leung Ka On, Charlotte.
4. Onwel Group Companies	A group of companies which is controlled by Mr. Leung Kai Hung, Michael save for Million Capital Group Limited, a company which is jointly controlled by both Mr. Leung Kai Hung, Michael and Ms. Wong Leung Ka On, Charlotte.

During the year ended 31 December 2004, contracts of significance in relation to the Company's business are disclosed in connected transactions referred to in this report and material related party transactions in note 31 to the financial statements.

Save as disclosed above, no other contracts of significance in relation to the Company's business to which the Company was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## REPORT OF THE DIRECTORS

### DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

At 31 December 2004, the interests of the Directors and Chief Executive in the shares, underlying shares and debentures of the Company (as defined in the Securities and Futures Ordinance (the "SFO")) as recorded in the register maintained by the Company under Section 352 of the SFO were as follows:

#### Interests in Shares and Underlying Shares of the Company

Name of director	Shares				Equity derivatives		Percentage of aggregate interests to issued capital
	Discretionary trust		Spouse or child under 18	Controlled corporation	Share options <sup>(3)</sup>	Aggregate interests	
	Beneficial owner	founder & trust beneficiary					
Leung Kai Hung, Michael	18,470,000 <sup>(2)</sup>	-	-	119,412,831 <sup>(1)</sup>	4,500,000	137,882,831	18.54%
Henshaw Charles Guy	-	-	-	-	3,000,000	3,000,000	0.40%
Wong Man Kwan, Willie	30,000	-	-	-	3,000,000	3,030,000	0.41%
Wong Leung Ka On, Charlotte	-	-	-	-	3,000,000	3,000,000	0.40%
Jiang Wei	-	-	-	-	800,000	800,000	0.11%
Li Fu Zuo	-	-	-	-	600,000	600,000	0.08%
Wu Jun	-	-	-	-	600,000	600,000	0.08%
Huang Zhi Jian	-	-	-	-	400,000	400,000	0.05%
Sinn Chung Ming, Anthony	-	-	-	-	400,000	400,000	0.05%
Lam Kwong Yu	12,000	-	-	-	-	12,000	0.00%

#### Notes:

- (1) These shares were held by Onwel Capital Company Limited and Mr. Leung Kai Hung, Michael has 100% interests of control of the Company.
- (2) These shares already included the 4,500,000 share options.

## REPORT OF THE DIRECTORS

(3) Information of the Share Option is as follows:

Name of Director	Date of Grant	Date of Expiry	Exercise Price	Number of Options Held as at 1 Jan 2004	Number of Options granted during the year	Number of Options cancelled during the year	Number of Options and underlying shares as at 31 Dec 2004	Percentage of aggregate interests to issued capital
Leung Kai Hung, Michael	11 March 2004	10 March 2014	\$4.55	–	4,500,000	–	4,500,000	0.61%
Henshaw Charles Guy	11 March 2004	10 March 2014	\$4.55	–	3,000,000	–	3,000,000	0.40%
Wong Man Kwan, Willie	11 March 2004	10 March 2014	\$4.55	–	3,000,000	–	3,000,000	0.40%
Wong Leung Ka On, Charlotte	11 March 2004	10 March 2014	\$4.55	–	3,000,000	–	3,000,000	0.40%
Ning Gao Ning	11 March 2004	10 March 2014	\$4.55	–	1,000,000	1,000,000	–	0.00%
Jiang Wei	11 March 2004	10 March 2014	\$4.55	–	800,000	–	800,000	0.11%
Li Fu Zuo	11 March 2004	10 March 2014	\$4.55	–	600,000	–	600,000	0.08%
Wu Jun	11 March 2004	10 March 2014	\$4.55	–	600,000	–	600,000	0.08%
Huang Zhi Jian	11 March 2004	10 March 2014	\$4.55	–	400,000	–	400,000	0.05%
Sinn Chung Ming, Anthony	11 March 2004	10 March 2014	\$4.55	–	400,000	–	400,000	0.05%

### Value of share options granted during the year ended 31 December 2004

The Directors consider that it is not appropriate or practicable at the present time to disclose the value of the options granted during the year ended 31 December 2004 since any valuation of the options would be subject to a number of assumptions that would be subjective and uncertain.

## REPORT OF THE DIRECTORS

### DISCLOSABLE INTERESTS OF SHAREHOLDERS UNDER THE SFO

At 31 December 2004, the following parties (other than the Directors and Chief Executive of the Company) had interests or short positions of 5% or more in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO or as notified to the Company.

Name of shareholder	<i>Note</i>	Number of shares interested	Percentage of Shares to issued Share capital
<i>Interest</i>			
China Resources Co., Limited	1	358,753,270	48.24
China Resources National Corporation	2	358,753,270	48.24
Onwel Capital Company Limited		119,412,831	16.06
China Merchants Group Limited	3	65,823,000	8.85
Mochtar Riady	4	47,010,000	6.32
Lidya Suryawaty	5	47,010,000	6.32

*Notes:*

- For the purposes of the SFO, China Resources Co., Limited (“CRL”) is deemed or taken to be interested in these shares which are beneficially owned by China Resources (Holdings) Company Limited (“CRH”) through its wholly owned subsidiary, CRC Bluesky Limited.
- For the purposes of the SFO, China Resources National Corporation (“CRNC”) is interested in 99.98 per cent. of the registered capital of CRL and therefore, CRNC is deemed or taken to be interested in these Shares which are beneficially owned by CRH.
- For the purposes of the SFO, China Merchants Group Limited is deemed or taken to be interested in these shares which are beneficially owned by China Merchants Holdings (Hong Kong) Limited through its wholly owned subsidiary, China Merchants Steam Navigation Company Limited.
- For the purposes of the SFO, Mochtar Riady is the founder of a discretionary trust which held interest in shares of the Company.
- For the purposes of the SFO, these shares were held by the spouse of Lidya Suryawaty.

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

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### PURCHASE, SALE OR REDEMPTION OF SHARES

Save as disclosed above and set out in our Global Offering Prospectus dated 22 March 2004, during the year ended 31 December 2004, the Company has not redeemed, purchased or sold any of its shares.

### SHARE OPTIONS

#### (a) Pre-IPO Share Option Scheme

Details of the Company's Pre-IPO share option scheme are in note 27 on the financial statements.

#### (b) Share Option Scheme

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

The Board may, at its absolute discretion, offer an option to eligible persons to subscribe for the Shares at a predetermined exercise price and subject to the other terms of the Share Option Scheme. Upon acceptance of the offer of an option, the grantee shall pay \$1.00 to the Company as nominal consideration for the grant.

The total numbers of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme (including the Pre-IPO Share Option Scheme) shall not in aggregate exceed 30 per cent. of the Company issued share capital from time to time.

Unless approved by the Company's shareholders, the total number of Shares issued and to be issued upon the exercise of the options granted to or to be granted to each Eligible Person under the Share Option Scheme (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1 per cent. of the Shares in issue.

The exercise price to subscribe for each share under the Share Option Scheme shall be not less than the greater of (1) the closing price of the Share as stated in the daily quotation sheet of the Stock Exchange's on the date the share option is granted, (2) the average closing price of the Shares as stated in the Stock Exchange's daily quotation sheet for the five business days immediately preceding the Date of Grant, and (3) the nominal value of the Shares.



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Options granted have a 10-year exercise period within which there is a total vesting period of five years. Commencing from the first, second, third, fourth, fifth anniversaries of the date of the grant of an option, the relevant grantee may exercise up to 20 per cent., 40 per cent., 60 per cent., 80 per cent. and 100 per cent. respectively of the Shares comprised in his or her option.

As at the date of this report, no options have been granted under the Share Option Scheme.

## PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under either the Company's Articles of Association although there are no restrictions against such rights under the Hong Kong Companies Ordinance.

## MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Company sold less than 30 per cent. of its goods and services to its five largest customers. None of the Directors or their associates, who to the knowledge of Directors hold more than 5 per cent. of the Company's issued share capital, has any interests in any of these customers, except Telepaging Limited, which is one of the Company's five largest customers.

The percentages of the Company's purchase attributable to major suppliers are as follows:

Percentage of purchases attributable to the Company's largest supplier	10 per cent.
Percentage of purchases attributable to the Company's five largest suppliers	42 per cent.

For the year ended 31 December 2004, none of the Directors or their associates, who to the knowledge of Directors hold more than 5 per cent. of the Company's issued share capital, has any interests in any of these suppliers, except Telepaging Limited, which is one of the Company's five largest suppliers.

## BANK LOAN

Particulars of the bank loans of the Company as at 31 December 2004 are set out in note 21 on the financial statements.

## SUMMARY OF FINANCIAL INFORMATION

A summary of the results and the assets of the Company for each of the four years ended 31 December 2004 is set out on page 78.

## RETIREMENT SCHEMES

The Company operates a Mandatory Provident Fund Scheme. Particulars of the scheme are set out in note 29 on the financial statements.

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### AUDIT COMMITTEE

The Audit Committee comprises of four Independent Non-Executive Directors and reports to the Board of Directors. The Audit Committee meets with the Company's senior management and external auditors regularly to review the effectiveness of the internal control systems as well as the Interim and Annual Reports of the Company.

### SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of its Directors, it is confirmed that there is sufficient public float of the Company's shares in the market at 17 March 2005.

### CONNECTED TRANSACTIONS

The following transactions between certain connected persons (as defined in the Listing Rules) and the Company have been entered into and/or are ongoing after the Listing of the Company's shares on the Stock Exchange, which are subject to disclosure requirements of Chapter 14A of the Listing Rules.

- (a) Telepaging Limited ("Telepaging"), a company controlled by a Director of the Company, was appointed as a dealer for selling the Company's PCS handsets on a consignment basis. The Telepaging Dealership Agreement was entered into on 14 March 2004 and will expire on 31 December 2006. During the year ended 31 December 2004, total sales of handsets to Telepaging and commission paid on SIM activation and airtime on those subscribers acquired through Telepaging's outlets amounted to \$55,124,000 and \$40,003,000 respectively.
- (b) CRC Department Store Limited ("CRC Department Store"), an associate of the controlling shareholder of the Company, China Resources (Holding) Company Limited, was appointed as a distributor for selling the Company's pre-paid cards. The China Resources Dealership Agreement was entered into on 15 March 2004 and will expire on 31 December 2006. The total amount of commissions paid to CRC Department Store was \$58,000 for the year ended 31 December 2004.
- (c) The Company has appointed mVantage Limited, a company controlled by the spouse of a Director, to provide management support for the formulation and implementation of its mobile VAS strategy and the purchase of second hand and obsolete handsets from the Company. The mVantage Consultancy Agreement was entered into on 15 March 2004 and will expire on 31 December 2006. For the year ended 31 December 2004, total amount of consultancy fees paid was \$1,200,000 and sales of second hand and obsolete handsets amounted to \$10,006,000.

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- (d) The Company has rented various premises, under various licence agreements with China Resources Group Companies as locations for base stations. The total amount of rent paid and payable to China Resources Group companies for the year ended 31 December 2004 was \$4,071,000.
- (e) During the year, the Company has purchased a number of general insurance policies through China Resources Insurance Consultants Limited amounted to \$1,250,000.

The above transactions have been reviewed by the Company's Independent Non-executive Directors. The Independent Non-executive Directors confirmed that these connected transactions were entered into by the Company in the ordinary course of business and on normal commercial terms or terms that were fair and reasonable so far as the shareholders of the Company are concerned.

The Independent Non-executive Directors also confirmed that the transactions were entered into in accordance with the terms of the agreements governing such transactions and that the aggregate amounts of the transactions for the year ended 31 December 2004 had not exceeded the relevant maximum amount capped for each category in accordance with the waiver granted by the Stock Exchange on 17 March 2004.

## CORPORATE GOVERNANCE

The Company is sincere in maintaining a high standard of corporate governance. For details, please refer to pages 28 to 31 in this Annual Report.

## COMPLIANCE WITH THE CODE OF BEST PRACTICE

The Company has complied in the period between the date of the listing of the Company's shares on the Main Board of the Stock Exchange and 31 December 2004 with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange.

## AUDITORS

KPMG retire and being eligible, offer themselves for reappointment. A resolution for reappointment of KPMG as auditors of the Company is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

**Henshaw Charles Guy**

*Director*

Hong Kong, 17 March 2005