NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

1. PRINCIPAL ACCOUNTING POLICIES

a. Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Reporting Standards (which includes all applicable Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the principal accounting policies adopted by the Company is set out below.

Recently issued accounting standards

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") 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.

The Company will be continuing with the assessment of the impact of the new HKFRSs and significant changes may be identified as a result.

b. Basis of preparation

The measurement basis used in the preparation of the financial statements is historical cost.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

c. 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.

d. Fixed assets and depreciation

(i) Fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 1(g)). 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

d. Fixed assets and depreciation *(continued)*

(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.

e. 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.

f. 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 1(g)). 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

g. 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.

h. 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

h. Inventories *(continued)*

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.

i. 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.

j. 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.

k. 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

l. 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

m. 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.

n. 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.

o. 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

p. 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.

q. 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.

r. 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

r. Off balance sheet financial instruments *(continued)*

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 probably 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.

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:

	2004	2003
	$'000	$'000
Sales of handsets and accessories	**358,363**	297,445
Airtime and service charges	**1,323,631**	1,344,856
	1,681,994	1,642,301

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

3. 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.

4. OTHER INCOME

	2004 $'000	2003 $'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

5. OPERATING EXPENSES

	2004 $'000	2003 $'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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

6. PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

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

	2004 $'000	2003 $'000
(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	**697**	7,706
	16,879	65,467
Less: Borrowing costs capitalised	**–**	(951)
	16,879	64,516
(ii) Staff costs:		
Retirement costs	**8,502**	7,434
Salaries, wages and other benefits	**163,600**	169,113
	172,102	176,547
Less: Staff costs capitalised	**(29,172)**	(26,595)
	142,930	149,952
(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	**24,794**	30,895

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

6. PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION *(continued)*

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.

7. DIRECTORS' REMUNERATION

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

	2004	2003
	$'000	$'000
Fees	**1,040**	–
Salaries, allowances and benefits in kind	**9,495**	–
Retirement benefits	**893**	–
Bonuses	**744**	–
	12,172	–

Included in the directors' remuneration were fees of $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 27.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

7. DIRECTORS' REMUNERATION *(continued)*

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

	Number of directors	
	2004	2003
$0 – $1,000,000	**11**	–
$2,500,001 – $3,000,000	**1**	–
$3,000,001 – $3,500,000	**1**	–
$5,000,001 – $5,500,000	**1**	–

8. SENIOR MANAGEMENT REMUNERATION

The five highest paid individuals of the Company included three directors (2003: Nil) whose remuneration are reflected in note 7. Details of remuneration paid to the remaining highest paid individuals of the Company are as follows:

	2004	2003
	$'000	$'000
Salaries, allowances and benefits in kind	**4,672**	10,877
Retirement benefits	**415**	1,004
Bonuses	**352**	1,974
	5,439	13,855

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 27.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

8. SENIOR MANAGEMENT REMUNERATION *(continued)*

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

	Number of individuals	
	2004	2003
$1,500,001 – $2,000,000	**–**	2
$2,000,001 – $2,500,000	**1**	1
$2,500,001 – $3,000,000	**–**	1
$3,000,001 – $3,500,000	**1**	–
$5,000,001 – $5,500,000	**–**	1

9. 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	2003
	$'000	$'000
Current tax		
Hong Kong Profits Tax for the year	**52,399**	44,516
Benefit of unused tax losses brought forward	**(52,399)**	(44,516)
	–	–
Deferred tax		
Origination and reversal of temporary differences	**57,660**	64,533
Effect of increase in tax rate on deferred tax at 1 January	**–**	(8,621)
Total income tax expense	**57,660**	55,912

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

9. TAXATION *(continued)*

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

	2004 $'000	2003 $'000
Profit before taxation	**309,265**	325,988
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	**–**	(8,621)
Actual tax expense	**57,660**	55,912

10. DIVIDENDS

	2004 $'000	2003 $'000
Interim dividend declared and paid, of $0.13 (2003: Nil) per share	**96,673**	–
Final dividend proposed after the balance sheet date of $0.18 (2003: Nil) per share	**133,855**	–
	230,528	–

At a Board meeting held on 17 March 2005, the Directors proposed a final dividend of $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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

11. 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 $251,605,000 (2003: $270,076,000) and the weighted average number of Ordinary Shares outstanding during the year of 666,405,137 (2003: 433,000,000).

Reconciliation:	**Number of shares**
At 1 January 2004	433,000,000
Weighted average number of Ordinary Shares for new issued shares	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	5,309,167
At 31 December 2004	**666,405,137**

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to Ordinary Shareholders of $251,605,000 (2003: $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	2003
	$'000	$'000
Profit attributable to shareholders	**251,605**	270,076
Adjusted for:		
Accrued dividend and accrued redemption premium on Convertible Preference Shares	**–**	15,413
Profit attributable to Ordinary Shareholders	**251,605**	285,489
	Number of shares	
Weighted average number of Ordinary Shares	**666,405,137**	433,000,000
Deemed conversion of Preference Shares	**–**	154,125,000
Weighted average number of Ordinary Shares in calculating diluted earning per share	**666,405,137**	587,125,000

The existence of unexercised options during the year ended 31 December 2004 (see note 27) has no dilutive effect on the calculation of diluted earnings per share for the year ended 31 December 2004.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

12. 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.

13. FIXED ASSETS

	Network and testing equipment	Computer, billing, office and telephone equipment	Motor vehicles	Leasehold improvements	Office furniture and fixtures	Land and buildings	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Cost:							
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 *(Note 14)*	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**
Accumulated depreciation:							
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**
Net book value at 31 December 2004	**1,064,382**	**76,202**	**796**	**3,432**	**366**	**21,974**	**1,167,152**
Net book value at 31 December 2003	1,049,096	72,952	276	4,486	390	22,570	1,149,770

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

13. FIXED ASSETS *(continued)*

The net book value of fixed assets of the Company includes an amount of $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: $22,570,000).

Included in additions are capitalised staff costs of $29,172,000 (2003: $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 $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 $237,000 for the year ended 31 December 2004.

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

	2004	2003
	$'000	$'000
In Hong Kong		
– medium-term leases	**18,093**	18,583
– long-term lease	**3,881**	3,987
	21,974	22,570

14. CONSTRUCTION IN PROGRESS

	2004	2003
	$'000	$'000
Cost:		
At 1 January	**8,762**	18,443
Additions	**78,529**	122,506
Disposals	**–**	(847)
Transfer to fixed assets *(Note 13)*	**(78,242)**	(131,340)
At 31 December	**9,049**	8,762

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

15. 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.

16. INTANGIBLE ASSETS

	2004	2003
	$'000	$'000
Cost:		
At 1 January	**30,847**	38,691
Additions	**15,240**	8,200
Refund	**(7,636)**	–
Amortisation	**(12,495)**	(16,044)
At 31 December	**25,956**	30,847

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

17. INVENTORIES

	2004	2003
	$'000	$'000
Handsets	**24,935**	15,590
Accessories	**3,558**	3,342
	28,493	18,932

Included in the above inventories, handsets valued at $452,000 (2003: $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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

18. TRADE AND OTHER RECEIVABLES

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

The amount of provision for bad and doubtful debts as at 31 December 2004 was $26,310,000 (2003: $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
	$'000	$'000
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	5,505	4,302
	90,062	79,094

19. CASH AND CASH EQUIVALENTS

	2004	2003
	$'000	$'000
Deposits with banks	155,850	22,980
Cash at banks and in hand	40,899	23,141
	196,749	46,121

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

20. TRADE AND OTHER PAYABLES

	2004	2003
	$'000	$'000
Bills payable	**78,164**	151,210
Trade payables	**111,278**	94,542
Other payables and accruals	**80,024**	372,867
	269,466	618,619

Except for provision for long service payments of $3,412,000 at 31 December 2004 (2003: $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: $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
	$'000	$'000
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	**19,106**	10,940
	111,278	94,542

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

21. BANK AND OTHER INTEREST-BEARING BORROWINGS

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

	2004	2003
	$'000	$'000
Within 1 year	**150,000**	624,869
After 1 year but within 2 years	**75,000**	–
	225,000	624,869

On 10 March 2004, the Company entered into an unsecured $300 million loan facility with floating rate interest. The loan facility is repayable in four equal instalments with the final instalment repayable on 10 March 2006. The loan facility contains certain covenants requiring the Company, amongst other things, to maintain certain levels of net 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 $624,869,000 were repaid.

22. 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 23 and 31).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

23. 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.

24. CONVERTIBLE PREFERENCE SHARES

	2004	2003
	$'000	$'000
5 per cent convertible, redeemable, cumulative and participating Preference Shares of $1 each	**154,125**	154,125
Cumulative preference dividend	**32,150**	30,208
Redemption premium	**30,905**	30,208
Capital Reduction *(Note 26a)*	**(80,145)**	–
Conversion of Preference Shares to Ordinary Shares *(Note 26c)*	**(73,980)**	–
Transferred to Other Reserve *(Note 26c & 28)*	**(63,055)**	–
	–	214,541

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

25. DEFERRED TAXATION

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

Deferred tax arising from:	**Depreciation allowances in excess of related depreciation** $'000	**General provision for bad debts** $'000	**Tax losses** $'000	**Total** $'000
At 1 January 2003	(96,644)	12,746	175,853	91,955
Charged to income statement	(22,079)	(5,817)	(28,016)	(55,912)
At 31 December 2003	(118,723)	6,929	147,837	36,043
At 1 January 2004	(118,723)	6,929	147,837	36,043
Charged to income statement	(3,090)	(2,325)	(52,245)	(57,660)
At 31 December 2004	**(121,813)**	**4,604**	**95,592**	**(21,617)**

	2004 **$'000**	2003 $'000
Net deferred tax assets recognised on the balance sheet	**100,196**	154,766
Net deferred tax liability recognised on the balance sheet	**(121,813)**	(118,723)
	(21,617)	36,043

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

26. SHARE CAPITAL

	2004	2003
	$'000	$'000
Authorised:		
2,500,000,000 Ordinary Shares of $0.48 each		
(2003: 433,000,000 Ordinary Shares of $1.00 each)	**1,200,000**	433,000
154,125,000 Preference Shares of $0.48 each		
(2003: 200,000,000 Preference Shares of $1.00 each)	**73,980**	200,000
	1,273,980	633,000
Issued and fully paid:		
743,641,019 Ordinary Shares of $0.48 each		
(2003: 433,000,000 Ordinary Shares of $1.00 each)	**356,948**	433,000

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 $305,305,000 with the credit arising out of the Capital Reduction exercise by reducing the nominal amount of the issued Ordinary and Preference Shares of the Company from $1.00 to $0.48 each.

b. On 1 April 2004, immediately after the closing of the Global Offering and before the listing of the Ordinary Shares on the Stock Exchange, the Company issued 149,450,000 new Ordinary Shares at $0.48 each to the subscribers of new shares.

c. On 1 April 2004, immediately after the closing of the Global Offering and before the listing of the Ordinary Shares on the Stock Exchange, all of the 154,125,000 Preference Shares were converted into fully paid Ordinary Shares at the conversion rate of one Ordinary 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

26. SHARE CAPITAL *(continued)*

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 preference 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 ($4.55) of the Company's shares pursuant to the Global Offering.

27. 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 $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 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. The share options are exercisable at $4.55 per share, which was the Offer Price of the Company's shares pursuant to the Global Offering.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

28. RESERVES

	Share Premium $'000	Other Reserve $'000	Retained Profits/ (Accumulated Losses) $'000	Total $'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 *(Note 26a)*	–	–	305,305	305,305
Issue of new shares (net of listing expenses) *(Note 26b)*	597,491	–	–	597,491
Issue of new shares upon conversion of Preference Shares *(Note 24 & 26c)*	–	63,055	–	63,055
Capitalisation issue *(Note 26d)*	(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 $154,882,000 reserve available for distribution to its shareholders.

29. 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 $20,000. Contributions to the scheme vest immediately.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

30. 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	2003
	$'000	$'000
Within 1 year	**131,806**	123,204
After 1 year but within 5 years	**49,181**	54,006
	180,987	177,210

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 opinion to renew the lease when all terms are renegotiated. Three of the leases for retail premises include contingent rentals that are payable at a fixed percentage of the monthly gross receipts of the retail outlets.

b. Capital commitments

	2004	2003
	$'000	$'000
Contracted but not provided for	**29,367**	34,150

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 $98,388,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

31. 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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

31. MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

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

a. Recurring transactions

		2004	2003
		$'000	$'000
(i)	Telepaging[(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	**472**	102
(ii)	mVantage[(2)]		
	Sales of second hand and obsolete handsets	**10,006**	9,319
	Consultancy fee paid	**1,200**	1,200
(iii)	China Resources Group Companies[(3)]		
	Property rental paid	**4,071**	4,597
	Commissions paid on sales of prepaid cards	**58**	65
(iv)	Onwel Group[(4)]		
	Property rental paid	**448**	451
	Property rental received	**5**	18
(v)	China Resources Insurance Consultants Limited[(5)]		
	Insurance premium paid	**1,250**	666

(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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

31. MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

a. Recurring transactions *(continued)*

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 $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 the purchase of second hand 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 premises 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 premises to the Company. These include the storage of equipments, installation of base stations and advertisements. The Company has also leased its own 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

31. MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

b. Non-recurring transactions

	2004	2003
	$'000	$'000
Shareholders' loan interest paid to:		
China Resources	**8,188**	36,048
Onwel Group[1]	**79**	–
Telepaging[1]	**–**	304
	8,267	36,352

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 $1,199,000 (2003: 5,260,000), $1,199,000 (2003: 5,261,000) and $240,000 (2003: $934,000) respectively.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

31. MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

c. Amount due from/(to) related parties

		2004 $'000	2003 $'000
(i)	Telepaging		
	Amount due from	**20,933**	20,495
	Amount due to	**(3,895)**	(3,610)
(ii)	mVantage		
	Amount due from	**–**	1,531
	Amount due to	**–**	(200)
(iii)	China Resources Group Companies		
	Amount due from	**31**	51
	Amount due to	**(8)**	–

32. APPROVAL OF FINANCIAL STATEMENTS

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