MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

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

- On 3 May 2005, the Company has accepted OFTA's proposed renewal terms for the new PCS 1800 MHz license for another fifteen years commencing from October 2006.

- On 5 May 2005, the Company secured a new $150 million medium term bank loan facility and drew down $100 million under the facility.

- On 23 May 2005, the Company declared first quarter dividend of $0.06 per share.

- On 10 June 2005, the Company had prepaid and fully settled the outstanding balance of the unsecured $300 million bank loan facility.

- The Company's subscriber base has reached 1.21 million by the end of June 2005.

OPERATING PERFORMANCE

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

Turnover

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

- Airtime and service revenue for the period increased to $664 million (first half of 2004: $654 million). Due to the aggressive tariff offerings by 3G operators, voice revenue generated from postpaid business showed a slight reduction with lowered average revenue per user ("ARPU"). However, the Company is able to offset the negative downturn in ARPU by an increasing subscriber base. By the end of June 2005, the Company had a net gain of 85,363 subscribers compared with the end of December 2004.

- The slight reduction in postpaid voice revenue is partially offset by the encouraging 42.1 per cent. growth in prepaid revenue verses the corresponding period in 2004. The momentum created by the successful launch of a comprehensive range of new prepaid products in 2004 had been sustained into the first half of this year.

- Postpaid data revenue has also surged by 22.9 per cent. for the period under review verses the corresponding period in 2004. Data services continue to be one of the key revenue growth drivers.

MANAGEMENT DISCUSSION AND ANALYSIS

- Handsets and accessories sales have leapt by 31.5 per cent. to $232 million in the six months under review from $177 million in the corresponding period last year. The launch of various distinct and targeted promotions coupled with subscribers' growing appetite for premium handsets with advanced features had stimulated sales.

Cost of goods sold and services provided

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

Operating Expenses

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

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

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

Finance Costs

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

Profit for the Period

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

CAPITAL EXPENDITURE

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

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

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

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

TREASURY POLICY AND FOREIGN EXCHANGE EXPOSURE

For the six-month period under review, the Company had placed its surplus funds in short-term deposits with banks in Hong Kong.

The Company's assets, liabilities, revenues and expenses were mainly denominated in Hong Kong dollars or U.S. dollars with the exchange rate between these two currencies remained pegged. At 30 June 2005, no derivative financial instruments were used for financial risk management purpose (31 December 2004: Nil).

CHARGE ON ASSETS

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

CONTINGENT LIABILITIES

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

EMPLOYEES SHARE OPTION SCHEME

The Company had 634 full-time employees and 123 part-time and temporary employees as at 30 June 2005, all based in Hong Kong. The employees receive remuneration packages consisting of basic salary, bonus and other benefits. Benefits include a mandatory provident fund scheme and medical insurance. Staff members are provided with both internal and external training appropriate to their individual requirements. Each individual remuneration package is custom designed to attract, motivate and retain staff as well as to reward their contribution.

The Company has adopted a Share Option Scheme and granted options on 4 March 2004. During the six months under review, no options were exercised. As at 30 June 2005, the outstanding options granted under the scheme were 502 (as at 31 December 2004: 538).