

CHAIRMAN'S STATEMENT



2004 proved to be another challenging year within the highly competitive market. Despite the gradual fading out of the irrational price wars, which started in 2003, the mobile market is now facing aggressive third generation (“3G”) promotional offerings. I am glad to see that the Company continued to focus on its core business by revitalising its products and services lines, and thereby, improving the Company’s financial position and maintaining a good return for its shareholders in 2004.

During the year, the Company has achieved several major financial milestones. On 17 February 2004, the High Court of Hong Kong confirmed the Company’s petition on Capital Reduction. The Company’s shares were successfully listed on the Main Board of the Stock Exchange on 1 April 2004. The IPO proceeds along with the \$300 million bank loan were used to repay the shareholders’ loans and accrued interest amounting to \$929 million. On 13 October 2004, the Company honoured its promise in the Global Offering Prospectus dated 22 March 2004 and paid an interim dividend of \$0.13 per share to the shareholders.

CHAIRMAN'S STATEMENT

2004 was also a year of innovation for the Company with the introduction of EDGE technology and the launch of “Mobile TV” in the third quarter. This new product line has enriched our service portfolio, stimulated data usage and attracted new mobile users to our fold. The Company is optimistic about the growth opportunities brought about by the new multimedia services and will continue to explore new mobile services and data contents needed by our customers.

FINANCIAL HIGHLIGHTS

In 2004, the Company has persevered through market challenges and posted significant improvements within the fiscal year. Despite the aggressive 3G promotional offerings, the Company's financial position is recovering from the past irrational price wars and the impact of the SARS (“Severe Acute Respiratory Syndrome”) epidemic. Total turnover and net profit took a decidedly upward track and continued to improve each quarter during the year.

Turnover was boosted for the year ended 31 December 2004 by 2.4 per cent. over year 2003, to \$1,682 million from \$1,642 million respectively.

The Company's earnings before interest, tax, depreciation and amortisation (“EBITDA”) was \$535 million, showed a decline of 7.8 per cent. against \$581 million in 2003. However, EBITDA showed an encouraging recovery of 3.2 per cent. increase when comparing between the second half of 2004 against the same period in 2003, or \$270 million and \$261 million respectively. Earnings before tax (“EBT”) of \$309 million slipped 5.1 per cent. against 2003 or \$326 million. When comparing the second half between 2003 and 2004, EBT jumped significantly by 21.7 per cent. to \$162 million in the second half versus \$133 million during the same period in 2003.

Profit attributable to shareholders amounted to \$252 million, which was a 6.8 per cent. slide from \$270 million in 2003. Again, comparing the second half of the two years, net profit surged by 25.3 per cent. to \$133 million in the second half of 2004 versus \$106 million during the same period in 2003. Earnings per share for the year ended 31 December 2004 was \$0.38.

The capital expenditure of the Company was reduced by 22.6 per cent. to \$230 million in 2004 from \$297 million in 2003 after the completion of Phase One of the EDGE rollout in 2004. This is all in-line with management's expectation.

DIVIDEND

At a meeting held on 17 March 2005, the Board of Directors declared a final dividend of \$0.18 per share for the year ended 31 December 2004 (2003: Nil).

CHAIRMAN'S STATEMENT

The Company had also declared an interim dividend of \$0.13 per share (2003: Nil) for the six months ended 30 June 2004 which was paid to eligible shareholders on 13 October 2004.

The declared dividends are in keeping with our dividend recommendation as stated in the Global Offering Prospectus dated 22 March 2004.

BUSINESS REVIEW

During the year under review, we have continued to strive for excellence in customer service and improvement in network performance. In such a highly competitive market, the Company's dedication to its customers is one of the main reasons for the 7.6 per cent. growth in subscriber base to 1.13 million versus 1.05 million in 2003. PEOPLES brand image in the market continues to symbolise the best value for money for mobile services and the Company has been able to offer such attractive tariffs and packages by its relentless focus on effective cost control. At the same time, the Company has continued to deploy resources to further enhance network and service quality, through a close co-operation with the infrastructure and service platform suppliers.

Phase One of the EDGE network was completed in the third quarter of 2004 as per the original schedule. This "2.75G" technology debuted on 31 August 2004 in the form of the "Mobile TV" data service. EDGE is a substantial technical enhancement over the existing GPRS 2.5G data services by allowing the introduction of a more cutting edge and higher speed multimedia data service. The decision to pursue the EDGE technology was made after a very long and careful study of the business case, along with the management's understanding of the needs of our customers. The capital expenditure required for the upgrade was considered minimal, as the augmentation was complementary to the existing network. The multimedia data services provided by EDGE are comparable to the much touted 3G offerings. With that in mind, the Company is particularly dedicated about working with local and overseas content providers to secure the best and most compelling materials for our new video streaming services. Our latest offerings include "Reuters News", "Music TV" and "Mobile Eye", a remote monitoring service amongst others. The Company is confident that the introduction of these new data packages over EDGE will meet the demands of the customers and further provide the impetus to accelerate the growth of the data revenue.

The management has also strived to grow the profile of the Company within the regional and international telecommunications communities by speaking and presenting on various topics at numerous trade shows and conferences through out the year.

The Company believes that PEOPLES has been effectively transformed into a multi-faceted public wireless telecommunications services operator in 2004. The Company has established a broader foundation for future revenue growth and is well positioned to defend its market share. The management and I look forward to building on this solid foundation in the coming years.

CHAIRMAN'S STATEMENT

OUTLOOK

The mobile industry in Hong Kong is transforming into a new era. With the impassioned competition raging in the market, the traditional telecommunications industry is being viewed upon as more of a commodity business. The adoption of 3G technology and its associated data services is finally taking a foothold aided by substantial promotional offers and the introduction of acceptable handsets. The introduction of EDGE enabled multimedia data services by the Company with affordable tariffs has closely matched the new market demand.

Going forward, 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. The Company will launch more services that strive to further differentiate it from the other operators, based on its creative marketing strategies. The Company will also continue to benefit from and endeavour to improve upon the highly productive and cost efficient operating structure.

There are a couple of items on the horizon that the Company would like to take this opportunity to address to its shareholders. Firstly, the Company's second generation 1800 MHz PCS license will be up for renewal in September 2006. Under the current OFTA (The Office of the Telecommunications Authority) second public consultation which ended on 19 June 2004 but is still not finalised, we are assured that all current 2G operators will have the right of first refusal for their 2G mobile license renewal.

Secondly, the Company is dealing positively with the current 3G competition. The launch of EDGE has enabled our customers to enjoy 3G-type services. And under each of the third generation licensing agreement, the Mobile Network Operator ("MNO") must assign at least 30 per cent. of its network capacity for non-affiliated parties who want to sub-license the extra capacity. The Company has been in discussion with MNOs with a view to become a Mobile Virtual Network Operator ("MVNO") at a point when the demand from its subscribers on multimedia data services could not be met with our existing technologies. The Company is very confident to meet the emerging challenges of new technologies.

The mobile industry is as dynamic as ever with innovations changing as quickly as they are created. The Company's ability to rapidly respond to these developments could mean the difference between success and failure. It is my belief that PEOPLES' performance has always been a proof to the Company's sound management and strategy. While the accomplishments do speak for themselves, the Company has no intention of resting on its laurels but will continuously adapt to the new technological evolution and capture any new business opportunities. I am confident that PEOPLES have the right infrastructure, strategy, partners, personnel and most importantly, the vision to succeed in the new era.

CHAIRMAN'S STATEMENT

APPRECIATION

Firstly, I would like to thank the Board for its confidence in electing me to the post of Chairman. It is indeed an honour to serve in this position. I would also like to take this opportunity to express my deep gratitude to my predecessor, Mr. Ning Gao Ning, for his wisdom and guidance that have benefited the Company so well. On behalf of myself and the management of the Company, we wish him well in his future endeavours and he will be missed by all of us.

A review of our achievements would be incomplete without crediting our success to our employees. Our staff is energetic and dynamic. They are the cornerstones of our corporate culture for the development and continuous improvement of our innovations, services and customer care. Last but not least, I would also like to thank our loyal customers and our shareholders for their continual support as we embark on a new chapter.

RISK STATEMENT

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

Jiang Wei

Chairman

Hong Kong, 17 March 2005