# Notes to the Accounts

## 1 GROUP ORGANISATION

SUNDAY Communications Limited (the "Company" or "SUNDAY") was incorporated in the Cayman Islands on 24th November 1999 as a company with limited liability under the Companies Laws (Revised) of the Cayman Islands. The Company and its subsidiaries (together the "Group") is a developer and provider of wireless communications and data services in Hong Kong. The Group was granted a licence in July 1996 to construct and operate a digital PCS network, and began commercial operations in September 1997 when it introduced its GSM 1800 mobile telephone services. The Group offers mobile services under the brand name "SUNDAY". The Group was also granted a mobile carrier licence in Hong Kong in October 2001 to construct and operate a third generation ("3G") network. On 12th June 2005, the Group trial launched its 3G data card service.

The Company has its primary listing on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

On 13th June 2005, PCCW Mobile Holding No. 2 Limited ("PCCW Mobile"), an indirect wholly-owned subsidiary of PCCW Limited ("PCCW"), entered into two conditional sale and purchase agreements with Distacom Communications Limited, USI Holdings Limited and Townhill Enterprises Limited to purchase approximately 59.87% of the Company's issued share capital. As a result, as at 22nd June 2005, PCCW became the ultimate holding company of the Company.

Under the Hong Kong Code on Takeovers and Mergers, PCCW Mobile was required to make a mandatory unconditional cash offer for all of the Company's issued shares, other than the shares already held by PCCW Mobile (the "Offer"). The Offer closed on 9th September 2005. Taking into account the valid acceptances tendered under the Offer, as at 9th September 2005, PCCW Mobile owned approximately 79.35% of the Company's issued share capital.



The Company is required to restore sufficient public float of at least 25% of the issued share capital of the Company as required under Rule 8.08 of the Listing Rules. The Company has applied for and was granted waivers from strict compliance with Rule 8.08(1)(a) of the Listing Rules for a period from 9th September 2005 to 15th April 2006. Details of these arrangements have been disclosed in the joint announcement issued by the Company and PCCW on 9th September 2005, the joint announcements issued by the Company, PCCW and PCCW Mobile on 27th September 2005, 13th October 2005 and 9th November 2005 and also announcements issued by the Company on 10th October 2005, 12th January 2006, 15th February 2006 and 16th March 2006.

The principal place of business of the Company in Hong Kong was located at 13th Floor, Warwick House, TaiKoo Place, 979 King's Road, Quarry Bay, Hong Kong Special Administrative Region ("HKSAR"), The People's Republic of China (the "PRC"), and was changed to 39th Floor, PCCW Tower, TaiKoo Place, 979 King's Road, Quarry Bay, HKSAR, the PRC, with effect from 16th December 2005.

These consolidated accounts which have been approved for issue by the Board of Directors on 29th March 2006, are presented in thousands of units of Hong Kong Dollars (HK$'000), unless otherwise stated.

## 2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

### a. Statement of compliance

The consolidated accounts have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. A summary of the principal accounting policies adopted by the Group is set out below.

The HKICPA has issued a number of new/revised HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1st January 2005.

### b. Basis of preparation

The consolidated accounts for the year ended 31st December 2005 incorporate the accounts of the Company and its subsidiaries.

The consolidated accounts have been prepared under the historical cost convention, except for certain financial assets and financial liabilities which are carried at fair values.

During the year, the Group has adopted the new/revised HKFRSs below, which are relevant to its operations. The 2004 comparatives have been restated, as required, in accordance with the relevant requirements.

| | |
|---|---|
| HKAS 1 | Presentation of Financial Statements |
| HKAS 2 | Inventories |
| HKAS 7 | Cash Flow Statements |
| HKAS 8 | Accounting Policies, Changes in Accounting Estimates and Errors |
| HKAS 10 | Events after the Balance Sheet Date |
| HKAS 12 | Income Taxes |
| HKAS 14 | Segment Reporting |
| HKAS 16 | Property, Plant and Equipment |
| HKAS 17 | Leases |
| HKAS 18 | Revenue |
| HKAS 19 | Employee Benefits |
| HKAS 21 | The Effects of Changes in Foreign Exchange Rates |
| HKAS 23 | Borrowing Costs |
| HKAS 24 | Related Party Disclosures |
| HKAS 27 | Consolidated and Separate Financial Statements |
| HKAS 31 | Interests in Joint Ventures |
| HKAS 32 | Financial Instruments: Disclosure and Presentation |
| HKAS 33 | Earnings per Share |
| HKAS 36 | Impairment of Assets |
| HKAS 37 | Provisions, Contingent Liabilities and Contingent Assets |
| HKAS 38 | Intangible Assets |
| HKAS 39 | Financial Instruments: Recognition and Measurement |
| HKAS 39 Amendment | Transition and Initial Recognition of Financial Assets and Financial Liabilities |
| HKFRS 2 | Share-based Payment |

b. Basis of preparation

The adoption of HKASs 1, 2, 7, 8, 10, 12, 14, 17, 18, 19, 21, 23, 24, 27, 31, 32, 33, 36, 37 and HKFRS 2 had no material effect on the Group's accounting policies. The effect of the adoption of certain new/revised HKFRSs, which results in substantial changes to accounting policies, is set out below.

*i. Asset retirement obligations (HKAS 16)*

The adoption of HKAS 16 has resulted in a change in accounting policy relating to recognition of fixed assets and liabilities subject to retirement obligations at fair values.

*ii. Definition of related parties (HKAS 24)*

As a result of the adoption of HKAS 24, the definition of related parties has been expanded to clarify that related parties include entities that are under the significant influence of a related party that is an individual (i.e. key management personnel, significant shareholders and/or their close family members) and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group. The clarification of the definition of related parties has not resulted in any material changes to the previously reported disclosures of related party transactions nor has it had any material effect on the disclosures made in the current period, as compared to those that would have been reported had the Statement of Standard Accounting Practice 20 "Related Party Disclosures" still been in effect.

*iii. Recognition of intangible asset – 3G Licence (HKAS 38)*



The adoption of HKAS 38 has resulted in a change in accounting policy relating to the recognition of the fees and royalties payable for the third generation licence for telecommunications services (the "3G Licence"). The 3G Licence is considered an intangible asset representing the right to provide the specified telecommunications services, rather than a right to use an identifiable asset, by deploying the radio spectrum allocated by the Office of the Telecommunications Authority ("OFTA") to the licence holder under the terms of the licence. In order to measure the intangible asset, HKAS 39 Financial Instruments: Recognition and Measurement is applied for recognition of the minimum annual fees and royalty payments as they constitute a contractual obligation to deliver cash and, hence, should be considered a financial liability. As a result, capitalised minimum annual payments together with the interest accrued prior to commercial launch, are classified as an intangible asset and amortised on the straight-line basis over the remaining licence period from the date the asset is ready for its intended use. Interest is accrued on the outstanding minimum annual fees and charged to finance costs in the consolidated profit and loss account after the commercial launch. Variable annual payments on top of the minimum annual payments, if any, are recognised in the consolidated profit and loss account as incurred.

*iv. Recognition of intangible assets – subscriber acquisition costs (HKAS 38)*

Costs to acquire contractual relationships with mobile subscribers are capitalised if it is probable that there will be an inflow of expected future economic benefits from the subscribers to the Group and such costs can be measured reliably. Capitalised subscriber acquisition costs are amortised on the straight-line basis over the minimum contractual period.

*v. Rental deposits and prepaid operating rental expenses (HKAS 39)*

The adoption of HKAS 39 has required the Group to recognise rental deposits relating to cell sites, switch centres, shops and offices as financial assets at fair values. As a result, the difference between nominal and fair values of the deposits is treated as prepaid operating rental expenses. The prepayments are then amortised over the remaining lease terms of the respective cell sites, shops and offices, while the rental deposits generate deemed interest income over the remaining lease terms.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards. All standards adopted by the Group require retrospective application other than HKAS 39 which recognises all derivatives at fair values in the balance sheet on 1st January 2005 and adjusts the balance to retained earnings as at that date.

The adoption of HKAS 16 resulted in:

| | As at 31st December | |
|---|---|---|
| | 2005 | 2004 |
| | HK$'000 | HK$'000 |
| Increase in fixed assets | 16,328 | — |
| Increase in accumulated losses | 1,511 | — |
| Increase in asset retirement obligations | (17,839) | — |

| | For the year ended 31st December | |
|---|---|---|
| | 2005 | 2004 |
| | HK$'000 | HK$'000 |
| Increase in loss attributable to shareholders | 1,511 | — |
| Increase in loss per share (basic and diluted) | 0.05 cents | — |

The adoption of HKAS 38 resulted in:

| | As at 31st December | |
|---|---|---|
| | 2005 | 2004 |
| (a) 3G Licence | HK$'000 | HK$'000 |
| Increase in intangible assets | 838,110 | 787,496 |
| Decrease in fixed assets | (214,109) | (163,369) |
| Decrease in prepayment for 3G Licence | (41,667) | (91,667) |
| Increase in long-term liabilities | (582,334) | (532,460) |

| (b) Subscriber acquisition costs | As at 31st December 2005 HK$'000 | As at 31st December 2004 HK$'000 |
|---|---|---|
| Increase in intangible assets | 9,806 | 6,796 |
| Decrease in accumulated losses | (9,806) | (6,796) |

| | For the year ended 31st December 2005 HK$'000 | For the year ended 31st December 2004 HK$'000 |
|---|---|---|
| Decrease in (loss)/profit attributable to shareholders | (3,010) | 1,171 |
| Decrease in (loss)/earnings per share (basic and diluted) | (0.10 cents) | 0.04 cents |

The adoption of HKAS 39 resulted in:

| | As at 31st December 2005 HK$'000 | As at 31st December 2004 HK$'000 |
|---|---|---|
| Increase in prepaid operating rental expenses – non-current assets (Note (a)) | 2,354 | — |
| Increase in rental deposits – non-current assets (Note (a)) | 23,610 | — |
| Increase in prepaid operating rental expenses – current assets (Note (b)) | 928 | — |
| Decrease in rental deposits - current assets (Note (b)) | (26,891) | — |
| Decrease in accumulated losses | (1) | — |

| | For the year ended 31st December 2005 HK$'000 | For the year ended 31st December 2004 HK$'000 |
|---|---|---|
| Decrease in loss attributable to shareholders | (1) | — |
| Decrease in loss per share (basic and diluted) | — | — |

*Note (a): Classified under "Deposits and prepayments" in consolidated balance sheet.*
*Note (b): Classified under "Deposits, prepayments and other receivables" in consolidated balance sheet.*

The preparation of consolidated accounts in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making the judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. A revision to an accounting estimate is recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effects on the accounts and estimates with a significant risk of material adjustment in the next year are outlined in note 3.

## c. Subsidiaries and controlled entities

Subsidiaries are entities over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

An investment in a controlled subsidiary is consolidated into the consolidated accounts from the date that control commences until the date that control ceases.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated accounts. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised profits but only to the extent that there is no evidence of impairment.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less impairment losses as described in note 2(h). The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

## d. Joint venture

A joint venture is an entity which operates under a contractual arrangement between the Group or the Company and other parties, where the contractual arrangement establishes that the Group or the Company and one or more of the other parties share joint control over the economic activity of the entity.

Investment in a joint venture is accounted for in the consolidated accounts under the equity method and is initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group's share of the joint venture's net assets, unless it is classified as held-for-sale (or included in a disposal group that is classified as held-for-sale). The consolidated profit and loss account includes the Group's share of post-acquisition, post-tax results of the joint venture for the year.

When the Group's share of losses exceeds its interest in a joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture. For this purpose, the Group's interest in the joint venture is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the joint venture.

When an indication of impairment exists, the carrying amount of the investment in a joint venture is assessed as described in note 2(h) and written down immediately to its recoverable amount.

## e. Fixed assets

Fixed assets are stated at cost less accumulated depreciation and impairment losses as described in note 2(h).

The cost of a fixed asset comprises (i) its purchase price, (ii) any directly attributable costs of bringing the asset to its working condition and location for its intended use, (iii) the initial estimate at the time of installation and during the period of use, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and (iv) changes in the measurement of existing liabilities recognised for the costs resulting from changes in the timing or outflow of resources required to settle the obligation or from changes in the discount rate.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the related costs can be measured reliably. All other repairs and maintenance are expensed in the consolidated profit and loss account during the financial period in which they are incurred.

Gains or losses arising from the retirement or disposal of an asset are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated profit and loss account on the date of retirement or disposal.

Depreciation of fixed assets is calculated to write off the cost over their estimated useful lives, using the straight-line basis. Estimated useful lives are summarised as follows:

| | |
|---|---|
| 2G Network equipment | 5 to 10 years |
| 3G Network equipment | 10 years |
| Computer equipment | Shorter of 5 years or lease period of 1 to 3 years |
| Leasehold improvements | Lease periods of 2 to 10 years |
| Furniture and fixtures | 5 years |
| Office equipment | 5 years |
| Motor vehicles | 5 years |

During the year, the Group has reviewed the estimated useful lives of all fixed assets, and changed the estimated useful lives of 2G network equipment from shorter of 10 years or lease period of 1 to 3 years to 5 to 10 years, with effect from 1st July 2005, as a result of change in business plan after the acquisition of a majority interest in the Company by PCCW. Such change in accounting estimate resulted in an increase in depreciation of 2G network equipment by HK$5,590,000 and HK$71,694,000 during the year ended 31st December 2005 and for the remaining useful lives respectively. Depreciation for 2G network equipment for the period from 1st January to 30th June 2005, calculated using straight-line basis over the original estimated useful lives, was HK$93,176,000; and for the period from 1st July to 31st December 2005, calculated using straight-line basis over the revised estimated useful lives, was HK$97,523,000.



Both the useful life of an asset and its residual value, if any, are reviewed and adjusted, if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable value if its carrying amount is greater than its estimated recoverable value as described in note 2(h).

## f. Intangible assets

Intangible assets are stated in the consolidated balance sheet as cost less accumulated amortisation (where the estimated useful life is other than indefinite) and impairment losses as described in note 2(h).

### *(i) Telecommunications licence for 3G services*

The mobile carrier licence to establish and maintain a 3G network and to provide 3G services in Hong Kong (the "3G Licence") is recorded as an intangible asset. Upon the issue of the 3G Licence, the cost thereof, which is the discounted value of the minimum annual fees payable over the licence period of 15 years and directly attributable costs of preparing the asset for its intended use, is recorded together with the related obligations. Amortisation is provided on the straight-line basis over the remaining licence period from the date when the asset is ready for its intended use.

The difference between the discounted value and the total of the minimum annual fee payments represents the effective cost of financing and, accordingly, for the period prior to the asset being ready for its intended use, is capitalised as part of the intangible asset consistent with the policy for borrowing costs as set out in note 2(u). Subsequent to the date when the asset is ready for its intended use, such finance costs will be charged to the consolidated profit and loss account in the year in which they are incurred.

Variable annual payments on top of the minimum annual payments, if any, are recognised in the consolidated profit and loss account as incurred.

*(ii) Subscriber acquisition costs*

Costs to acquire contractual relationships with mobile subscribers are capitalised if it is probable that there will be an inflow of expected future economic benefits bringing from the subscribers to the Group and such costs can be measured reliably. Capitalised subscriber acquisition costs are amortised on the straight-line basis over the minimum contractual period. By the end of the minimum contractual period, fully amortised subscriber acquisition costs will be written off.

Costs incurred in acquiring mobile subscribers without enforceable contracts are otherwise expensed and charged to the consolidated profit and loss account under respective categories. The costs comprise the loss on sales of mobile phones and accessories to the Group and commission expenses payable to dealers for subscriptions without enforceable contracts. Revenue and cost of sales in respect of sales of mobile phones and accessories are included in telecommunications services revenue and cost of sales, respectively. The commission expenses are included in advertising, promotion and other selling costs.

## g. Leases

*(i) Finance leases*

Leases of fixed assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair values of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in current and non-current borrowings. The interest element of the finance cost is expensed in the consolidated profit and loss account over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The fixed asset acquired under finance leases is depreciated over the shorter of the useful life of the asset or the lease term.

*(ii) Operating leases*

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals applicable to such operating leases are charged to the consolidated profit and loss account on the straight-line basis over the lease terms.

## h. Impairment of assets

### *(i) Non-financial assets*

Intangible assets not yet available for use are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair values less the costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that have suffered an impairment are also reviewed for possible reversal of the impairment at each reporting date.

### *(ii) Financial assets*

For financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed the time of the initial recognition of such assets), and recognised in the consolidated profit and loss account.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the consolidated profit and loss account. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.



## i. Financial assets

The Group classifies its financial assets as loans and receivables, which are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are classified as 'Trade and other receivables' in the balance sheet as described in note 2(k). Management determines the classification of a financial assets at the time of initial recognition and re-evaluates its designation at every reporting date.

Loans and receivables are carried at amortised cost using the effective interest method.

For financial assets without an active market, the Group establishes the fair values by using valuation techniques including the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs. If none of the valuation techniques results in a reasonable estimate of the fair values, the investment is stated at cost less impairment losses as described in note 2(h).

Impairment testing of trade receivables is described in note 2(k).

## j. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated on the weighted average basis. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

## k. Trade and other receivables

Trade and other receivables are recognised initially at fair values and subsequently measured at amortised cost using the effective interest method, less any provisions for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in cost of services within the consolidated profit and loss account.

## l. Refundable deposits

Refundable deposits are received from customers who require mobile international calls and roaming services. The refundable deposits are carried at fair values and are included in other payables and accrued charges for as long as the customers require these services.

## m. Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and deposits held at call with banks.

## n. Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

## o. Trade and other payables

Trade and other payables are initially recognised at fair values and thereafter stated at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

## p. Borrowings

Borrowings are recognised initially at fair values less attributable transaction costs. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties.

Subsequent to initial recognition, borrowings are stated at amortised cost with any difference between the proceeds (net of transaction costs) and the redemption value being recognised in the consolidated profit and loss account over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

## q. Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a present 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 expenditure 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.

## r. Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the consolidated profit and loss account as follows:

### *(i) Mobile services*

Revenue from mobile services comprises connection fees and fees for usage of the Group's network and facilities by SUNDAY subscribers and international calls by such subscribers from mobile phones. Subscribers pay monthly fees for usage of the Group's network and facilities which include an agreed minimum amount of free airtime available for local and international calls. Fees for airtime in excess of the agreed minimum and international calls are charged based on usage. Revenue for usage of the Group's network and facilities is recognised in the period in which usage of such network and facilities is provided and collectibility can be reasonably assured. Revenue in respect of international calls and mobile airtime in excess of the minimum agreed amount is recognised when the respective calls are made and collectibility can be reasonably assured.

Subscriptions received in advance comprises prepaid subscription fees received from subscribers and the up-front subscription fees received from subscribers upon purchase of mobile phones. They are for provision of mobile airtime and access to the Group's network for an agreed period of time in accordance with the terms of the sales and services agreements and are deferred and amortised on the straight-line basis over the agreed period, except for prepaid subscription fees from prepaid mobile services which are recognised as revenue based on usage of the Group's network and facilities.

### *(ii) Sales of mobile phones and accessories*

Revenue from sales of mobile phones and accessories is recognised when the mobile phones and accessories are delivered to customers and collectibility can be reasonably assured. Where a customer signs a sales and services agreement in connection with the purchase of a mobile phone and accessories from the Group and the provision of mobile services, revenue in respect of the service element of the agreement is recognised based on the fair values of the service element, which is the price the Group charges to customers who subscribe for mobile services only, without purchase of a mobile phone and accessories. The remainder of the total revenue from an agreement is allocated to revenue from the sale of the mobile phone and accessories.

### *(iii) Interest income*

Interest income is recognised on a time-proportion basis using the effective interest method.

## s. Advertising, promotion and other selling costs

Advertising, promotion and other selling costs are charged to the consolidated profit and loss account as incurred.

## t. Warranty costs

The Group is provided with warranties from certain manufacturers in respect of such manufacturers' defects on mobile phones and accessories. The Group provides warranties to customers on the sale of such mobile phones and accessories with similar terms and conditions to the warranties offered by the manufacturers.

## u. Borrowing costs

Borrowing costs are expensed in the consolidated profit and loss account in the period 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. Facility transaction costs are included in the initial measurement of loans, and are presented as deferred charges which are offset against loans and amortised using the straight-line method over the expected loan periods.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset and borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

Discounts or premiums relating to borrowings, ancillary costs incurred in connection with arranging borrowings and exchange differences arising from foreign currency borrowings, to the extent that they are regarded as adjustments to interest costs, are recognised as expenses over the period of the borrowing using the effective interest method.

## v. Deferred income tax



Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated accounts. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

## w. Employee benefits

### *(i) Employee leave entitlements*

Employee entitlements to annual leave are recognised as they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

### *(ii) Retirement benefits*

The Group operates defined contribution retirement schemes (including the Mandatory Provident Fund) for its employees, the assets of which are generally held in separate trustee – administered funds. The schemes are generally funded by payments from the relevant Group companies.

The Group's contributions to the defined contribution schemes are recognised as expense in the consolidated profit and loss account in the period to which the contributions relate.

*(iii) Termination benefits*

Termination benefits are payable when employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

*(iv) Bonus plans*

The expected bonus payments are recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

## x. Segment reporting

A segment is a distinguishable component of the Group 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.

In accordance with the Group's internal financial reporting system, the Group has determined business segment information as the primary reporting format for the purposes of these consolidated accounts. No geographical segment analysis is presented as the primary operating location of the Group is in Hong Kong.



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 revenue, expenses and segment performance include transactions between segments. Inter-segment pricing is based on similar terms as those available to other external parties for similar services and such transactions are eliminated upon consolidation.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one year.

Unallocated items mainly comprise financial assets and liabilities, interest-bearing loans, borrowings and financing expenses.

## y. Foreign currencies translation

*(i) Functional and presentation currency*

Items included in the accounts of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated accounts are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

*(ii) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated profit and loss account.

## 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimations and assumptions that have a significant risk causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

### a. Useful lives of property, plant and equipment

The Group has significant property, plant and equipment and are required to estimate the useful lives in order to ascertain the amount of depreciation and amortisation charges for each reporting period. The annual depreciation charges are sensitive to the estimated economic useful lives the Group allocates to each type of fixed assets.

The useful lives are estimated at the time the purchases are made after considering the future technology changes, business developments and the Group's strategies. Should there be unexpected adverse changes in the circumstances or events, the Group assesses the need to shorten the useful lives and/or make impairment provisions. Indications of these unexpected adverse changes include declines in projected operating results, negative industry or economic trends, rapid advancement in technology and significant downturn in the Company's stock price.

### b. Asset retirement obligations

The Group evaluates and recognises, on a regular basis, the fair values of fixed assets and obligations which arise from future reinstatement of leased properties at end of lease terms. To establish the fair values of the asset retirement obligations, estimates and judgements are applied in determining these future cash flows and the discount rate. Management estimates the future cash flows based on certain assumptions, such as the types of leased properties, probability of renewal of lease terms and restoration costs. The discount rate used is referenced to the Group's incremental borrowing rate.

### c. Recognition of intangible asset – 3G Licence

In order to measure the intangible asset, HKAS 39 Financial Instruments: Recognition and Measurement is applied for recognition of the minimum annual fee and royalty payments as they constitute a contractual obligation to deliver cash and, hence, should be considered a financial liability. To establish the fair value of the licence, management recognises the contractual obligation up to the minimum annual fee and royalty payments and the discount rate used is referenced to the Group's historical weighted average cost of capital.

## d. Impairment of assets

At each balance sheet date, the Group reviews internal and external sources of information to identify any indications that the following assets have not become impaired or an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment;
— intangible assets; and
— financial assets.

If any such indication exists, the asset's recoverable amount is estimated. In addition, in respect of intangible assets that are not yet available for use, the recoverable amount is estimated annually whether or not there is any indication of impairment. An impairment loss is recognised in the consolidated profit and loss account whenever the carrying amount of an asset exceeds its recoverable amount.

The sources utilised to identify indications of impairment are often subjective in nature and the Group is required to use judgement in applying such information to its business. The Group's interpretation of this information has a direct impact on whether an impairment assessment is performed as at any given balance sheet date. Such information is particularly significant as it relates to the Group's telecommunications businesses in Hong Kong.

If an indication of impairment is identified, such information is further subjected to an exercise that requires the Group to estimate the recoverable value, representing the greater of the net selling price of such asset and its value in use. Depending on the Group's assessment of the overall materiality of the asset under review and complexity of deriving reasonable estimates of the recoverable value, the Group may perform such assessment utilising internal resources or the Group may engage external advisors to counsel the Group in making this assessment. Regardless of the resources utilised, the Group is required to make many assumptions to make this assessment, including utilisation of such asset, the cash flows to be generated, appropriate market discount rates and the projected market and regulatory conditions. Changes in any of these assumptions could result in a material change to future estimates of the recoverable value of any asset.

## 4. FINANCIAL RISK MANAGEMENT

Exposure to credit and market (including interest rate) risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

## a. Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has policies in place and exposures to these credit risks are monitored on an ongoing basis.

The average credit period granted by the Group is 30 days from the date of invoice. Sales of goods and services to customers are primarily made in cash or via major credit cards and the Group does not have a significant exposure to any individual debtors.

## b. Market risk

Market risks are primarily composed of foreign currency exposures and interest rate exposures derived from Group operations. The Group does not have any significant exposures to market risks. All treasury risk management activities are carried out in accordance with policies and guidelines approved by the Executive Committee, which are reviewed on a regular basis.

## c. Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31st December 2005 as follows:

| | 2005 | | 2004 | |
|---|---|---|---|---|
| | Carrying amount HK$'000 | Fair value HK$'000 | Carrying amount HK$'000 (Restated) (Note 31) | Fair value HK$'000 (Restated) (Note 31) |
| 3G Licence fees liability | 582,334 | 582,334 | 532,460 | 532,460 |
| Loans from fellow subsidiaries | 1,203,780 | 1,203,780 | — | — |
| Long-term vendor loans | — | — | 603,148 | 597,199 |
| Rental deposits (Note (i)) | 48,912 | 48,912 | — | — |
| Subscriptions received in advance (Note (ii)) | 74,415 | 74,415 | 69,786 | 69,786 |
| Trade receivables, net | 76,508 | 76,508 | 73,665 | 73,665 |
| Prepayments, other deposits and receivables | 265,082 | 265,082 | 64,749 | 64,749 |
| Amounts due from fellow subsidiaries | 2,506 | 2,506 | — | — |

(i) Carrying amounts of rental deposits of HK$25,302,000 (2004: Nil) and HK$23,610,000 (2004: Nil) are classified under "Deposits and prepayments" in non-current assets and "Deposits, prepayments and other receivables" in current assets on the consolidated balance sheet, respectively.

(ii) Carrying amounts of subscriptions received in advance of HK$2,359,000 (2004: HK$939,000) and HK$72,056,000 (2004: HK$68,847,000) are classified under long-term liabilities and current liabilities on the consolidated balance sheet, respectively.

## d. Estimation of fair values

The fair values of financial instruments are estimated set out below:

The fair values of financial instruments that are not traded in active markets are determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine the fair values for the remaining financial instruments.

The nominal values less impairment provisions for trade receivables and payables are assumed to approximate their fair values. The fair values of financial liabilities for disclosure purposes are estimated by discounting the future contractual cash flows at the current market interest rates that are available to the Group for similar financial instruments.

## 5 SEGMENT INFORMATION

The Group is principally engaged in two business segments in Hong Kong, namely, mobile services and sales of mobile phones and accessories.

| | Mobile Services 2005 HK$'000 | Sales of mobile phones and accessories 2005 HK$'000 | Group 2005 HK$'000 |
|---|---|---|---|
| Turnover | 993,481 | 165,958 | 1,159,439 |
| Loss from operations | (88,913) | (66,664) | (155,577) |
| Interest income | | | 676 |
| Finance costs (Note 8) | | | (42,080) |
| Loss for the year | | | (196,981) |
| Segment assets | 2,601,007 | 48,138 | 2,649,145 |
| Unallocated assets | | | 35,662 |
| Total assets | | | 2,684,807 |
| Segment liabilities | 905,958 | 59,016 | 964,974 |
| Unallocated liabilities | | | 1,206,570 |
| Total liabilities | | | 2,171,544 |
| Capital expenditure (Note 15) | 542,009 | 4,280 | 546,289 |
| Depreciation (Note 15) | (223,760) | (2,179) | (225,939) |
| Amortisation expense (Note 16) | (31,592) | — | (31,592) |
| Impairment of inventory | — | (3,112) | (3,112) |
| Impairment of trade receivables (Note 20) | (21,988) | — | (21,988) |

| | Mobile Services 2004 HK$'000 (Restated) (Note 31) | Sales of mobile phones and accessories 2004 HK$'000 (Restated) (Note 31) | Group 2004 HK$'000 (Restated) (Note 31) |
|---|---|---|---|
| Turnover | 1,031,689 | 126,920 | 1,158,609 |
| Profit/(Loss) from operations | 80,910 | (50,197) | 30,713 |
| Interest income | | | 218 |
| Finance costs (Note 8) | | | (26,300) |
| Share of losses from a joint venture (Note 17) | | | (258) |
| Profit for the year | | | 4,373 |
| Segment assets | 2,021,734 | 33,870 | 2,055,604 |
| Unallocated assets | | | 115,694 |
| Total assets | | | 2,171,298 |
| Segment liabilities | 845,430 | 13,395 | 858,825 |
| Unallocated liabilities | | | 602,229 |
| Total liabilities | | | 1,461,054 |
| Capital expenditure (Note 15) | 299,131 | 2,217 | 301,348 |
| Depreciation (Note 15) | (226,595) | (2,050) | (228,645) |
| Amortisation expense (Note 16) | (25,978) | — | (25,978) |
| Impairment of inventory | — | (4,389) | (4,389) |
| Impairment of trade receivables (Note 20) | (25,573) | — | (25,573) |

There are no sales or other transactions between the business segments. Segment assets consist primarily of fixed assets, inventories, trade receivables, deposits and prepayments and mainly exclude unallocated cash. Segment liabilities comprise operating liabilities and mainly exclude unallocated long-term loans. Capital expenditure comprises additions to fixed assets as set out in note 15.

## 6 COST OF INVENTORIES SOLD AND SERVICES PROVIDED

Cost of inventories sold represents the cost of mobile phones and accessories sold. Cost of services provided represents interconnection charges, cost of out-bound roaming services, provision for doubtful debts, billing materials charges, bill collection charges, cost of prepaid cards and revenue sharing expenses.

## 7 EXPENSES BY NATURE

| | 2005<br>HK$'000 | 2004<br>HK$'000<br>(Restated)<br>(Note 31) |
|---|---|---|
| Amortisation expense (Note 16) | 31,592 | 25,978 |
| Cost of inventories sold | 198,500 | 143,915 |
| Depreciation (Note 15): | | |
| Owned fixed assets | 225,178 | 228,645 |
| Leased fixed assets | 761 | — |
| Loss on disposals of fixed assets | 129 | 338 |
| Operating lease charges: | | |
| Land and buildings, including transmission sites | 225,638 | 182,383 |
| Leased lines | 74,479 | 58,638 |
| Auditors' remuneration: | | |
| Audit services | 1,230 | 1,288 |
| Audit-related services | 240 | 248 |
| Other permitted services | 546 | 368 |
| | 2,016 | 1,904 |

During the year ended 31st December 2005, the Group incurred operating expenses of HK$239,799,000 (2004: HK$70,738,000) in relation to the development of its 3G business, out of which HK$40,705,000 (2004: HK$29,965,000) has been capitalised as fixed assets (Note 15). The remainder has been included in the Group's results before arriving at the loss from operations.

## 8 FINANCE COSTS

| | 2005 HK$'000 | 2004 HK$'000 (Restated) (Note 31) |
|---|---|---|
| Interest on bank loans | — | 434 |
| Interest on long-term vendor loans: | | |
| Wholly repayable within five years | 22,614 | 983 |
| Not wholly repayable within five years | — | 18,632 |
| Interest on loans from fellow subsidiaries: | | |
| Wholly repayable within five years | 22,788 | — |
| Interest element of finance lease payments | 97 | — |
| Other incidental borrowing costs | 20,927 | 11,794 |
| Accretion expenses: | | |
| 3G Licence fees liability | 49,874 | — |
| Asset retirement obilgations | 822 | — |
| Total financing costs incurred | 117,122 | 31,843 |
| Amounts capitalised in fixed assets in the course of construction: | | |
| Interest expenses | (23,855) | (932) |
| Other incidental borrowing costs | (573) | (396) |
| Total financing costs capitalised to fixed assets | (24,428) | (1,328) |
| Amounts capitalised in intangible assets prior to the assets being ready for use: | | |
| Accretion expenses | (49,874) | — |
| Other incidental borrowing costs | (740) | (4,215) |
| Total financing costs capitalised to intangible assets | (50,614) | (4,215) |
| | 42,080 | 26,300 |

Accretion expenses represented changes in 3G Licence fees liability and asset retirement obligations due to the passage of time calculated by applying the effective interest method of allocation to the amount of the liability at the beginning of the period.

Interest expenses capitalised in fixed assets were incurred for the loans drawn down on the equipment supply facility provided by a 3G network vendor and fellow subsidiaries.

Other incidental borrowing costs mainly represented commitment fees, finance charges and amortisation of deferred charges incurred in arranging the long-term and other loans from fellow subsidiaries. As described in note 23, the Group fully settled all vendor loans in July 2005, and the unamortised facility transaction costs of HK$9,653,000 were charged to the consolidated profit and loss account.

## 9 TAXATION

No provision for Hong Kong profits tax and overseas taxation has been made as the Group had no assessable profits for the year (2004: Nil).

The taxation effect of the Group's loss for the year differs from the theoretical amount that would arise using the applicable taxation rate of 17.5% (2004: 17.5%) as follows:

| | 2005<br>HK$'000 | 2004<br>HK$'000<br>(Restated)<br>(Note 31) |
|---|---|---|
| (Loss)/Profit of the year | (196,981) | 4,373 |
| Taxation (credit)/charge at the applicable rate of 17.5% (2004: 17.5%) | (34,472) | 765 |
| Add/(Deduct) tax effects of: | | |
| Income not subject to taxation | (154) | (36) |
| Expenses not deductible for taxation purposes | 2,827 | 3,308 |
| Reversal of temporary differences arising from accelerated depreciation | 18,257 | 24,602 |
| Utilisation of previously unrecognised tax losses | — | (28,639) |
| Tax losses for which no deferred tax asset was recognised | 13,542 | — |
| Taxation charge | — | — |



## 10 (LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

(Loss)/Profit attributable to shareholders of the Company includes a loss of HK$12,605,000 (2004: HK$10,117,000) which has been dealt with in the accounts of the Company.

## 11 (LOSS)/EARNINGS PER SHARE

### a Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the Group's loss for the year of approximately HK$196,981,000 (2004 (Restated): Profit of HK$4,373,000) and the 2,990,000,000 shares (2004: 2,990,000,000 shares) in issue during the year.

### b Diluted (loss)/earnings per share

There is no dilutive effect upon exercise of the share options on the earnings per share for the years ended 31st December 2005 and 2004 since:

(i) the exercise prices for the share options were above the average fair value of the shares; and/or

(ii) as at 31st December 2005, the Group has no outstanding share options as all outstanding share options had either been cancelled or had lapsed under the terms of the Company's share option scheme by 9th August 2005, being one month after the date on which the unconditional general cash offer made by PCCW Mobile became unconditional.

## 12 RETIREMENT BENEFIT COSTS

Pursuant to a trust deed entered into by the Group on 1st April 1998, the Group has set up a defined contribution scheme to provide retirement benefits for its employees in Hong Kong with retrospective effect from 1st July 1997 (the "Retirement Scheme").

All permanent full time employees in Hong Kong were eligible to join the Retirement Scheme before the Mandatory Provident Fund ("MPF") Scheme was set up on 1st December 2000. Under the Retirement Scheme, employees were required to choose to contribute either nil or 5% of their monthly salaries. The Group's contributions were calculated at 5% of each employee's salary.



With effect from 1st December 2000, the Group set up another defined contribution scheme, the MPF Scheme, for all eligible employees of the Group in Hong Kong including the employees under the Retirement Scheme. From that date, contributions from employees and the employer are made to the MPF Scheme only and are no longer made to the Retirement Scheme.

Under the MPF Scheme, employees are required to contribute 5% of their monthly salaries up to a maximum of HK$1,000 and they can choose to make additional contributions. The Group's monthly contributions are calculated at 5% of each employee's monthly salary up to a maximum of HK$1,000 (the "mandatory contributions"). The Group makes certain additional contributions if an employee's monthly salary exceeds HK$20,000 (the "voluntary contributions").

Under the MPF Scheme, employees are entitled to 100% of the employer's mandatory contributions upon their retirement at the age of 65 years old, death or total incapacity. Employees are entitled to 100% of the Group's voluntary contributions after seven years of completed service or at a reduced scale of the Group's voluntary contributions after completion of two to six years of service. Under the Retirement Scheme, employees are entitled to 100% of the employer's contributions after seven years' of completed service, or at a reduced scale after completion of two to six years' of service. Forfeited contributions are to be refunded to the Group under both the MPF Scheme and the Retirement Scheme.

The Retirement Scheme was terminated on 1st January 2006. All the assets under the scheme were converted to the retirement scheme of PCCW ("PCCW Retirement Scheme") with effect from 3rd January 2006. Under the PCCW Retirement Scheme, employees will have one-off irrevocable choice to join either the defined contribution scheme of PCCW or the MPF Scheme in which PCCW participates.

The pension scheme which covers employees in the PRC is a defined contribution scheme at various applicable rates of monthly salary that are in accordance with local practice and regulations.

The Group's contributions to the above schemes are as follows:

| | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|
| Gross employer contributions | 7,818 | 7,171 |
| Less: Forfeited contributions utilised | (505) | (649) |
| Net employer contributions charged to the consolidated profit and loss account (Note 13) | 7,313 | 6,522 |

Contributions payable as at 31st December 2005 amounted to HK$1,008,000 (2004: HK$573,000). Forfeited contributions not utilised and available to reduce future contributions as at 31st December 2005 were HK$28,000 (2004: HK$8,000). The scheme assets are held separately from those of the Group under respective provident funds managed by independent administrators.

## 13 SALARIES AND RELATED COSTS

Salaries and related costs for the year ended 31st December 2005, including directors' fees and emoluments, as set out in note 14, are as follows:

| | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|
| Salaries and allowances | 114,621 | 122,367 |
| Bonuses | 13,600 | — |
| Retirement scheme contributions (Note 12) | 7,313 | 6,522 |
| Termination benefits | 4,509 | — |
| | 140,043 | 128,889 |

## 14 DIRECTORS' AND MANAGEMENT EMOLUMENTS

### a Directors' emoluments

The aggregate amounts of emoluments to directors of the Company in 2005 are as follows:

| | 2005 | | | |
|---|---|---|---|---|
| Directors | Fees HK$'000 | Salary, other allowances and benefits-in-kind HK$'000 | Retirement scheme contributions HK$'000 | Total HK$'000 |
| Richard John Siemens (Note i) | — | 867 | 18 | 885 |
| Cheng Wai Sun, Edward (Note i) | — | 867 | 18 | 885 |
| William Bruce Hicks (Note i) | — | 2,811 | 15 | 2,826 |
| Kuldeep Saran (Note i) | — | 867 | 18 | 885 |
| Leung Chun Keung, Andrew (Note i) | — | 867 | 18 | 885 |
| Alexander Anthony Arena (Note ii) | — | — | — | — |
| Chan Kee Sun, Tom (Note ii) | — | — | — | — |
| Chan Wing Wa (Note ii) | — | — | — | — |
| Chow Ding Man (Note ii) | — | — | — | — |
| Hui Hon Hing, Susanna (Note ii) | — | — | — | — |
| Kwok Yuen Man, Marisa (Note iii) | — | — | — | — |
| John William Crawford | 200 | — | — | 200 |
| Henry Michael Pearson Miles | 200 | — | — | 200 |
| Robert John Richard Owen | 200 | — | — | 200 |
| Kenneth Michael Katz (Note i) | — | — | — | — |
| Zheng Hongqing (Note iv) | — | — | — | — |
| | 600 | 6,279 | 87 | 6,966 |

Notes:

i. Resigned on 29th July 2005.

ii. Appointed on 8th July 2005.

iii. Appointed on 8th July 2005 and resigned on 28th February 2006.

iv. Resigned on 16th January 2006.

The aggregate amounts of emoluments to directors of the Company in 2004 are as follows:

| | 2004 | | | |
|---|---|---|---|---|
| Directors | Fees HK$'000 | Salary, other allowances and benefits-in-kind HK$'000 | Retirement scheme contributions HK$'000 | Total HK$'000 |
| Richard John Siemens | — | 1,500 | 30 | 1,530 |
| Cheng Wai Sun, Edward | — | 1,500 | 30 | 1,530 |
| William Bruce Hicks | — | 3,976 | 30 | 4,006 |
| Kuldeep Saran | — | 1,500 | 30 | 1,530 |
| Leung Chun Keung, Andrew | — | 1,500 | 30 | 1,530 |
| John William Crawford | 200 | — | — | 200 |
| Henry Michael Pearson Miles | 200 | — | — | 200 |
| Simon Murray (Note i) | 146 | — | — | 146 |
| Robert John Richard Owen | 200 | — | — | 200 |
| Kenneth Michael Katz (Note ii) | — | — | — | — |
| Zheng Hongqing | — | — | — | — |
| | 746 | 9,976 | 150 | 10,872 |

Notes:

i. Resigned on 24th September 2004.

ii. Appointed on 16th January 2004.

During the year no options were granted to or exercised by any director (2004: Nil) and no directors waived the right to receive any emoluments during the year.

The Remuneration Committee was established in January 2000 and is responsible for reviewing the remuneration of the directors and officers of the Company and other matters relating to remuneration, as directed by the Board from time to time. The committee's authority, duties and composition are specified in its terms of reference, which are reviewed by the Board on an annual basis.

## b Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include one (2004: one) director whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining four (2004: four) individuals during the year are as follows:

| | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|
| Salaries, other allowances and benefits-in-kind | 7,068 | 6,550 |
| Retirement scheme contributions | 120 | 120 |
| Compensation for loss of office - contractual payment | — | 168 |
| | 7,188 | 6,838 |

The emoluments of these four (2004: four) individuals fell within the following bands:

| Emolument bands (including compensation for loss of office) | Number of individuals 2005 | 2004 |
|---|---|---|
| HK$1,500,001 — HK$2,000,000 | 3 | 4 |
| HK$2,000,001 — HK$2,500,000 | 1 | — |

# Notes to the Accounts

## 15 FIXED ASSETS

| | Network equipment HK$'000 | Furniture and fixtures HK$'000 | Office equipment HK$'000 | Computer equipment HK$'000 | Motor vehicles HK$'000 | Leasehold improvements HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| Cost | | | | | | | |
| At 1st January 2005, as previously reported | 2,238,571 | 7,010 | 17,485 | 235,724 | 2,724 | 356,072 | 2,857,586 |
| Prior year adjustment arising from adoption of new accounting standard for intangible assets (Note 2(b)) | (163,369) | — | — | — | — | — | (163,369) |
| As 1st January 2005, as restated | 2,075,202 | 7,010 | 17,485 | 235,724 | 2,724 | 356,072 | 2,694,217 |
| Additions | 430,445 | 1 | 215 | 24,135 | — | 91,493 | 546,289 |
| Disposals | — | (6) | (1,023) | (4,552) | — | (4,763) | (10,344) |
| Exchange differences | — | 19 | 88 | 86 | 4 | 85 | 282 |
| At 31st December 2005 | 2,505,647 | 7,024 | 16,765 | 255,393 | 2,728 | 442,887 | 3,230,444 |
| Accumulated depreciation | | | | | | | |
| At 1st January 2005 | 1,103,804 | 5,997 | 13,196 | 211,569 | 2,146 | 292,558 | 1,629,270 |
| Charge for the year | 190,699 | 386 | 1,728 | 7,022 | 237 | 25,867 | 225,939 |
| Disposals | — | (6) | (1,000) | (4,480) | — | (4,691) | (10,177) |
| Exchange differences | — | 9 | 50 | 36 | 2 | 60 | 157 |
| At 31st December 2005 | 1,294,503 | 6,386 | 13,974 | 214,147 | 2,385 | 313,794 | 1,845,189 |
| Net book value | | | | | | | |
| At 31st December 2005 | 1,211,144 | 638 | 2,791 | 41,246 | 343 | 129,093 | 1,385,255 |
| At 1st January 2005, as restated | 971,398 | 1,013 | 4,289 | 24,155 | 578 | 63,514 | 1,064,947 |

| | Network equipment HK$'000 | Furniture and fixtures HK$'000 | Office equipment HK$'000 | Computer equipment HK$'000 | Motor vehicles HK$'000 | Leasehold improvements HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| At 1st January 2004, as previously reported | 1,940,678 | 6,649 | 17,972 | 222,992 | 2,437 | 319,966 | 2,510,694 |
| Prior year adjustment arising from adoption of new accounting standard for intangible assets (Note 2(b)) | (109,154) | — | — | — | — | — | (109,154) |
| At 1st January 2004, as restated | 1,831,524 | 6,649 | 17,972 | 222,992 | 2,437 | 319,966 | 2,401,540 |
| Additions | 244,183 | 375 | 605 | 12,921 | 287 | 42,977 | 301,348 |
| Disposals | (505) | (14) | (1,092) | (189) | — | (6,871) | (8,671) |
| At 31st December 2004, as restated | 2,075,202 | 7,010 | 17,485 | 235,724 | 2,724 | 356,072 | 2,694,217 |
| **Accumulated depreciation** | | | | | | | |
| At 1st January 2004 | 912,906 | 5,200 | 11,988 | 200,212 | 1,910 | 276,579 | 1,408,795 |
| Charge for the year | 191,180 | 810 | 2,120 | 11,544 | 236 | 22,755 | 228,645 |
| Disposals | (282) | (13) | (912) | (187) | — | (6,776) | (8,170) |
| At 31st December 2004 | 1,103,804 | 5,997 | 13,196 | 211,569 | 2,146 | 292,558 | 1,629,270 |
| **Net book value** | | | | | | | |
| At 31st December 2004, as restated | 971,398 | 1,013 | 4,289 | 24,155 | 578 | 63,514 | 1,064,947 |
| At 1st January 2004, as restated | 918,618 | 1,449 | 5,984 | 22,780 | 527 | 43,387 | 992,745 |

Expenditures of HK$40,705,000 (2004: HK$29,965,000) and borrowing costs of HK$24,428,000 (2004 (Restated): HK$1,328,000) were capitalised as fixed assets in the course of constructing the 3G network.

During the year, the Group reviewed the estimated useful lives of all fixed assets, and changed the estimated useful lives of the 2G network equipment from the shorter of 10 years or the lease period of 1 to 3 years to 5 to 10 years. The effect of such change in accounting estimate is set out in note 2(e).

During the year, no depreciation has been provided for network equipment, computer equipment and leasehold improvements for the provision of 3G services, totalling HK$658,741,000 (2004 (Restated): HK$247,481,000), as these assets were not ready for their intended use at the balance sheet date.

Computer equipment includes the following amounts where the Group is a lessee under a finance lease:

| | 2005<br>HK$'000 | 2004<br>HK$'000 |
|---|---|---|
| Cost – capitalised finance leases | 3,044 | — |
| Accumulated depreciation | (761) | — |
| Net book value | 2,283 | — |

## 16 INTANGIBLE ASSETS

| | 3G Licence HK$'000 | Subscriber acquisition costs HK$'000 | Total HK$'000 |
|---|---|---|---|
| Cost | | | |
| At 1st January 2005, as previously reported | — | — | — |
| Prior year adjustments arising from adoption of new accounting standard for intangible assets (Note 2(b)) | 787,496 | 13,062 | 800,558 |
| At 1st January 2005, as restated | 787,496 | 13,062 | 800,558 |
| Additions | 50,614 | 34,602 | 85,216 |
| Write-offs | — | (25,776) | (25,776) |
| At 31st December 2005 | 838,110 | 21,888 | 859,998 |
| Amortisation | | | |
| At 1st January 2005, as previously reported | — | — | — |
| Prior year adjustments arising from adoption of new accounting standard for intangible assets (Note 2(b)) | — | 6,266 | 6,266 |
| At 1st January 2005, as restated | — | 6,266 | 6,266 |
| Additions | — | 31,592 | 31,592 |
| Write-offs | — | (25,776) | (25,776) |
| At 31st December 2005 | — | 12,082 | 12,082 |
| Net book value | | | |
| At 31st December 2005 | 838,110 | 9,806 | 847,916 |
| At 1st January 2005, as restated | 787,496 | 6,796 | 794,292 |

| | 3G Licence HK$'000 | Subscriber acquisition costs HK$'000 | Total HK$'000 |
|---|---|---|---|
| Cost | | | |
| At 1st January 2004, as previously reported | — | — | — |
| Prior year adjustments arising from adoption of new accounting standard for intangible assets (Note 2(b)) | 250,821 | 18,252 | 269,073 |
| At 1st January 2004, as restated | 250,821 | 18,252 | 269,073 |
| Additions | 536,675 | 24,807 | 561,482 |
| Write-offs | — | (29,997) | (29,997) |
| At 31st December 2004, as restated | 787,496 | 13,062 | 800,558 |
| Amortisation | | | |
| At 1st January 2004, as previously reported | — | — | — |
| Prior year adjustments arising from adoption of new accounting standard for intangible assets (Note 2(b)) | — | 10,285 | 10,285 |
| At 1st January 2004, as restated | — | 10,285 | 10,285 |
| Additions | — | 25,978 | 25,978 |
| Write-offs | — | (29,997) | (29,997) |
| At 31st December 2004, as restated | — | 6,266 | 6,266 |
| Net book value | | | |
| At 31st December 2004, as restated | 787,496 | 6,796 | 794,292 |
| At 1st January 2004, as restated | 250,821 | 7,967 | 258,788 |

Finance costs of HK$50,614,000 (2004 (Restated): HK$4,215,000) were capitalised as intangible assets prior to the assets being ready for use.

## 17 INVESTMENT IN A JOINT VENTURE

| | Group 2005 HK$'000 | Group 2004 HK$'000 |
|---|---|---|
| Share of net liabilities | (4,192) | (4,192) |
| Advances | 6,589 | 6,589 |
| Provision for impairment loss | (2,397) | (2,397) |
| | — | — |

Details of the joint venture as at 31st December 2005 are as follows:

| Name | Nature | Place of incorporation | Voting power | Principal activities and Place of operation |
|---|---|---|---|---|
| Atria Limited | Corporate | Hong Kong | 50% | Inactive |

The advance to Atria Limited is unsecured, interest-free and has no fixed repayment terms.

For the year ended 31st December 2005, the Group recognised the share of losses from the joint venture of Nil (2004: HK$258,000) in the consolidated profit and loss account. The amounts included share of net liabilities of Nil (2004: HK$192,000) and an additional provision for impairment of Nil (2004: HK$66,000).

The Group regularly performs an assessment on its investment in and advances to the joint venture with reference to the expected recoverability. As at 31st December 2005, the provision of HK$2,397,000 (2004: HK$2,397,000) was considered necessary to reflect the carrying value of the investment.

## 18 RESTRICTED CASH DEPOSITS

As at 31st December 2005, a bank deposit of HK$822,000 (2004: HK$1,130,000) has been pledged to a bank in return for a bank guarantee issued in respect of the use of facilities at the Hong Kong International Airport for the provision of mobile services. The guarantee will expire in March 2007.

## 19 INVENTORIES

The carrying values of the inventories are as follows:

| | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|
| Mobile phones and accessories: | | |
| Cost | 37,011 | 22,414 |
| Less: Provision for impairment of inventories | (12,614) | (8,546) |
| | 24,397 | 13,868 |

As at 31st December 2005, the carrying amount of inventories stated at fair values less costs to sell amounted to HK$14,373,000 (2004: HK$8,173,000).

## 20 TRADE RECEIVABLES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES, AND AMOUNTS DUE FROM FELLOW SUBSIDIARIES

| | 2005<br>HK$'000 | 2004<br>HK$'000<br>(Restated)<br>(Note 31) |
|---|---|---|
| Trade receivables | 83,530 | 82,028 |
| Less: Provision for impairment of receivables | (7,022) | (8,363) |
| Trade receivables, net | 76,508 | 73,665 |
| Rental deposits | 48,912 | 44,082 |
| Prepaid operating rental expenses | 3,282 | — |
| Prepayments, other deposits and receivables | 261,800 | 64,749 |
| Amounts due from fellow subsidiaries | 2,506 | — |
| | 393,008 | 182,496 |
| Less: non-current portion | | |
| Rental deposits | (23,610) | — |
| Prepaid operating rental expenses | (2,354) | — |
| | 367,044 | 182,496 |

The fair values of trade receivables, deposits, prepayments and other receivables, and amounts due from fellow subsidiaries are as follows:

| | 2005<br>HK$'000 | 2004<br>HK$'000<br>(Restated)<br>(Note 31) |
|---|---|---|
| Trade receivables, net | 76,508 | 73,665 |
| Deposits, prepayments and other receivables | 313,994 | 108,831 |
| Amounts due from fellow subsidiaries | 2,506 | — |
| | 393,008 | 182,496 |

The Group allows an average credit period of 30 days on its trade receivables. At 31st December 2005, the ageing analysis of the trade receivables (net of provision for impairment) and amounts due from fellow subsidiaries arising from trade transactions of HK$1,075,000 (2004: Nil) were as follows:

| | 2005<br>HK$'000 | 2004<br>HK$'000 |
|---|---|---|
| 0-30 days | 58,002 | 52,840 |
| 31-60 days | 13,434 | 13,547 |
| 61-90 days | 5,790 | 5,993 |
| Over 90 days | 357 | 1,285 |
| | 77,583 | 73,665 |

There is no concentration of credit risk with respect to trade receivables as the Group has a large customer base.

The Group recognised expenses of HK$21,988,000 (2004: HK$25,573,000) for the impairment of trade receivables during the year ended 31st December 2005 which amount has been included in cost of services in the consolidated profit and loss account.

## 21 TRADE PAYABLES AND AMOUNTS DUE TO FELLOW SUBSIDIARIES

| | 2005<br>HK$'000 | 2004<br>HK$'000 |
|---|---|---|
| Trade payables | 48,584 | 60,227 |
| Amounts due to fellow subsidiaries | 7,183 | — |
| | 55,767 | 60,227 |

At 31st December 2005, the ageing analysis of the trade payables, including amounts due to fellow subsidiaries arising from trade transactions of HK$6,426,000 (2004: Nil), were as follows:

| | 2005<br>HK$'000 | 2004<br>HK$'000 |
|---|---|---|
| 0-30 days | 42,826 | 35,476 |
| 31-60 days | 10,686 | 7,818 |
| 61-90 days | 842 | 5,708 |
| Over 90 days | 656 | 11,225 |
| | 55,010 | 60,227 |

## 22 SHARE CAPITAL

| | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|
| Authorised: | | |
| 10,000,000,000 (2004: 10,000,000,000) ordinary shares of HK$0.10 each | 1,000,000 | 1,000,000 |
| Issued and fully paid: | | |
| 2,990,000,000 (2004: 2,990,000,000) ordinary shares of HK$0.10 each | 299,000 | 299,000 |

### Share option scheme

On 1st March 2000, the shareholders of the Company approved and adopted a share option scheme (the "Share Option Scheme"). Subject to earlier termination by the Company in a general meeting of shareholders, the Share Option Scheme remains in force for 10 years from its adoption date.

On 22nd May 2002, the shareholders of the Company approved the adoption of a new share option scheme (the "New Option Scheme") and the termination of the operation of the Share Option Scheme. Upon the termination of the Share Option Scheme, no further options will be granted thereunder but the provisions thereof will remain in full force and effect in respect of the existing options granted.



Under the New Option Scheme, the Board may, at its discretion, grant options to any director, employee, consultant, customer, supplier, agent, partner, shareholder or adviser of or contractor to the Group or a company in which the Group holds an interest or a subsidiary of such company. Each grant of options to a director, chief executive or substantial shareholder or any of their respective associates must be approved in accordance with the requirements of the Listing Rules.

The exercise price for any particular option under the New Option Scheme will be determined by the Board but will be not less than the highest of: (i) the closing price of shares on the date of grant of the option; (ii) an amount equivalent to the average closing price of a share for the five business days immediately preceding the date of grant of the option; and (iii) the nominal share value.

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under both the New Option Scheme and the Share Option Scheme must not, in aggregate, exceed 30% of the shares of the Company in issue.

The total number of shares available for issue under options which may be granted under the New Option Scheme (excluding those options that have been granted by the Company prior to the date of approval of the New Option Scheme) must not, in aggregate, exceed 10% of the issued share capital of the Company as at the date of approval of the New Option Scheme (the "Scheme Mandate Limit"). The Scheme Mandate Limit may be refreshed by shareholders of the Company in general meeting provided that the Scheme Mandate Limit so refreshed not exceed 10% of the issued share capital of the Company at the date of approval of the refreshment by the shareholders. The Board may also seek separate shareholder approval in general meeting to grant options beyond the Scheme Mandate Limit (whether or not refreshed) provided that the options in excess of the Scheme Mandate Limit are granted only to eligible participants specified by the Company before such approval is sought.

No options may be granted under the New Option Scheme to any eligible participant which, if exercised in full, would result in the total number of shares issued and to be issued upon exercise of the options already granted or to be granted to such eligible participant (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such new grant exceeding 1% of the issued share capital of the Company. As at the date of such new grant, any grant of further options above this limit will be subject to certain requirements provided under the Listing Rules, including the approval of shareholders at a general meeting.

No share options have been granted or exercised under the New Option Scheme during the year ended 31st December 2005 (2004: Nil). All outstanding share options had either been cancelled or had lapsed under the terms of the Company's share option scheme by 9th August 2005, being one month after the date on which the unconditional general cash offer made by PCCW became unconditional.

Details of the share options outstanding under the Share Option Scheme and movements during the year ended 31st December 2005 are as follows:

| | Options held at 1st January 2005 | Options lapsed during the year[2] | Options cancelled during the year[3] | Options held at 31st December 2005 | Exercise price HK$ | Grant date [1] | Exercisable until [3] |
|---|---|---|---|---|---|---|---|
| Continuous contract employees | 13,194,076 | (561,802) | (12,632,274) | — | 3.05 | 23/03/2000 | N/A |
| | 13,737,971 | (761,634) | (12,976,337) | — | 1.01 | 31/05/2000 | N/A |
| | 255,844 | (99,915) | (155,929) | — | 3.05 | 31/05/2000 | N/A |
| | 1,442,198 | (208,307) | (1,233,891) | — | 1.01 | 19/01/2001 | N/A |
| | 28,630,089 | (1,631,658) | (26,998,431) | — | | | |

Notes:

(1) Of the share options granted, 40% became exercisable after one year from the grant date and 30% per annum during the following two years.

(2) These share options lapsed during the year upon the cessation of employment of certain employees.

(3) All outstanding share options had either been cancelled or had lapsed under the terms of the Company's Share Option Scheme by 9th August 2005, being one month after the date on which the unconditional general cash offer made by PCCW Mobile became unconditioned.

## 23 LONG-TERM LOANS AND OBLIGATIONS UNDER FINANCE LEASES

| | 2005 | 2004 |
|---|---|---|
| | HK$'000 | HK$'000 |
| Loans from fellow subsidiaries – unsecured (note a) | 1,203,780 | — |
| Long-term vendor loans – secured (note a) | — | 603,148 |
| Obligations under finance leases (note b) | 2,178 | — |
| | 1,205,958 | 603,148 |
| Less: Deferred charges | — | (10,408) |
| | 1,205,958 | 592,740 |
| Current portion of obligations under finance leases (note b) | (937) | — |
| Long-term portion | 1,205,021 | 592,740 |
| Representing: | | |
| Long-term vendor loans | — | 592,740 |
| Loans from fellow subsidiaries | 1,203,780 | — |
| Obligations under finance leases – long term portion | 1,241 | — |
| | 1,205,021 | 592,740 |



### a. Loans from fellow subsidiaries and vendor loans

At 31st December 2005, the Group's long-term loans, excluding obligations under finance leases, were repayable as follows:

| | Loans from fellow subsidiaries | | Long-term vendor loans | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Within one year | — | — | — | — |
| In the second year | — | — | — | 75,000 |
| In the third to fifth year | 1,203,780 | — | — | 239,074 |
| After the fifth year | — | — | — | 289,074 |
| | 1,203,780 | — | — | 603,148 |

The effective interest rates at the balance sheet date were as follows:

| | 2005 | 2004 |
|---|---|---|
| Long-term vendor loans: | | |
| General facility | — | 4.16% |
| Equipment facility | — | 4.31% |
| Loans from fellow subsidiaries | 5.50% | — |

The carrying amounts and fair values of the Group's long-term loans were as follows:

| | 2005 | | 2004 | |
|---|---|---|---|---|
| | Carrying amount HK$'000 | Fair value HK$'000 | Carrying amount HK$'000 | Fair value HK$'000 |
| Loans from fellow subsidiaries | 1,203,780 | 1,203,780 | — | — |
| Long-term vendor loans | — | — | 603,148 | 597,199 |

*(i) Settlement of vendor loans*

On 8th July 2005, Mandarin Communications Limited, an indirect wholly owned subsidiary of the Company, gave a written notice to Huawei Tech. Investment Co., Limited of its intention to fully repay all loans and performance bonds outstanding under the Facility Agreement on 29th July 2005, and to cancel any available facilities under the Facility Agreement. On 29th July 2005, the Group fully repaid all the outstanding principal amounts, accrued interest, commitment fees and early repayment charges under the Facility Agreement aggregating HK$873,780,000 through inter-company loan facilities provided by a subsidiary of PCCW (see note (ii)).

*(ii) Loans from fellow subsidiaries*

On 27th July 2005, PCCW-HKT Limited, an indirect wholly-owned subsidiary of PCCW, and the Group entered into a long-term inter-company facility, pursuant to which PCCW-HKT Limited provided the Group with the required funding for full repayment of all the outstanding loan principal and accrued interest under the Facility Agreement as at 29th July 2005. The inter-company facility comprises the following facilities:

- HK$440,000,000 general facility with a term of 3 years; and
- HK$460,000,000 equipment facility with a term of 5 years.

As at 31st December 2005, loans totalling HK$873,780,000 were drawn in respect of these facilities. The loans are unsecured and bear interest at a floating rate with reference to the Hong Kong Dollar Prime Rate plus a margin of 0.25% per annum.

As at 31st December 2005, PCCW-HKT Limited and PCCW Services Limited, a direct wholly-owned subsidiary of PCCW, entered into various additional facility agreements all of a term of 3 years with the Group, in respect of facilities in the aggregate amount of HK$1,003,500,000. The facilities are to be used, in stated amounts, for specified items in developing the 3G network and for upgrade of the 2G network. As at 31st December 2005, loans totalling HK$330,000,000 were drawn in respect of these facilities. The loans are unsecured and bear interest at a floating rate with reference to the Hong Kong Dollar Prime Rate plus a margin of 0.25% per annum.

The carrying amounts of the loans from fellow subsidiaries are denominated in Hong Kong Dollars.

Prior to 29th July 2005, PCCW arranged with a bank to provide performance bonds in the aggregate amount of HK$210,746,000 for full replacement of the performance bonds obtained under the Facility Agreement. Effective on 22nd October 2005, the amount of the performance bonds was increased to HK$301,243,000 to comply with the licence conditions of the 3G Licence. The performance bonds are interest bearing at a fixed rate of 0.675% per annum.

## b. Obligations under finance leases

| | 2005<br>HK$'000 | 2004<br>HK$'000 |
|---|---|---|
| Obligations under finance leases – minimum lease payments: | | |
| Not later than 1 year | 1,028 | — |
| Later than 1 year and not later than 5 years | 1,284 | — |
| | 2,312 | — |
| Future finance charges on finance leases | (134) | — |
| Present value of finance lease liabilities | 2,178 | — |
| The present value of obligations under finance lease liabilities is as follows: | | |
| Not later than 1 year | 937 | — |
| Later than 1 year and not later than 5 years | 1,241 | — |
| | 2,178 | — |

The effective interest rate at the balance sheet date was 5.19% (2004: Nil).

## 24 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

### a. Reconciliation of (loss)/profit from operations to net cash inflow from operating activities

| | 2005<br>HK$'000 | 2004<br>HK$'000<br>(Restated)<br>(Note 31) |
|---|---|---|
| (Loss)/Profit from operations | (155,577) | 30,713 |
| Depreciation | 225,939 | 228,645 |
| Loss on disposals of fixed assets | 129 | 338 |
| Amortisation expense | 31,592 | 25,978 |
| Exchange gains | (125) | (44) |
| Operating profit before changes in working capital | 101,958 | 285,630 |
| Increase in inventories | (10,529) | (2,247) |
| (Increase)/Decrease in trade receivables, deposits, prepayments and other receivables | (19,663) | 206 |
| Increase in amounts due from fellow subsidiaries | (2,506) | — |
| Increase/(Decrease) in trade payables, other payables and accrued charges | 6,251 | (38,699) |
| Increase/(Decrease) in subscriptions received in advance | 4,629 | (19,239) |
| Increase in amounts due to fellow subsidiaries | 7,183 | — |
| Increase in amount due to ultimate holding company | 2,033 | — |
| Cash inflow from operations | 89,356 | 225,651 |
| Interest received | 432 | 228 |
| Interest paid | (54,891) | (11,204) |
| Interest element of finance lease payments | (97) | — |
| Other incidental borrowing costs paid | (2,924) | (4,961) |
| Net cash inflow from operating activities | 31,876 | 209,714 |

### b. Major non-cash transactions

| | 2005<br>HK$'000 | 2004<br>HK$'000<br>(Restated)<br>(Note 31) |
|---|---|---|
| Purchases of fixed assets by directly assuming long-term vendor loans | 158,352 | 105,231 |
| Amortisation of deferred charges | 10,408 | 1,059 |
| Interest expenses capitalised in fixed assets in the course of network construction | — | 932 |

## 25 DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using the principal taxation rate of 17.5% (2004: 17.5%).

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off and when the deferred income taxes relate to the same fiscal authority.

Deferred tax assets are recognised for tax losses carry forward purposes only to the extent that realisation of the related tax benefits through future taxable profits is probable. The Group recognises deferred tax assets to the extent of recognised deferred tax liabilities and has unrecognised tax losses of HK$3,288,039,000 (2004: HK$3,217,454,000) to carry forward against future taxable income. These tax losses can be carried forward indefinitely.

| | 2005<br>HK$'000 | 2004<br>HK$'000<br>(Restated)<br>(Note 31) |
|---|---|---|
| Deferred tax assets – Tax losses | | |
| At 1st January | 460,990 | 489,629 |
| Increase in tax losses | 13,542 | — |
| Utilisation of previously unrecognised tax losses | — | (28,639) |
| At 31st December | 474,532 | 460,990 |
| Deferred tax liabilities – Accelerated depreciation allowance | | |
| At 1st January | (65,808) | (90,410) |
| Reversal of temporary differences | 18,257 | 24,602 |
| At 31st December | (47,551) | (65,808) |
| Summary of net status | | |
| Deferred tax assets | 474,532 | 460,990 |
| Deferred tax liabilities | (47,551) | (65,808) |
| Net unrecognised deferred tax assets at 31st December | 426,981 | 395,182 |

## 26 CAPITAL COMMITMENTS

| | 2005<br>HK$'000 | 2004<br>HK$'000 |
|---|---|---|
| In respect of purchases of fixed assets: | | |
| Contracted but not provided for | 631,647 | 1,129,775 |
| Authorised but not contracted for | 403,970 | — |
| | 1,035,617 | 1,129,775 |

## 27 COMMITMENTS UNDER OPERATING LEASES

The Group leases various cell sites, shops and offices under non-cancellable operating lease agreements. The leases have varying terms escalation clauses and renewal rights.

At 31st December 2005, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

| | 2005<br>HK$'000 | 2004<br>HK$'000 |
|---|---|---|
| In respect of land and buildings, including transmission sites: | | |
| Not later than one year | 175,657 | 147,408 |
| Later than one year and not later than five years | 150,292 | 84,711 |
| After five years | 34,310 | — |
| | 360,259 | 232,119 |
| In respect of leased lines: | | |
| Not later than one year | 80,800 | 70,398 |
| Later than one year and not later than five years | 914 | 49,833 |
| After five years | — | — |
| | 81,714 | 120,231 |
| | 441,973 | 352,350 |

## 28 RELATED PARTY TRANSACTIONS

For the purpose of these consolidated accounts, parties are considered to be related to the Group if the Group 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 Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities, and including entities which are under the significant influence of related parties of the Group where the parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

The Group is controlled by PCCW Mobile, an indirect wholly-owned subsidiary of PCCW, established under the laws of the British Virgin Islands, which owns approximately 79.35% of the Company's shares at the balance sheet date.

The ultimate holding company of the Company is, therefore, deemed to be PCCW which is incorporated in Hong Kong.

The following sets out related party balances together with a summary of significant related party transactions which were carried out in the ordinary course of the Group's business:

| | | 2005<br>HK$'000 | 2004<br>HK$'000 |
|---|---|---|---|
| a. | Purchases of services from fellow subsidiaries (Note i): | | |
| | Interconnection charges | 20,593 | — |
| | Leased lines rental charges | 26,375 | — |
| | Dealer commission charges | 5,802 | — |
| | | 52,770 | — |
| b. | Sales of goods to fellow subsidiaries (Note i): | | |
| | Sales of mobile phones | 19,742 | — |
| | Sales of trade-in mobile phones | 1,065 | — |
| | | 20,807 | — |
| c. | Finance costs incurred on facilities from (Note ii): | | |
| | Fellow subsidiaries | 22,789 | — |
| | Ultimate holding company | 2,380 | — |
| | | 25,169 | — |

(i) Terms of the transactions were negotiated and agreed by both parties in the ordinary course of business except for those services in which the rates are regulated by the OFTA.

(ii) Finance costs include interest expenses incurred on loans from fellow subsidiaries and commission fees in respect of the performance bond (Note 8).

d. Year end balances arising from loans, purchases of services and sales of goods are as follows:

| | 2005<br>HK$'000 | 2004<br>HK$'000 |
|---|---|---|
| Amounts due from fellow subsidiaries (Note i) | 2,506 | — |
| Amounts due to fellow subsidiaries (Note i) | (7,183) | — |
| Amount due to ultimate holding company (Note i) | (2,033) | — |
| Loans from fellow subsidiaries (Note ii) | (1,203,780) | — |

(i) Balances with fellow subsidiaries and the ultimate holding company are unsecured, non-interest bearing and have no fixed repayment terms.

(ii) The terms of loans from fellow subsidiaries are set out in note 23.

e. Key management compensation:

| | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|
| Salaries and other short-term employee benefits | 20,541 | 22,161 |
| Termination benefits | 116 | 168 |
| Other long-term benefits | 407 | 442 |
| | 21,064 | 22,771 |

## 29 INVESTMENTS IN SUBSIDIARIES

| | Company | |
|---|---|---|
| | 2005 HK$'000 | 2004 HK$'000 |
| Unlisted shares, at cost | 1 | 1 |
| Loans to subsidiaries | 2,421,735 | 2,421,735 |
| Amounts due to subsidiaries | (85,521) | (72,845) |
| | 2,336,215 | 2,348,891 |



The loans to and the amounts due to the subsidiaries are unsecured, interest-free and have no fixed terms for repayment.

The Company has the following principal wholly-owned subsidiaries as at 31st December 2005:

| Name | Place of incorporation | Issued and fully paid up capital | Principal activities |
|---|---|---|---|
| *Shares held directly:* | | | |
| SUNDAY Holdings (Hong Kong) Corporation | British Virgin Islands | 100 ordinary shares of US$1 each | Investment holding |
| SUNDAY Holdings (China) Corporation | British Virgin Islands | 1 ordinary share of US$1 | Investment holding |
| SUNDAY IP Holdings Corporation | British Virgin Islands | 1 ordinary share of US$1 | Investment holding |
| *Shares held indirectly:* | | | |
| Mandarin Communications Limited | Hong Kong | 100 ordinary shares of HK$1 each and 1,254,000,000 non-voting deferred shares of HK$1 each | Provision of mobile and other services, and sales of mobile phones and accessories |
| SUNDAY 3G Holdings (Hong Kong) Corporation | British Virgin Islands | 1 ordinary share of US$1 | Investment holding |

| Name | Place of incorporation | Issued and fully paid up capital | Principal activities |
|---|---|---|---|
| SUNDAY 3G (Hong Kong) Limited | Hong Kong | 2 ordinary shares of HK$1 each | Licensee of Hong Kong 3G Licence |
| SUNDAY IP Limited | British Virgin Islands | 1 ordinary share of US$1 | Holding the Group's intellectual property rights and trademarks |
| SUNDAY Communications Services (Shenzhen) Limited ("SCSSL") | The People's Republic of China | US$1,500,000 | Provision of back office support services to the Group |

The principal activities of the subsidiaries, except for SCSSL which operates in the PRC, are undertaken in Hong Kong.

SCSSL is registered as a wholly foreign-owned enterprise in the PRC and its registered capital has been fully paid up.

## 30 SUBSEQUENT EVENTS

As the scheme of arrangement in relation to the proposed privatisation of the Company was not approved at the court meeting of the Company's independent shareholders held on 15th December 2005, the Company was required to restore sufficient public float of at least 25% of its issued share capital, as required under Rule 8.08 of the Listing Rules, on or before 15th January 2006. The Company applied for and was granted three additional one-month waivers from strict compliance with such requirement for further periods from 16th January to 15th February, from 16th February to 15th March and from 16th March to 15th April 2006.

On 10th January 2006, the Group entered into various transactions with the PCCW Group relating to several aspects of the Group's telecommunications business, including the provision of distribution services to the Group, wholesale of 2G and 3G mobile telecommunications services to the PCCW Group, the provision of IDD wholesale service to the Group, a handset mobile trade-in programme, the provision of call centre services for the benefit of the Group, the provision of systems integration and operations to the Group, the sale of mobile plans by the Group to the PCCW Group, the provision of office space to the Group, the provision of facility management services to the Group, offer letters in respect of telephone exchanges, design and build of mobile switching centres for the Group, and the provision of logistics support by the PCCW Group. Each of these transactions constitutes a continuing connected transaction of the Company under the Listing Rules. Details were set out in the announcement dated 12th January 2006.

On 10th January 2006, PCCW Group introduced 3G voice and data services by reselling SUNDAY's airtime for a 6-month trial period indicating that the 3G network had become fully operational for commercial services and, thereafter, will need to begin depreciating and amortising the 3G-related assets.

## 31 COMPARATIVE FIGURES

Certain comparative figures have been adjusted or re-classified as a result of the changes in accounting policies as disclosed in note 2(b).

## 32 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED 31ST DECEMBER 2005

Up to the date of approval of these accounts, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective for the accounting period ended 31st December 2005 and which have not been adopted in these accounts:

- HKFRS-Int 4 "Determining whether an Arrangement contains a Lease"
- Amendments to HKAS 19 "Employee benefits – Actuarial Gains and Losses, Group Plans and Disclosures"
- Amendments to HKAS 39 "Financial Instruments: Recognition and Measurements":
  - — Cash Flow Hedge Accounting of Forecast Intra-group Transactions
  - — The Fair Value Option
  - — Financial Guarantee Contracts
- Amendments, as a consequence of the Hong Kong Companies (Amendment) Ordinance 2005, to:
  - — HKAS 1 "Presentation of Financial Statements"
  - — HKAS 27 "Consolidated and Separate Financial Statements"
  - — HKFRS 3 "Business Combinations"
- HKFRS 7 "Financial Instruments: Disclosures"
- Amendments to HKAS 1 "Presentation of Financial Statements – Capital Disclosures"

In addition, the Hong Kong Companies (Amendment) Ordinance 2005 which came into effect on 1st December 2005 is only applicable to accounts for periods beginning on or after 1st January 2006.

The Group is in the process of making an assessment of the impact of these amendments, new standards and new interpretations are expected to be in the period of initial application, but is not yet in a position to state whether they will have a significant impact on the Group's results of operations and financial position.