Notes to condensed interim financial statements

For the six months ended 31 December 2001

1 Basis of preparation and the principal accounting policies

The basis of preparation and principal accounting policies adopted in the preparation of these unaudited consolidated condensed interim financial statements ("interim financial statements") are set out below:

(a) Basis of preparation

These interim financial statements have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25, "Interim Financial Reporting", issued by the Hong Kong Society of Accountants and Appendix 16 of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited.

The accounting policies and methods of computation used in the preparation of these interim financial statements are consistent with those used in the annual financial statements for the year ended 30 June 2001. The Group has also adopted those new or revised SSAPs issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1 January 2001 as set out below:

SSAP 9 (Revised)	–	Events after the balance sheet date
SSAP 26	–	Segment reporting
SSAP 28	–	Provisions, contingent liabilities and contingent assets
SSAP 29	–	Intangible assets
SSAP 30	–	Business combinations
SSAP 31	–	Impairment of assets
SSAP 32	–	Consolidated financial statements and accounting for investments in subsidiaries

The adoption by the Group of the above new SSAPs has not had any impact on these interim financial statements.

1 Basis of preparation and the principal accounting policies *(continued)*

(b) Telecommunications licence for "3G" services

Expenditure on acquiring the Group's third generation licence ("3G") telecommunications spectrum in Hong Kong includes spectrum utilisation fees payable for the allocation of specific spectrum and the minimum annual royalties payable in accordance with the Group's 3G licence. Such fees and royalties payable prior to the launch of commercial services are integral to the development and construction of the related network and are deferred and included within fixed assets. Depreciation will be provided from the commencement of service over the remaining life of the licence.

(c) Comparatives

Certain comparative profit and loss amounts, including turnover, cost of goods sold and services provided and other operating expenses have been reclassified to conform with the current period's presentation. Revenue is now stated net of retention discounts and sales incentives for both periods ended 31 December 2000 and 2001 in accordance with the presentation adopted at 30 June 2001.

The interim financial statements should be read in conjunction with the annual financial statements for the year ended 30 June 2001.

2 Turnover

The Group is principally engaged in the provision of telecommunications and related services and the sale of mobile telephones and accessories. Revenues recognised during the period are as follows:

	Six months ended 31 December	
	2001	2000
	HK$000	HK$000
Turnover		
Mobile and international telecommunications services	**1,026,519**	1,158,746
Mobile telephone and accessory sales	**69,248**	132,559
Internet and other services	**45,029**	28,791
	1,140,796	1,320,096

2 Turnover *(continued)*

An analysis of the Group's turnover and contribution to operating profit/(loss) for the period by business segments is as follows:

	Six months ended 31 December 2001		Six months ended 31 December 2000	
	Turnover	**Operating profit/(loss)**	Turnover	Operating profit/(loss)
	HK$000	**HK$000**	HK$000	HK$000
Mobile and international telecommunications services	**1,026,519**	**66,407**	1,158,746	83,132
Mobile telephone and accessory sales	**69,248**	**(31,217)**	132,559	(87,135)
Internet and other services	**45,029**	**(79,075)**	28,791	(108,935)
	1,140,796	**(43,885)**	1,320,096	(112,938)

No geographical analysis is provided as less than 10 per cent. of the consolidated turnover and less than 10 per cent. of the consolidated trading results of the Group are attributable to markets outside Hong Kong.

3 Write off of fixed and other assets

	Six months ended 31 December	
	2001	2000
	HK$000	HK$000
Fixed assets — impairment loss (note 8)	**67,884**	–
Provision against investment securities and associate	**11,613**	–
	79,497	–

During the six months ended 31 December 2001, the Group has undertaken a review of the value of the fixed assets of its LMDS business. As a result of this review, the Group made a charge of HK$68 million to write down certain fixed assets. During the second half of the year ended 30 June 2001, the Group also made a charge of HK$167 million to write down certain fixed assets of its LMDS and other non-mobile businesses.

3 **Write off of fixed and other assets** *(continued)*

During the period ended 31 December 2001, the Group undertook a review of the valuation of its investments in technology funds. In light of the current difficult business environment, a provision of HK$12 million was made for these funds.

4 **Operating loss before and after taxation**

	Six months ended 31 December	
	2001	2000
	HK$000	HK$000
Operating loss is stated after crediting and charging the following:		
Crediting		
Net exchange gain	**19**	2,329
Charging		
Depreciation: owned fixed assets	**140,605**	131,406
leased fixed assets	**73,915**	75,389
Amortisation of deferred expenditure	**29,053**	71,613
Operating lease rentals for land and buildings, transmission sites and leased lines	**230,270**	220,932
Loss on disposal of fixed assets	**3,887**	2,079
Provisions for inventories	**968**	19,000
Provisions for bad and doubtful debts	**4,529**	10,791

5 **Taxation**

No provision for Hong Kong profits taxation has been made as there is no estimated assessable profit for the period (2000: Nil).

6 **Dividends**

The Directors do not recommend the payment of an interim dividend for the six months ended 31 December 2001 (2000: Nil).

7 **Loss per share**

The calculation of loss per share is based on the loss attributable to shareholders of HK$39,354,000 (2000: HK$112,938,000) and on the weighted average number of 591,117,244 shares (2000: 601,402,716 shares) in issue during the period. Diluted loss per share is the same as the basic loss per share as there is no dilutive effect arising from the share options granted by the Company.

8 Fixed assets

	HK$000
Cost	
1 July 2001	3,726,232
Additions	64,348
Disposals	(39,854)
31 December 2001	3,750,726
Accumulated depreciation	
1 July 2001	1,720,334
Charge for the period	214,520
Impairment loss	67,884
Written back on disposals	(35,642)
31 December 2001	1,967,096
Net book value	
31 December 2001	1,783,630
30 June 2001	2,005,898

At 31 December 2001, the net book value of fixed assets held by the Group under finance leases amounted to HK$895,869,000 (30 June 2001: HK$957,339,000).

9 Held-to-maturity debt securities

	31 December 2001	30 June 2001
	HK$000	HK$000
Listed investments	**312,834**	–

10 Trade receivables

The Group allows an average credit period of 30 days to its subscribers and other customers. The ageing analysis of the trade receivables net of provision is as follows:

	31 December 2001	30 June 2001
	HK$000	HK$000
Current to 30 days	**130,931**	136,893
31– 60 days	**23,945**	14,433
61 – 90 days	**3,698**	5,461
	158,574	156,787

11 Cash and bank balances

	31 December 2001	30 June 2001
	HK$000	HK$000
Bank deposits (pledged)	**356,092**	134,049
Cash and bank balances	**2,739,037**	3,344,379
	3,095,129	3,478,428

Of the HK$356 million (30 June 2001 – HK$134 million) pledged bank deposits, HK$250 million (30 June 2001 – Nil) has been pledged as cash collateral for the Group's 3G licence performance bond as referred to in note 19(c) – "contingent liabilities".

12 Trade payables

The following is an ageing analysis of the trade payables:

	31 December 2001	30 June 2001
	HK$000	HK$000
Current to 30 days	**16,058**	64,568
31– 60 days	**11,654**	30,008
61 – 90 days	**9,895**	10,815
Over 90 days	**10,801**	25,320
	48,408	130,711

13 Share capital

	Company	
	Shares of HK$0.10 each	HK$000
Authorised:		
1 July 2001 and 31 December 2001	1,000,000,000	100,000
Issued and fully paid:		
1 July 2001	592,278,842	59,228
Repurchase of shares	(3,165,000)	(317)
31 December 2001	589,113,842	58,911

During the six months ended 31 December 2001, the Company repurchased 3,165,000 ordinary shares on The Stock Exchange of Hong Kong Limited. These repurchased shares were subsequently cancelled and an amount equivalent to the nominal value of these shares was transferred from retained profits to the capital redemption reserve.

Details of such shares repurchased are as follows:

Month of repurchase	Number of shares repurchased	Price per share Highest	Price per share Lowest	Aggregate price paid
		HK$	HK$	HK$
August 2001	1,154,500	8.95	8.70	10,152,375
November 2001	505,000	8.70	8.60	4,386,250
December 2001	1,505,500	8.55	8.40	12,776,225
	3,165,000			27,314,850

14 Reserves

	Share premium HK$000	Capital redemption reserve HK$000	Contributed surplus HK$000	Retained profits HK$000	Total HK$000
1 July 2001	4,298,104	1,357	199,800	528,516	5,027,777
Repurchase of shares	(26,998)	317	–	(317)	(26,998)
Loss for the period	–	–	–	(39,354)	(39,354)
31 December 2001	4,271,106	1,674	199,800	488,845	4,961,425

The contributed surplus of the Group represents the difference between the nominal value of the share capital and share premium of the subsidiary acquired pursuant to a group reorganisation in October 1996, over the nominal value of the Company's shares issued in exchange therefor.

15 Deferred taxation

At 31 December 2001, a potential deferred taxation asset of HK$145,784,000 (30 June 2001: HK$158,352,000) relating principally to tax losses and accelerated depreciation allowances has not been recognised in the financial statements.

16 Related party transactions

During the period, the Group had the following significant transactions with certain related parties in the ordinary course of business:

	Six months ended 31 December	
	2001	2000
	HK$000	HK$000
Operating lease rentals for land and buildings and transmission sites	**33,531**	34,243

Certain subsidiaries and associated companies of Sun Hung Kai Properties Limited, a shareholder of the Company, have leased premises to the Group for use as offices, retail shops and warehouses and have granted licences to SmarTone Mobile Communications Limited for the installation of base stations, antenna and telephone cables on certain premises owned by them.

17 Capital commitments

	31 December 2001 HK$000	30 June 2001 HK$000
Contracted but not provided for		
– fixed assets	**26,807**	13,208
– investment in an associate	**30,859**	34,681
– investment securities	**42,900**	50,700
Authorised but not contracted for	**195,477**	528,034
	296,043	626,623

18 Operating lease commitments

At 31 December 2001, the Group had future aggregate minimum lease payments in respect of land and buildings, transmission sites and leased lines under operating leases as follows:

	31 December 2001 HK$000	30 June 2001 HK$000
Within one year	**220,418**	231,288
In the second to fifth year inclusive	**125,831**	132,436
After the fifth year	**4,914**	6,941
	351,163	370,665

19 Contingent liabilities

(a) Performance bonds

	31 December 2001	30 June 2001
	HK$000	HK$000
Performance bonds	**355,942**	133,942

The performance bonds were issued by certain banks in favour of the Telecommunications Authorities of Hong Kong and Macau in accordance with various telecommunications licences issued by those authorities to the Group. The banks' obligations under the performance bonds are guaranteed by the Company and various subsidiaries of the Company.

Subsequent to the period end, the Telecommunications Authority of Hong Kong waived certain performance bond obligations relating to the Group's Fixed Telecommunications Network Services Licence. These were those milestones with a deadline for compliance falling due in 2003 for which the related bonds totalled HK$45 million. The remaining milestone obligations under the Fixed Telecommunications Network Services Licence are currently under review by the Telecommunications Authority.

(b) Lease out, lease back agreements

Under certain lease out, lease back agreements entered into during the year ended 30 June 1999, a subsidiary of the Company has undertaken to guarantee the obligation of the intermediary lessees to the lessors as agreed at the inception of the lease for a period of 16 years. The Directors are of the opinion that the risk of the subsidiary company being called upon to honour this guarantee is remote and accordingly the Directors do not consider that an estimate of the potential financial effect of these contingencies can practically be made.

19 Contingent liabilities *(continued)*

(c) Acquisition of telecommunications licence for "3G" services

On 22 October 2001, a wholly owned subsidiary of the Company was issued a Mobile Carrier Licence. This Licence is for the provision of public telecommunications network services using third-generation mobile services technology. The Licence is for a duration of 15 years. The following fees are payable under the Licence:

- For each of the first 5 years from 22 October 2001, HK$50 million per annum payable at the end of each year;

- For the remaining years of the Licence:
  - 5% of network turnover (as defined in the Licence) in respect of the relevant year; or
  - the Appropriate Fee (as defined in the Licence) in respect of the relevant year whichever is the greater; and

- HK$1,388,888.88 payable on the issue of the Licence.

The total amount of the annual fees for the first 5 years of the Licence is HK$250 million. The total minimum amount of fees payable over the remaining 10 years is HK$1,057 million giving a total minimum amount of annual fees over the 15 years of the Licence of HK$1,307 million. The net present value of the minimum annual fees payments under the Licence at its inception, at an assumed cost of capital of the Group of 13%, is approximately HK$458 million.

In accordance with the Licence, the Group has arranged for a bank to provide a performance bond to the Telecommunications Authority of Hong Kong ("TA"). The duration of the performance bond is 5 years and is for an amount equal to the fees for the first 5 years (HK$250 million). The performance bond must be revised annually to remain in force for 5 years (or to the end of the Licence, if a shorter period). The amount of the performance bond shall also be revised annually to equal the minimum annual fees amounts payable to the TA during the next 5 years (or till end of the Licence if shorter). The TA can claim payment under the performance bond on the occurrence of various events including failure of the Licensee to pay all or any fees due to insolvency of the Licensee or upon surrender of the Licence by the Licensee.