Notes to the Financial Statements

for the year ended 30 June 2002

1 Basis of preparation and principal accounting policies

The basis of preparation and principal accounting policies adopted in these consolidated financial statements are set out below:

a Basis of preparation

The financial statements have been prepared under the historical cost convention in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants.

The Group has adopted in the current year the following new and revised Statements of Standard Accounting Practice ('SSAPs') issued by the Hong Kong Society of Accountants which have been effective for accounting periods commencing on or after 1 January 2001:

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 of the revised SSAP 9 results in the Group no longer recognising dividends proposed or declared after the end of the financial year as a liability as at the balance sheet date. The principle impact of SSAP 26 is the inclusion of additional segment reporting disclosures which are included in note 3 to the financial statements. The adoption of SSAP 28, SSAP 29, SSAP 30, SSAP 31 and SSAP 32 did not have a material impact on the preparation of the financial statements.

b Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 30 June. Subsidiaries are those entities in which the Group controls the composition of the board of directors, controls more than half the voting power or holds more than half of the issued share capital. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

c Associated company

An associated company is a company, not being a subsidiary, in which an equity interest is held for the long-term and in whose management significant influence is exercised.

The consolidated profit and loss account includes the Group's share of the results of the associated company for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated company.

In the Company's balance sheet the investment in an associated company is stated at cost less provision for impairment losses. The results of the associated company are accounted for by the Company on the basis of dividends received and receivable.

Equity accounting is discontinued when the carrying amount of the investment in the associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

d Goodwill

Goodwill is calculated as the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary and associated company at the date of acquisition.

Goodwill on acquisitions that occurred prior to 1 July 2001 was written off against reserves. The Group has taken advantage of the transitional provision 1(a) of SSAP 30 and goodwill previously written off against reserves has not been restated.

The gain or loss on disposal of an entity includes the unamortised balance of goodwill relating to the entity disposed of or, for interests acquired prior to 1 July 2001, the related goodwill written off against reserves to the extent it has not previously been recognised in the profit and loss account.

There have been no acquisitions by the Group on or after 1 July 2001.

e Fixed assets

Fixed assets are stated at cost less accumulated depreciation and, when necessary, accumulated impairment losses. Fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates adopted are as follows:

Leasehold land and buildings	Over the lease term
Leasehold improvements	Over the lease term
Network and testing equipment	10% - 33 $^1/_3$%
Computer, billing and office telephone equipment	20% - 33 $^1/_3$%
Other fixed assets	20% - 33 $^1/_3$%

The cost of the network comprises assets and equipment of the digital mobile radio telephone and local multipoint distribution services networks ('LMDS') purchased at cost, together with direct payroll and overheads attributable to construction and installation of the network. Depreciation of each network commences from the date of launch.

No depreciation is provided for the part of any network under construction, including the equipment therein.

Other fixed assets comprise motor vehicles, equipment, furniture and fixtures.

The gain or loss arising from the disposal or retirement of fixed assets is the difference between the net sales proceeds and the carrying amount of the relevant asset and is recognised in the profit and loss account.

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that any fixed assets are impaired in value. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

f 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 shorter of the remaining life of the licence or the estimated useful life of the fixed assets.

g Investment securities

(i) Held-to-maturity debt securities

Held-to-maturity debt securities are stated in the balance sheet at cost plus or minus any discount or premium unamortised to date. The discount or premium on acquisition is amortised over the period to maturity and included as interest income or expense in the profit and loss account. Provision is made when there is a diminution in value other than temporary.

The carrying amounts of held-to-maturity debt securities are reviewed at the balance sheet date in order to assess the credit risk and whether the carrying amounts are expected to be recovered. Provisions are made when carrying amounts are not expected to be recovered and are recognised in the profit and loss account.

(ii) Investment securities

Investment securities are stated at cost less any provision required for impairment loss.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account.

The impairment loss is written back to profit and loss when the circumstances that led to the write-downs cease to exist and there is a strong likelihood that the new circumstances will continue for the foreseeable future.

h Inventories

Inventories, comprising handsets and accessories, 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.

i Deferred expenditure

(i) Licence application expenditure

Licence application expenditure is deferred and amortised over the term of the relevant licence.

(ii) Handset subsidies

The costs relating to handset subsidies provided to customers are deferred and amortised on a straight-line basis over the average postpaid subscription life of 12 months.

j Translation of foreign currencies

Transactions in foreign currencies are recorded at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The financial statements of subsidiaries expressed in foreign currencies are translated at rates of exchange ruling at the balance sheet date. The profit and loss account is translated at an average rate whilst exchange differences are dealt with as movements in reserves.

k Trade receivables

Provision is made against trade receivables to the extent they are considered to be doubtful. Trade receivables in the balance sheet are stated net of such provision.

l Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost.

In the cash flow statement, cash and cash equivalents include cash on hand and deposits held at call with banks.

m Deferred taxation

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the financial statements to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

n Assets held under leases

(i) Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the lower of the fair value of the asset or the present value of the minimum lease payments is recorded as an asset. Payments to the lessor are treated as consisting of capital and interest elements. Finance charges are debited to the profit and loss account in proportion to the capital balances outstanding. Assets held under finance leases are depreciated over the shorter of their estimated useful lives and the lease periods.

(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. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

o Contingent assets and liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised

p Revenue recognition

Revenue is recognised, net of discounts and allowances given, when it is probable that the economic benefits will accrue to the Group and when the revenue can be measured reliably on the following bases:

(i) sales of goods: when the significant risks and rewards of ownership have been transferred to the buyer;

(ii) telecommunications, international direct dial and internet related services: when the service is rendered and based on the usage of the Group's telecommunications networks and facilities;

(iii) interest income: on a time proportion basis.

Telecommunications service revenue in respect of standard service plans billed in advance is deferred and included under deferred income.

q Retirement benefit costs

The Group participates in two defined contribution retirement schemes, an Occupational Retirement Scheme ('ORSO') and a Mandatory Provident Fund Scheme ('MPF'), for employees (together 'the Schemes'). The assets of the Schemes are held separately from those of the Group in independent administrated funds.

The Group's contributions to the Schemes are expensed as incurred. Contributions to the ORSO scheme are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the Group's contributions.

r Segment reporting

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format. The Group operates in one geographical segment.

Segment assets consist primarily of network and other fixed assets, inventories, receivables and the estimated cash required for working capital. Segment liabilities comprise operating liabilities. Capital expenditure comprises additions to fixed assets (note 14).

Unallocated segment assets represents cash surplus to the working capital requirements of the Group and fixed income investments.

s Dividends

Dividends paid are accounted for as an appropriation of retained profits in the period in which paid. Dividends satisfied by ordinary shares are accounted for as an issue of ordinary shares in the period of issue, with an appropriation of retained profits equal to the market value of the ordinary shares at date of issue. No liability is recognised in the balance sheet for dividends proposed or declared after the balance sheet date.

As detailed in note 12, this change of accounting policy has resulted in an increase in retained profits brought forward for the year ended 30 June 2000 of both the Group and Company of HK$30,119,000. This was reversal of the provision for the proposed final dividend in respect of the year ended 30 June 2000. This dividend was previously recorded as a liability at 30 June 2000 although not declared until after the balance sheet date. The increase in retained profits at 1 July 2000 was charged as an appropriation in the subsequent financial year upon the dividend liability being satisfied. This is the only change to the comparatives as no dividends were declared or recorded in the financial statements in respect of the year ended 30 June 2001.

2 Turnover and other revenues

The Group is principally engaged in the provision of telecommunications and internet services. Revenues recognised during the year are as follows:

	2002	2001
	HK$000	HK$000
Turnover		
Mobile and international telecommunications services	**2,171,303**	2,234,034
Mobile telephone and accessory sales	**177,795**	202,765
Internet services	**52,154**	48,555
	2,401,252	2,485,354
Other revenues		
Interest income	**86,108**	197,576
Other income	**—**	5,330
	86,108	202,906
Total revenues	**2,487,360**	2,688,260

3 Segmental information

The Group has two main business segments:

- Mobile communications — provision of mobile telecommunications services. This includes the sale of mobile handsets and related international services.

- Internet services — provision of fixed broadband and narrowband internet access.

There are no significant sales or other transactions between the business segments.

An analysis of the Group's turnover and profit/(loss) attributable to shareholders by business segment is as follows:

	2002		2001	
	Turnover HK$000	**Operating profit/(loss) HK$000**	Turnover HK$000	Operating profit/(loss) HK$000
Mobile communications	**2,349,098**	**105,277**	2,436,799	(177,743)
Internet services	**52,154**	**(82,287)**	48,555	(310,610)
	2,401,252	**22,990**	2,485,354	(488,353)
Other revenues		**86,108**		202,906
Operating profit/(loss)		**109,098**		(285,447)
Share of loss of an associate		**(3)**		—
Profit/(loss) for the year		**109,095**		(285,447)
Minority interest		**6,074**		1,613
Profit/(loss) attributable to shareholders		**115,169**		(283,834)

An analysis of the Group's assets and liabilities by business segment is as follows:

	Mobile communications HK$000	Internet services HK$000	Group HK$000
As at 30 June 2002			
Assets of business segment	**2,209,874**	**6,053**	**2,215,927**
Interest in an associate			**18,939**
Unallocated assets			**3,546,615**
Total assets			**5,781,481**
Liabilities of business segment	**610,726**	**21,166**	**631,892**
Total liabilities			**631,892**
As at 30 June 2001			
Assets of business segment	2,380,127	79,493	2,459,620
Interest in an associate			23,822
Unallocated assets			3,438,428
Total assets			5,921,870
Liabilities of business segment	763,113	66,297	829,410
Total liabilities			829,410

Other information by business segment is as follows:

	Mobile communications HK$000	Internet services HK$000	Provision for loan to an associate HK$000	Group HK$000
For the year ended 30 June 2002				
Capital expenditure	**244,174**	**6,095**	**—**	**250,269**
Depreciation	**401,416**	**8,932**	**—**	**410,348**
Impairment charge	**43,782**	**67,884**	**10,829**	**122,495**
Amortisation	**40,703**	**—**	**—**	**40,703**
Other non-cash expenses	**30,391**	**188**	**—**	**30,579**
For the year ended 30 June 2001				
Capital expenditure	291,302	75,201	—	366,503
Depreciation	406,846	20,746	—	427,592
Impairment charge	32,420	135,292	—	167,712
Amortisation	125,251	—	—	125,251
Other non-cash expenses	41,326	1,048	—	42,374

No geographical analysis of business segment is provided as the Group operates in one geographical segment – the Pearl River Delta region of Greater China. Over 90 per cent. of the Group's turnover, profits and losses and assets and liabilities arise in, or are situated in, the Special Administrative Regions of Hong Kong and Macau.

4 Cost of goods sold and services provided

	2002	2001
	HK$000	HK$000
Cost of goods sold	**226,197**	362,735
Interconnect charges and international telecommunications services	**316,143**	381,471
Other	**39,768**	112,471
	582,108	856,677

5 Other operating expenses

	2002	2001
	HK$000	HK$000
Network costs	**459,430**	447,495
Depreciation	**410,348**	427,592
Salary and related costs (including directors' emoluments)	**377,308**	410,215
Sales and marketing expenses	**176,820**	275,187
Rental and utilities	**118,059**	142,146
Other operating expenses	**119,595**	240,646
Loss on disposal of fixed assets	**12,099**	6,037
	1,673,659	1,949,318

6 Impairment of fixed and other assets

	2002	2001
	HK$000	HK$000
Fixed assets – impairment losses	**96,082**	167,712
Provision against interest in an associate and investment securities	**26,413**	—
	122,495	167,712

During the year ended 30 June 2002, the Group has undertaken a review of the value of the fixed assets of its mobile and Internet service provider businesses. As a result of this review, the Group made an impairment charge of HK$96 million in respect of certain assets including associated onerous commitments. The Group has also undertaken a review of the valuation of its investments in technology funds. In light of the current difficult business environment, a provision of HK$26 million was made during the year ended 30 June 2002 for these investments.

During the year ended 30 June 2001, the Group made an impairment charge of HK$167 million in respect of certain fixed assets of its Internet service provider and other non-core businesses.

7 Operating profit/(loss)

	2002	2001
	HK$000	HK$000
Operating profit/(loss) is stated after crediting and charging the following:		
Crediting		
Net exchange gain	**46**	2,159
Charging		
Depreciation: owned fixed assets	**263,610**	277,322
leased fixed assets	**146,738**	150,270
Amortisation of deferred expenditure	**40,703**	125,251
Operating lease rentals for land and buildings, transmission sites and leased lines	**456,654**	450,083
Loss on disposal of fixed assets	**12,099**	6,037
Auditors' remuneration	**1,305**	1,365
Provision for inventories	**6,528**	9,756
Provision for bad and doubtful debts	**11,827**	28,743
Retirement benefit costs (note 9)	**17,979**	16,968

8 Emoluments of directors and senior management

a Directors' emoluments

The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:

	2002	2001
	HK$000	HK$000
Fees	**660**	900
Salaries and allowances	**9,526**	4,300
Bonuses	**555**	—
Pensions contributions	**519**	278
	11,260	5,478

The directors' emoluments for 2002 included HK$3,118,000 (2001: Nil) in respect of six directors who resigned during the year.

Included in the above directors' fees are the emoluments of the independent non-executive directors of the Company of HK$160,000 (2001: HK$240,000).

None of the directors (2001: three directors) waived emoluments in respect of the financial year ended 30 June 2002 (2001: HK$240,000). During the year, no amounts have been paid by the Group to the directors as an inducement to join the Group or as compensation for loss of office (2001: Nil).

During the year 5,200,000 options were granted to the directors under the share option scheme approved by the shareholders by a written resolution passed on 17 October 1996. Refer to the Directors' Report – 'Share Option Scheme' for details of options granted during the year.

The emoluments of the directors fell within the following bands:

	2002	2001
	Number of	Number of
HK$	**directors**	directors
0 – 1,000,000	**15**	13
3,000,001 – 3,500,000	**1**	—
4,500,001 – 5,000,000	**—**	1
7,000,001 – 7,500,000	**1**	—
	17	14

b Five highest paid individuals

In addition to the above analysis for the directors, there were three employees (2001: four employees) whose emoluments were among the five highest in the Group. Details of the emoluments payable to these three employees (2001: four employees) during the year are as follows:

	2002	2001
	HK$000	HK$000
Salaries and allowances	**6,631**	9,645
Bonuses	**—**	892
Pension contributions	**593**	523
	7,224	11,060

The emoluments of these employees fell within the following bands:

	2002	2001
	Number of	Number of
HK$	**employees**	employees
2,000,001 – 2,500,000	**2**	1
2,500,001 – 3,000,000	**1**	2
3,000,001 – 3,500,000	**—**	1
	3	4

9 Retirement benefits

	2002	2001
	HK$000	HK$000
Scheme costs	**23,341**	24,505
Less: forfeited contributions	**(5,362)**	(7,537)
Net cost charged to profit and loss account	**17,979**	16,968

Contributions to the ORSO scheme by the Group and the employees are calculated as specified percentages of each employee's basic salary and are expensed as incurred. The Group's contributions may be reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the Group's contributions. At 30 June 2001 and 2002, all contributions to the ORSO scheme forfeited by employees had been utilised by the Group to reduce its contributions payable.

A MPF has been established under the Hong Kong Mandatory Provident Fund Scheme Ordinance in December 2000 and the Group's employees may elect to join the MPF scheme. Both the Group and the employees are required to contribute 5 per cent. of the employee's relevant income with a maximum amount of HK$1,000 per month as a mandatory contribution. Employer's mandatory contributions are expensed as incurred and vest 100 per cent. in the employees as soon as they are paid to MPF.

10 Taxation

No provision for Hong Kong profits taxation has been made as there is no estimated assessable profit for the year (2001: Nil).

The deferred tax charge/(credit) for the year which has not been recognised in the profit and loss account is as follows:

	2002	2001
	HK$000	HK$000
Accelerated depreciation allowances	**(52,166)**	(38,962)
Tax losses	**125,118**	(30,522)
Other timing differences	**(4,220)**	5,713
	68,732	(63,771)

11 (Loss)/profit attributable to shareholders

Of the Group's profit for the year, a loss of HK$35,411,000 (2001: profit of HK$11,082,000) has been dealt with in the financial statements of the Company.

12 Dividend

	2002	2001
	HK$000	HK$000
Final, proposed of HK$0.07 (2001: Nil) per ordinary share	**40,777**	Nil

A liability of HK$30,119,000 was included in the financial statements for the year ended 30 June 2000 in respect of a proposed final dividend. This dividend was declared and paid after the balance sheet date. Under the Group's new accounting policy as described in note 1s, this dividend has been credited to retained profits at 1 July 2000 in note 25 and charged to retained profits in the subsequent year; the year in which declared and paid. No dividends were proposed or paid in respect of the financial year ended 30 June 2001.

At a meeting held on 24 September 2002, the directors recommended the declaration of a final dividend of HK$0.07 per ordinary share. This proposed dividend is not included as a dividend payable in the Group or Company balance sheet as at 30 June 2002, but will be accounted for as an appropriation of retained profit for the year ended 30 June 2003.

13 Earnings/(loss) per share

The calculation of earnings per share is based on the profit attributable to shareholders of HK$115,169,000 (2001: loss of HK$283,834,000) and on the weighted average number of 588,929,496 shares (2001: 599,543,833 shares) in issue during the year.

For the years ended 30 June 2001 and 2002, no diluted earnings/(loss) per share is presented as there are no potentially dilutive ordinary shares outstanding.

14 Fixed assets

	Medium term leasehold land and buildings in Hong Kong HK$000	Leasehold improvements HK$000	Network and testing equipment HK$000	Computer, billing and office telephone equipment HK$000	Other fixed assets HK'000	Network under construction HK$000	Total HK$000
Cost							
1 July 2001	8,000	166,045	2,776,103	436,094	60,002	279,988	3,726,232
Additions	—	9,291	36,072	19,503	5,503	179,900	250,269
Reclassifications	—	—	203,979	(1,608)	—	(202,371)	—
Disposals	—	(24,180)	(54,033)	(5,786)	(4,732)	(4,806)	(93,537)
30 June 2002	**8,000**	**151,156**	**2,962,121**	**448,203**	**60,773**	**252,711**	**3,882,964**
Accumulated depreciation and impairment loss							
1 July 2001	446	127,647	1,184,480	318,689	41,736	47,336	1,720,334
Charge for the year	315	13,874	332,513	56,145	7,501	—	410,348
Impairment loss	7,239	7,413	36,860	8,565	3,513	16,221	79,811
Reclassifications	—	—	23,310	—	—	(23,310)	—
Written back on disposals	—	(23,318)	(46,946)	(5,591)	(4,543)	—	(80,398)
30 June 2002	**8,000**	**125,616**	**1,530,217**	**377,808**	**48,207**	**40,247**	**2,130,095**
Net book value							
30 June 2002	**—**	**25,540**	**1,431,904**	**70,395**	**12,566**	**212,464**	**1,752,869**
30 June 2001	7,554	38,398	1,591,623	117,405	18,266	232,652	2,005,898

As at 30 June 2002, the net book value of fixed assets held by the Group under finance leases amounted to HK$807,959,000 (2001: HK$957,339,000).

15 Interest in an associate

	2002	2001
	HK$000	HK$000
Group's share of net assets	**—**	3
Amount due from an associate, less provision	**18,939**	23,819
	18,939	23,822

Details of the Group's associate at 30 June 2002 are as follows:

Name	Place of incorporation and operation	Principal activity	Particulars of issued shares held	Interest held
New Top Finance Limited	The British Virgin Islands	Investment holdings	375 ordinary shares of US$1 each	37.5%

The amount due from the associate is unsecured and interest free, and has no fixed terms of repayment.

16 Investment securities

	2002	2001
	HK$000	HK$000
Equity securities		
Overseas unlisted investments, at fair value	**39,213**	39,196

17 Held-to-maturity debt securities

	2002	2001
	HK$000	HK$000
Listed, Overseas	**293,036**	—
Listed, Hong Kong	**74,193**	—
Unlisted	**275,879**	—
	643,108	—
Market value of listed securities:		
Overseas	**293,095**	—
Hong Kong	**75,244**	—
	368,339	—

18 Deferred expenditure

	2002			2001		
	Handset subsidies HK$000	**Licence application expenditure HK$000**	**Total HK$000**	Handset subsidies HK$000	Licence application expenditure HK$000	Total HK$000
Cost						
1 July	**758,792**	**4,159**	**762,951**	665,375	4,159	669,534
Additions	**14,160**	**—**	**14,160**	93,417	—	93,417
30 June	**772,952**	**4,159**	**777,111**	758,792	4,159	762,951
Accumulated amortisation						
1 July	**728,395**	**3,709**	**732,104**	603,560	3,293	606,853
Charge for the year	**40,287**	**416**	**40,703**	124,835	416	125,251
30 June	**768,682**	**4,125**	**772,807**	728,395	3,709	732,104
Net book value						
30 June	**4,270**	**34**	**4,304**	30,397	450	30,847

19 Subsidiaries

	2002 HK$000	2001 HK$000
Unlisted shares, at cost	**939,189**	939,189
Amounts due from subsidiaries (note a)	**3,793,032**	4,334,919
	4,732,221	5,274,108
Amounts due to a subsidiary (note a)	**(29,387)**	(74,978)
	4,702,834	5,199,130

a The amounts due from/(to) subsidiaries are unsecured and interest-free, and not repayable within the next twelve months from the balance sheet date.

None of the subsidiaries have any loan capital subsisting at the end or at any time during the year ended 30 June 2002 (2001: Nil).

Details of the principal subsidiaries which materially affect the results for the year ended 30 June 2002 or the net assets at 30 June 2002 of the Group are set out below:

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Group equity interest
* SmarTone (BVI) Limited	The British Virgin Islands ("BVI")	Investment holding and group financing in BVI	1,000 ordinary shares of US$1 each	100%
SmarTone Mobile Communications Limited	Hong Kong	Provision of digital mobile radio telephone services and sales of mobile telephones and accessories in Hong Kong	100,000,000 ordinary shares of HK$1 each	100%
SmarTone 3G Limited	Hong Kong	Provision of 3G mobile radio telephone services in Hong Kong	2 ordinary shares of HK$ 1 each	100%
SmarTone Broadband Services Limited	Hong Kong	Internet service provider in Hong Kong	2 ordinary shares of HK$1 each	100%
SmarTone Telecommunications Services (China) Limited	Hong Kong	Provision of agency and consultancy services in Hong Kong and Mainland China	2 ordinary shares of HK$1 each	100%
SmarTone-Comunicações Móveis S.A.	Macau	Provision of digital mobile radio telephone services and sales of mobile telephones and accessories in Macau.	1,000,000 shares of MOP1 each	72%

* Subsidiary held directly by the Company.

All of the above subsidiaries are limited liability companies.

20 Inventories

At 30 June 2002 and 2001, all inventories represent goods held for re-sale. At 30 June 2002, the carrying amount of inventories valued at net realisable value was HK$4,340,000 (2001: HK$3,871,000).

21 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:

	2002	2001
	HK$000	HK$000
Current to 30 days	**135,999**	136,893
31 – 60 days	**22,448**	14,433
61 – 90 days	**13,889**	5,461
	172,336	156,787

22 Cash and bank balances

	2002	2001
	HK$000	HK$000
Group		
Bank deposits (pledged)	**525,402**	134,049
Cash and bank balances	**2,418,105**	3,344,379
	2,943,507	3,478,428

Of the HK$525,402,000 (2001: HK$134,049,000) pledged bank deposits, HK$250,000,000 (2001: Nil) has been pledged as cash collateral for the Group's 3G licence performance bond as referred to in note 31 – 'Contingent Liabilities'.

	2002	2001
	HK$000	HK$000
Company		
Bank deposits (pledged)	**520,465**	129,000
Cash and bank balances	**4,002**	5,849
	524,467	134,849

23 Trade payables

The following is an ageing analysis of the trade payables:

	2002	2001
	HK$000	HK$000
Current to 30 days	**31,425**	64,568
31 – 60 days	**48,130**	30,008
61 – 90 days	**10,220**	10,815
Over 90 days	**3,496**	25,320
	93,271	130,711

24 Share capital

Movement for the years ended 30 June 2001 and 2002

	Shares of HK$0.1 each	HK$000
Authorised:		
1 July 2001 and 30 June 2002	1,000,000,000	100,000
Issued and fully paid:		
1 July 2000	602,389,100	60,239
Shares issued in lieu of cash dividends (note a)	1,296,742	130
Repurchases of shares (note b)	(11,407,000)	(1,141)
30 June 2001	592,278,842	59,228
1 July 2001	592,278,842	59,228
Repurchases of shares (note c)	(7,926,000)	(793)
30 June 2002	**584,352,842**	**58,435**

a On 19 September 2000, the Company declared a final dividend on its shares for the year ended 30 June 2000. The Company offered to its shareholders a scrip dividend alternative (the 'Scheme') under which shareholders could elect to receive shares in lieu of the cash dividend. On 14 December 2000, 1,296,742 shares of HK$0.1 each were issued as fully paid under the Scheme, at a value of HK$12.12 respectively per share. A premium of HK$15.6 million therefore arose in respect of the issue (note 25).

b During the year ended 30 June 2001, the Company repurchased 11,407,000 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		Aggregate price paid
		Highest	Lowest	
		HK$	HK$	HK$
October 2000	2,321,000	10.35	9.75	23,176,100
November 2000	51,500	12.25	11.95	621,950
December 2000	1,750,500	11.80	9.95	17,842,500
January 2001	29,500	11.50	11.25	333,350
March 2001	1,772,500	10.40	9.75	17,761,850
April 2001	1,034,500	9.00	8.80	9,225,275
May 2001	1,421,500	9.15	9.05	12,931,050
June 2001	3,026,000	9.10	8.60	26,627,575
	11,407,000			108,519,650

c During the year ended 30 June 2002, the Company repurchased 7,926,000 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		Aggregate price paid
		Highest	Lowest	
		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
March 2002	1,980,500	8.90	8.75	17,488,975
April 2002	2,780,500	9.00	8.80	24,832,425
	7,926,000			69,636,250

Share options outstanding at 30 June 2002

By a written resolution of the shareholders of the Company passed on 17 October 1996, a share option scheme (the 'Scheme') was approved and adopted. Under the Scheme, the directors of the Company may, at their discretion, grant to any executive and/or employee of the Group, including any director in full time employment with any company in the Group, options to subscribe for the Company's shares. The maximum number of shares over which options may be granted may not exceed 10 per cent. of the Company's ordinary share capital in issue from time to time.

At 30 June 2002, options to subscribe for 7,975,000 shares (2001: 4,947,000 shares) within the following exercise periods were outstanding:

Exercise period	Exercise price HK$	2002 Number of shares	2001 Number of shares
1 January 1997 to 31 December 2003	16.10	53,000	99,500
14 April 1999 to 13 April 2005	20.60	812,500	1,136,500
14 September 2000 to 13 September 2007	23.90	—	383,000
17 November 2000 to 16 November 2007	27.70	1,609,500	3,028,000
22 March 2001 to 21 March 2007	25.50	100,000	100,000
4 September 2001 to 3 September 2007	15.20	—	200,000
13 July 2002 to 12 July 2008	9.20	100,000	—
17 July 2002 to 16 July 2011	9.29	5,000,000	—
19 March 2003 to 18 March 2009	8.97	100,000	—
2 May 2003 to 1 May 2012	9.20	200,000	—
		7,975,000	4,947,000

25 Reserves

	Share premium	Capital redemption reserve	Contributed surplus	Retained profits	Total
	HK$000	HK$000	HK$000	HK$000	HK$000
Group					
1 July 2000, as previously reported	4,389,896	216	199,800	813,491	5,403,403
Adoption of SSAP9 (revised) (note 1s)	—	—	—	30,119	30,119
1 July 2000, restated	4,389,896	216	199,800	843,610	5,433,522
Issue of new shares in lieu of cash dividend (note 24a)	15,587	—	—	(15,717)	(130)
Repurchases of shares (note 24b)	(107,379)	1,141	—	(1,141)	(107,379)
Loss for the year	—	—	—	(283,834)	(283,834)
Payment of 1999 final dividend	—	—	—	(14,402)	(14,402)
1 July 2001	4,298,104	1,357	199,800	528,516	5,027,777
Repurchases of shares (note 24c)	(68,844)	793	—	(793)	(68,844)
Profit for the year	—	—	—	115,169	115,169
30 June 2002	**4,229,260**	**2,150**	**199,800**	**642,892**	**5,074,102**
Company					
1 July 2000, as previously reported	4,389,896	216	938,989	26,595	5,355,696
Adoption of SSAP9 (revised) (note 1s)	—	—	—	30,119	30,119
1 July 2000, restated	4,389,896	216	938,989	56,714	5,385,815
Issue of new shares in lieu of cash dividend (note 24a)	15,587	—	—	(15,717)	(130)
Repurchases of shares (note 24b)	(107,379)	1,141	—	(1,141)	(107,379)
Profit for the year	—	—	—	11,082	11,082
Payment of 1999 final dividend	—	—	—	(14,402)	(14,402)
1 July 2001	4,298,104	1,357	938,989	36,536	5,274,986
Repurchases of shares (note 24c)	(68,844)	793	—	(793)	(68,844)
Loss for the year	—	—	—	(35,411)	(35,411)
30 June 2002	**4,229,260**	**2,150**	**938,989**	**332**	**5,170,731**

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

The contributed surplus of the Company represents the difference between the nominal value of the Company's shares issued in exchange for the issued share capital of the subsidiaries acquired and the net asset value of the subsidiaries acquired. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to shareholders.

26 Deferred taxation

The potential deferred taxation (liabilities)/assets which have not been recognised in the financial statements are as follows:

	Group	
	2002	2001
	HK$000	HK$000
Accelerated depreciation allowances	**(46,726)**	(98,892)
Tax losses	**136,990**	262,108
Other timing differences	**(644)**	(4,864)
	89,620	158,352

27 Related party transactions

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

	2002	2001
	HK$000	HK$000
Operating lease rentals for land and buildings and transmission sites (note i)	**70,406**	73,676
Insurance expense (note ii)	**4,970**	4,167
Consultancy fees (note iii)	**1,776**	8,851
Mobility Leaders membership subscription fee (note iv)	**354**	118
Genie portal service (note v)	**951**	2,340

Note:

(i) Operating lease rentals for land and buildings and transmission sites.

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

For the year ended 30 June 2002, rental and licence fees paid and payable to subsidiaries and associated companies of SHKP totalled HK$70,406,000 (2001: HK$73,676,000). The expense for the year ended 30 June 2002 includes HK$7,832,000 (2001: Nil) in respect of the early termination of certain office leases granted to the Group by SHKP.

(ii) Insurance services

Sun Hung Kai Properties Insurance Limited, a wholly-owned subsidiary of SHKP, provides general insurance services to the Group. For the year ended 30 June 2002, insurance premiums paid and payable were HK$4,970,000 (2001: HK$4,167,000).

(iii) Consultancy services

British Telecommunications Plc. ('BT'), a substantial shareholder of the Company, and a subsidiary company have provided consultancy services to the Group. For the year ended 30 June 2002, the consultancy fees paid were HK$366,000 (2001: HK$5,333,000).

In addition, the Group has paid consultancy and technical support fees to companies in which a non-executive director who resigned has an interest. For the year ended 30 June 2002, the total fees paid were HK$1,295,000 (2001: HK$3,168,000).

Sun Hung Kai Real Estate Agency Limited and Sun Hung Kai Engineering Company Limited, wholly-owned subsidiaries of SHKP, provided consultancy services to the Group. For the year ended 30 June 2002, the consultancy fees paid were HK$115,000 (2001: HK$350,000).

(iv) Mobility Leaders membership subscription fee

The Group has subscribed to Mobility Leaders, a program organised by BT, which provides information sharing among the members. For the year ended 30 June 2002, the subscription fees paid were HK$354,000 (2001: HK$118,000).

(v) Genie portal service

The Group has entered into a contract with Genie Internet (Hong Kong) Limited, a subsidiary of BT, to provide mobile portal services. For the year ended 30 June 2002, the total fees paid were HK$951,000 (2001: HK$2,340,000). The contract was terminated during the year ended 30 June 2002.

b At 30 June 2002, the Group has an interest in an associate, the major shareholder of which is a subsidiary of SHKP. The principal activity of the associate is to invest in an equity fund which primarily invests in technology related companies in the People's Republic of China.

c In October 1999, New-Alliance Asset Management (Asia) Limited ('New-Alliance'), an associate of SHKP, was appointed as the investment manager of the Group's Provident Scheme. New-Alliance is remunerated by way of fee levied on funds under management. Accordingly, no fee was paid by the Group to New-Alliance for the year ended 30 June 2002 (2001: Nil).

All related party transactions are carried out in accordance with the terms of the relevant agreements governing the above transactions.

28 Capital commitments

	Group	
	2002	2001
	HK$000	HK$000
Contracted but not provided for		
– fixed assets	**63,345**	13,208
– investment in an associate	**28,728**	34,681
– investment securities	**35,100**	50,700
Authorised but not contracted for	**408,000**	528,034
	535,173	626,623

29 Lease commitments

At 30 June, the Group had future aggregate minimum lease payment commitments in respect of land and buildings, transmission sites and leased lines under operating leases as follows:

	Group	
	2002	2001
	HK$000	HK$000
Within one year	**243,408**	214,072
In the second to fifth year inclusive	**127,522**	113,843
After the fifth year	**3,388**	6,941
	374,318	334,856
In respect of leased lines		
Within one year	**4,732**	17,216
In the second to fifth year inclusive	**1,799**	18,593
	6,531	35,809

The Company did not have any commitments under operating leases as at 30 June 2002 (2001: Nil).

30 Notes to the consolidated cash flow statement

a Reconciliation of profit/(loss) for the year to net cash inflow from operating activities

	2002	2001
	HK$000	HK$000
Profit/(loss) for the year	**109,095**	(285,447)
Depreciation	**410,348**	427,592
Amortisation of deferred expenditure	**40,703**	125,251
Loss on disposal of fixed assets	**12,099**	6,037
Interest income	**(86,108)**	(197,576)
Impairment loss (note 6)	**122,495**	167,712
Share of loss of an associate	**3**	—
(Increase)/decrease in inventories and inventories in transit	**(10,463)**	55,062
(Increase)/decrease in trade receivables, prepayments, deposits and other receivables	**(14,401)**	164,902
Decrease in payables, accruals, deferred income and customers' deposits	**(196,742)**	(233,790)
Net cash inflow from operating activities	**387,029**	229,743

b Analysis of changes in financing during the year

	Share capital (including premium and capital redemption reserve)		Minority interest	
	2002	2001	**2002**	2001
	HK$000	HK$000	**HK$000**	HK$000
1 July	**4,358,689**	4,450,351	**5,455**	—
Issue of new shares in lieu of cash dividends	**—**	15,717	**—**	—
Repurchases of shares	**(68,844)**	(107,379)	**—**	—
Issue of new shares	**—**	—	**—**	272
Loan to a subsidiary from a minority shareholder	**—**	—	**17,671**	6,796
Minority interest in share of loss	**—**	—	**(6,074)**	(1,613)
30 June	**4,289,845**	4,358,689	**17,052**	5,455

31 Contingent liabilities

a Performance bonds

	Group		Company	
	2002	2001	**2002**	2001
	HK$000	HK$000	**HK$000**	HK$000
3G licence (note c)	**250,000**	—	**250,000**	—
Other	**57,942**	133,942	**56,000**	129,000
	307,942	133,942	**306,000**	129,000

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.

During the year ended 30 June 2002, the Telecommunications Authority of Hong Kong ('TA') amended the performance bond obligations relating to the Group's Fixed Telecommunications Network Services Licence as follows:

- The deadline for compliance for those milestones falling due in 2002, was extended by one year. The related bonds totalled HK$56 million.

- Those milestones with a deadline for compliance due on or after 1 January 2003 were waived. The related bonds, which totalled HK$45 million, were released.

The TA has also indicated that the remaining outstanding milestone for cumulative capital expenditure will also be satisfied once the remaining outstanding milestone for network rollout is achieved.

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.

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:

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

(ii) For the remaining years of the Licence; the greater of:

  - 5 per cent. 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; and

(iii) 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 per cent., is approximately HK$458 million.

In accordance with the Licence, the Group has arranged for a bank to provide a performance bond to 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 until the 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.

32 Approval of accounts

The accounts were approved by the board of directors on 24 September 2002.