



## 12 CASH AND BANK BALANCES

	31 December 2002 HK\$000	30 June 2002 HK\$000
Bank deposits (pledged)	419,447	525,402
Cash and bank balances	2,349,717	2,418,105
	<u>2,769,164</u>	<u>2,943,507</u>

Of the HK\$419 million (30 June 2002: HK\$525 million) pledged bank deposits, HK\$200 million (30 June 2002: HK\$250 million) has been pledged as cash collateral for the Group's 3G licence performance bond as referred to in note 18c - "contingent liabilities".

## 13 TRADE PAYABLES

The ageing of the trade payables is as follows:

	31 December 2002 HK\$000	30 June 2002 HK\$000
Current to 30 days	72,321	31,425
31 - 60 days	27,944	48,130
61 - 90 days	12,454	10,220
Over 90 days	46,625	3,496
	<u>159,344</u>	<u>93,271</u>

# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 31 December 2002

### 14 SHARE CAPITAL

	Shares of HK\$0.10 each	HK\$000
<b>Authorised:</b>		
1 July 2002 and 31 December 2002	1,000,000,000	100,000
<b>Issued and fully paid:</b>		
1 July 2002	584,352,842	58,435
Repurchases of shares (note a)	(1,821,500)	(182)
Shares issued in lieu of cash dividend (note b)	1,769,586	177
<b>31 December 2002</b>	<b>584,300,928</b>	<b>58,430</b>

- a During the six months ended 31 December 2002, the Company repurchased 1,821,500 shares on The Stock Exchange of Hong Kong Limited. These repurchased shares were subsequently cancelled and an amount equivalent to their nominal value was transferred from retained profits to the capital redemption reserve (note 15).

Details of such repurchases are as follows:

Month of repurchase	Number of shares repurchased	Price per share		Aggregate price paid HK\$
		Highest HK\$	Lowest HK\$	
July 2002	109,500	7.95	7.90	865,525
August 2002	1,712,000	8.25	7.60	13,586,575
	<b>1,821,500</b>			<b>14,452,100</b>

- b On 24 September 2002, the Company proposed a final dividend of HK\$0.07 on its shares for the year ended 30 June 2002. The Company offered its shareholders a scrip dividend alternative under which shareholders could elect to receive shares in lieu of the cash dividend (the "Scheme"). On 18 November 2002, 1,769,586 shares of HK\$0.10 each were issued as fully paid under the Scheme, at a value of HK\$8.19 per share. A premium of HK\$14.3 million arose in respect of the issue (note 15).



## 14 SHARE CAPITAL *(continued)*

- c A new share option scheme was adopted by the Company on 15 November 2002 (the "New Share Option Scheme") to replace the share option scheme which had been adopted on 17 October 1996 (the "Old Share Option Scheme"). This was to comply with the requirements of the rules governing the listing of securities on The Stock Exchange of Hong Kong Limited. Under the New Share Option Scheme, the Company may grant options to any employee regardless of length of service subject to approval of the Company's board of directors. The maximum number of options that may be granted is initially set at 10 per cent. of the Company's issued share capital at the date of its last Annual General Meeting (15 November 2002). At 31 December 2002, no options had been granted under the New Share Option Scheme.

The Old Share Option Scheme was terminated by the Company on 15 November 2002. Upon termination of the Old Share Option Scheme, no further options could be granted under the scheme but in all other respects, the provisions of the Old Share Option Scheme remained in force and all options granted prior to termination were valid and exercisable in accordance with its provisions. At 31 December 2002, options to subscribe for 7,661,250 shares (30 June 2002: 7,975,000 shares) were outstanding under the Old Share Option Scheme. No options were granted or exercised in respect of the Old Share Option Scheme in the six months ended December 2002. Subsequent to 31 December 2002, all options outstanding under the Old Share Option Scheme either lapsed or were acquired for a nominal amount of HK\$0.01 per option pursuant to the mandatory general offer for the Company by Morgan Stanley Dean Witter Asia Limited on behalf of Cellular 8 Holdings Limited, a wholly owned subsidiary of Sun Hung Kai Properties Limited ("General Offer"). Those options acquired pursuant to the General Offer were subsequently cancelled.

## 15 RESERVES

	Capital				Total HK\$000
	Share premium	redemption reserve	Contributed surplus	Retained profits	
	HK\$000	HK\$000	HK\$000	HK\$000	
1 July 2002	4,229,260	2,150	199,800	642,892	5,074,102
Repurchases of shares	(14,270)	182	—	(182)	(14,270)
Issue of new shares in lieu of cash dividend	14,316	—	—	(14,493)	(177)
Payment of 2002 final dividend	—	—	—	(26,284)	(26,284)
Profit for the period	—	—	—	237,799	237,799
<b>31 December 2002</b>	<b>4,229,306</b>	<b>2,332</b>	<b>199,800</b>	<b>839,732</b>	<b>5,271,170</b>

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.

# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 31 December 2002

### 16 DEFERRED TAXATION

At 31 December 2002, a potential deferred taxation asset of HK\$52,555,000 (30 June 2002: HK\$89,620,000) relating principally to tax losses and accelerated depreciation allowances has not been recognised in the financial statements.

### 17 DISCONTINUING OPERATION

During October to December 2002, the Group discontinued providing fixed broadband and narrowband Internet access services to its retail customers. The Group also entered into an arrangement with another Internet service provider to ensure continuity of service to its former retail customers.

### 18 CONTINGENT LIABILITIES

#### a Performance bonds

	31 December 2002	30 June 2002
	HK\$000	HK\$000
3G licence (note c)	200,000	250,000
Other	1,942	57,942
	<u>201,942</u>	<u>307,942</u>

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 six months ended 31 December 2002, all performance bond obligations relating to the Group's Fixed Telecommunications Network Services Licence were satisfied and the related bonds released.

#### 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.



## 18 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 fifteen years. The following fees are payable under the Licence:

- For each of the first five years from 22 October 2001, HK\$50 million per annum payable at the end of each year;
- For the remaining years of the Licence,
  - five 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 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 five years of the Licence is HK\$250 million. The total minimum amount of fees payable over the remaining ten years is HK\$1,057 million giving a total minimum amount of annual fees over the fifteen 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 thirteen per cent., was approximately HK\$458 million.

The Group is required to provide a performance bond to the Telecommunications Authority of Hong Kong ("TA"). The Licence sets out the amount and duration of the performance bond as follows:

- A performance bond upon inception for the Licence with a duration of five years and for an amount equal to the fees for the first five years (HK\$250 million).
- The performance bond must be revised annually to remain in force for five 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 payable to the TA during the next five years (or till the end of the Licence, if a shorter period).

On 22 October 2002, the first anniversary of the Licence, the performance bond was revised. However, in accordance with a one-year waiver granted by the TA, the revised bond was for HK\$200 million with a duration of four years.

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.

# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 31 December 2002

### 19 COMMITMENTS

#### *Capital commitments*

	31 December 2002	30 June 2002
	HK\$000	HK\$000
Contracted but not provided for		
- fixed assets	229,948	63,345
- investment in an associate	1,324	28,728
- investment securities	31,200	35,100
Authorised but not contracted for	219,648	408,000
	<u>482,120</u>	<u>535,173</u>

#### *Operating lease commitments*

The Group had the following future aggregate minimum lease payments under operating leases:

##### *Land and buildings and transmission sites:*

	31 December 2002	30 June 2002
	HK\$000	HK\$000
Within one year	248,921	243,408
In the second to fifth year inclusive	123,766	127,522
After the fifth year	2,481	3,388
	<u>375,168</u>	<u>374,318</u>

##### *Leased lines:*

	31 December 2002	30 June 2002
	HK\$000	HK\$000
Within one year	11,674	4,732
In the second to fifth year inclusive	4,753	1,799
	<u>16,427</u>	<u>6,531</u>



## 20 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	
	2002	2001
	HK\$000	HK\$000
Operating lease rentals for land and buildings and transmission sites (note a)	29,919	33,531
Insurance expense (note b)	2,066	1,625

**a** *Operating lease rentals for land and buildings and transmission sites*

Certain subsidiaries and associated companies of Sun Hung Kai Properties Limited ("SHKP"), the Company's ultimate holding 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 six months ended 31 December 2002, rental and licence fees paid and payable to subsidiaries and associated companies of SHKP totalled HK\$29,919,000 (2001: HK\$33,531,000).

**b** *Insurance expense*

Sun Hung Kai Properties Insurance Limited, a wholly-owned subsidiary of SHKP, provides general insurance services to the Group. For the six months ended 31 December 2002, insurance premiums paid and payable were HK\$2,066,000 (2001: HK\$1,625,000).

**c** *Funds management*

New-Alliance Asset Management (Asia) Limited, an associate of SHKP, has been appointed as the investment manager of the Group's Provident Scheme since October 1999. For the six months ended 31 December 2002, no fee was paid by the Group as New-Alliance Management (Asia) Limited is remunerated by way of fee levied on funds under management.