

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

## 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 ('HKSA').

The Group has adopted in the current year the following new or revised Statements of Standard Accounting Practice ('SSAPs') issued by the HKSA which have been effective for accounting periods commencing on or after 1 January 2002:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 11 (revised)	:	Foreign currency translation
SSAP 15 (revised)	:	Cash flow statements
SSAP 33	:	Discontinuing operations
SSAP 34	:	Employee benefits

Adoption of the new or revised SSAPs has not had a material financial impact on these financial statements because the Group was already following the recognition and measurement criteria specified therein. However, some presentations and disclosures, including comparatives, have been revised or extended.

### 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 respect of which the Group controls the composition of the board of directors, controls more than half of 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.

## 1 Basis of preparation and principal accounting policies (continued)

### 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 the 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 of losses 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 or associated company at the date of acquisition.

Goodwill on acquisitions that occurred prior to 1 July 2001 was written off against reserves.

There have been no acquisitions by the Group during the years ended 30 June 2002 and 2003.

### 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 costs 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 networks purchased at cost. Depreciation of each network commences from the date of launch.

No depreciation is provided for any 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 a fixed asset 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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

## 1 Basis of preparation and principal accounting policies (continued)

### f Telecommunications licence for third generation ('3G') services

Expenditure on acquiring the Group's 3G licence telecommunications spectrum in Hong Kong includes spectrum utilisation fees payable for the allocation of specific spectrum and the 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 Investments

#### (i) Equity securities

Equity 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.

#### (ii) Held-to-maturity debt securities

Debt securities which are intended to be held until maturity are stated in the balance sheet at cost plus or minus any discount or premium amortised 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.

### 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 twelve months.

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

### **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 demand deposits 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 and the present value of the minimum lease payments is recorded as an asset and a corresponding liability of the same amount is recorded. 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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

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

### **o Contingent assets and liabilities**

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.

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.

### **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.

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

### r Dividends

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

### s Employee benefits

#### (i) *Employee leave entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave attributable to service rendered by employees up to the balance sheet date.

Employee entitlements to sick leave, maternity or paternity leave and marriage leave are not recognised until the time the leave is taken.

#### (ii) *Profit sharing and bonus plans*

Provisions are established for amounts payable within twelve months of the balance sheet date in respect of profit sharing and bonus plans. Provisions are only recognised when the Group has a present legal or constructive obligation arising from service rendered by employees and a reliable estimate of the obligation can be made.

#### (iii) *Employee share option schemes*

Where share options are granted at the market price of the shares on the date of the grant, no compensation cost is recognised in the profit and loss account. Where share options are granted at a discount to the market price, a compensation cost is recognised in the profit and loss account based on that discount. When the share options are exercised, the proceeds received net of any transaction costs are credited to share capital (nominal value) and share premium.

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# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

## 2 Turnover and other revenues

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

	2003 HK\$000	2002 HK\$000
<b>Turnover</b>		
Mobile and international telecommunications services	2,263,140	2,171,303
Mobile telephone and accessory sales	556,120	177,795
Internet services (note 7)	12,278	52,154
	<u>2,831,538</u>	<u>2,401,252</u>
<b>Other revenues</b>		
Interest income	72,140	86,108
	<u>2,903,678</u>	<u>2,487,360</u>

## 3 Segment reporting

For the year ended 30 June 2003, more than ninety per cent. of the Group's turnover and operating profit were attributable to its mobile communications operations in the Special Administrative Regions of Hong Kong and Macau. Accordingly, no analysis by either business or geographical segment is included in these financial statements.

## 4 Cost of goods sold and services provided

	2003 HK\$000	2002 HK\$000
Cost of goods sold	552,499	226,197
Interconnect charges and international telecommunications services	280,254	316,143
Other	40,828	39,768
	<u>873,581</u>	<u>582,108</u>

## 5 Other operating expenses

	<b>2003</b>	2002
	<b>HK\$000</b>	HK\$000
Network costs	<b>456,022</b>	459,430
Depreciation	<b>399,946</b>	410,348
Salary and related costs (including directors' emoluments)	<b>360,104</b>	377,308
Sales and marketing expenses	<b>158,990</b>	176,820
Rental and utilities	<b>106,090</b>	118,059
Other operating expenses	<b>123,463</b>	119,595
Loss on disposal of fixed assets	<b>1,777</b>	12,099
	<b><u>1,606,392</u></b>	<u>1,673,659</u>

## 6 Impairment of fixed and other assets

	<b>2003</b>	2002
	<b>HK\$000</b>	HK\$000
Fixed assets - impairment losses	—	96,082
Provision against interests in an associate and equity securities	—	26,413
	<u>—</u>	<u>122,495</u>

During the year ended 30 June 2002, the Group made an impairment charge of HK\$96 million in respect of certain fixed assets of its Internet service provider and other non-core businesses including associated onerous commitments. The Group also made an impairment charge of HK\$26 million in respect of its investments in technology funds.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

## 7 Discontinued operation

During October to December 2002, the Group discontinued providing fixed broadband and narrowband Internet access services ('Internet 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. The business was closed in June 2003. The turnover and results, cash flows and assets and liabilities of the Internet Services business segment were as follows:

	<b>2003</b> <b>HK\$000</b>	2002 HK\$000
<b>Turnover and results</b>		
Turnover	<b>12,278</b>	52,154
Interest income	<b>2</b>	8
Operating costs	<b>(10,477)</b>	(65,414)
Impairment of fixed assets	<b>—</b>	(67,884)
Operating profit/(loss)	<b>1,803</b>	(81,136)
<b>Cash flows</b>		
Net operating cash (outflow)/inflow	<b>(1,445)</b>	33,258
Net investing cash inflow/(outflow)	<b>2</b>	(33,248)
Total net cash (outflow)/inflow	<b>(1,443)</b>	10
	<b>30 June</b> <b>2003</b> <b>HK\$000</b>	30 June 2002 HK\$000
<b>Assets and liabilities</b>		
Current assets	<b>902</b>	6,053
Total liabilities	<b>(718)</b>	(19,709)
Net assets/(liabilities)	<b>184</b>	(13,656)

The above assets and liabilities exclude intergroup payables and receivables.

The Group has not entered into any sale agreements for any assets of the discontinued operation. Accordingly, no profit or loss on the disposal of any asset has arisen.

## 8 Operating profit

Operating profit is stated after crediting and charging:

	2003 HK\$000	2002 HK\$000
<b>Crediting</b>		
Interest income:		
Listed investments	17,365	6,597
Net realised loss on disposal of listed debt securities (note 17)	(6,336)	—
Deposits with bank and other financial institutions	44,212	73,136
Other	16,899	6,375
	<u>72,140</u>	<u>86,108</u>
Net exchange gain	<u>—</u>	<u>46</u>
<b>Charging</b>		
Depreciation:		
Owned fixed assets	257,705	263,610
Leased fixed assets	142,241	146,738
	<u>399,946</u>	<u>410,348</u>
Amortisation of deferred expenditure	11,710	40,703
Operating lease rentals for land and buildings, transmission sites and leased lines	442,336	456,654
Loss on disposals of fixed assets	1,777	12,099
Auditors' remuneration	1,070	1,305
Provision for inventories	1,811	6,528
Net exchange loss	268	—
Provision for bad and doubtful debts	18,848	11,827
Retirement benefit costs (note 10)	18,437	17,979

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

## 9 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:

	<b>2003</b> <b>HK\$000</b>	2002 HK\$000
Fees	<b>1,105</b>	660
Salaries and allowances	<b>9,452</b>	9,526
Bonuses	<b>260</b>	555
Pensions contributions	<b>809</b>	519
	<b>11,626</b>	11,260

The directors' emoluments for 2003 include nil (2002: HK\$3,118,000) in respect of four directors (2002: 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\$460,000 (2002: HK\$160,000). No director received any emoluments from Sun Hung Kai Properties Limited, the ultimate holding company of SmarTone Telecommunications Holdings Limited, in respect of their services to the Group during the year ended 30 June 2003.

None of the directors (2002: none) waived emoluments in respect of the financial year ended 30 June 2003. 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 (2002: Nil).

During the year, 5,200,000 options were granted to the directors under the share option scheme adopted by the Company on 15 November 2002. These were to replace options under the previous scheme which had either been cancelled or lapsed during the year ended 30 June 2003. Refer to note 25 - 'Employee share option schemes' for details of options granted during the year.

The emoluments of the directors fell within the following bands:

HK\$	<b>2003</b> <b>Number of</b> <b>directors</b>	2002 Number of directors
0 - 1,000,000	<b>12</b>	15
3,000,001 - 3,500,000	<b>1</b>	1
7,000,001 - 7,500,000	<b>1</b>	1
	<b>14</b>	17

## 9 Emoluments of directors and senior management (continued)

### b Five highest paid individuals

In addition to the two (2002: two) highest paid directors above, there were three employees (2002: three employees) whose emoluments were among the five highest in the Group. Details of the emoluments payable to these three employees (2002: three employees) during the year are as follows:

	2003 HK\$000	2002 HK\$000
Salaries and allowances	6,893	6,631
Bonuses	448	—
Pension contributions	624	593
	<u>7,965</u>	<u>7,224</u>

The emoluments of these employees fell within the following bands:

HK\$	2003 Number of employees	2002 Number of employees
2,000,001 - 2,500,000	1	2
2,500,001 - 3,000,000	2	1
	<u>3</u>	<u>3</u>

## 10 Retirement benefits

	2003 HK\$000	2002 HK\$000
Scheme costs	21,054	23,341
Less: forfeited contributions	(2,617)	(5,362)
Net cost charged to profit and loss account	<u>18,437</u>	<u>17,979</u>

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 2002 and 2003, all contributions to the ORSO scheme forfeited by employees had been utilised by the Group to reduce its contributions payable.

A MPF scheme was 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 the MPF scheme.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

## 11 Taxation

No provision for Hong Kong profits taxation has been made as the Group has sufficient tax losses brought forward to offset the assessable profit for the year (2002: Nil).

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

	<b>2003</b>	2002
	<b>HK\$000</b>	HK\$000
Accelerated depreciation allowances	<b>27,696</b>	(52,166)
Tax losses	<b>1,340</b>	125,118
Other timing differences	<b>(644)</b>	(4,220)
	<b>28,392</b>	68,732

## 12 Profit/(loss) attributable to shareholders

Of the Group's profit for the year, a profit of HK\$1,426,305,000 (2002: loss of HK\$35,411,000) has been dealt with in the financial statements of the Company.

## 13 Dividends

	<b>2003</b>	2002
	<b>HK\$000</b>	HK\$000
Final, paid, of HK\$0.07 per share (note a)	—	40,777
Interim, paid, of HK\$0.20 per share (note b)	<b>116,603</b>	—
Final, proposed, of HK\$0.27 per share (note c)	<b>157,414</b>	—
Attributable for the year	<b>274,017</b>	40,777
Special cash dividend, proposed, of HK\$3.50 per share (note d)	<b>2,040,552</b>	—
	<b>2,314,569</b>	40,777

Notes:

- a At a meeting held on 24 September 2002, the Directors recommended the declaration of a final dividend of HK\$0.07 per share for the year ended 30 June 2002. This dividend was paid on 18 November 2002 and has been accounted for as an appropriation of retained profits for the year ended 30 June 2003.
- b At a meeting held on 11 March 2003, the Directors declared an interim dividend of HK\$0.20 per share for the year ended 30 June 2003. The interim dividend was paid on 11 April 2003 and has been accounted for as an appropriation of retained profits for the year ended 30 June 2003.
- c At a meeting held on 23 September 2003, the Directors recommended the declaration of a final dividend of HK\$0.27 per share for the year ended 30 June 2003. This proposed dividend is not included as a dividend payable in the Group or Company balance sheet as at 30 June 2003, but will be accounted for as an appropriation of retained profits for the year ending 30 June 2004.
- d At a meeting held on 23 September 2003, the Directors recommended the declaration of a special cash dividend of HK\$3.50 per share. This proposed special cash dividend is not included as a dividend payable in the Group or Company balance sheet as at 30 June 2003, but will be accounted for as an appropriation of retained profits and/or contributed surplus for the year ending 30 June 2004.

#### 14 Earnings per share

The calculation of earnings per share is based on the profit attributable to shareholders of HK\$407,815,000 (2002: HK\$115,169,000) and on the weighted average number of 583,327,626 shares (2002: 588,929,496 shares) in issue during the year.

For the years ended 30 June 2002 and 2003, no diluted earnings per share is presented as there are no potentially dilutive shares outstanding.

#### 15 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
<b>Cost</b>							
1 July 2002	8,000	151,156	2,962,121	448,203	60,773	252,711	3,882,964
Additions	—	10,900	9,193	26,419	5,750	313,842	366,104
Reclassifications	—	—	243,185	—	—	(243,185)	—
Disposals	—	—	(84,043)	(9,523)	(3,638)	(1,139)	(98,343)
<b>30 June 2003</b>	<b>8,000</b>	<b>162,056</b>	<b>3,130,456</b>	<b>465,099</b>	<b>62,885</b>	<b>322,229</b>	<b>4,150,725</b>
<b>Accumulated depreciation and impairment loss</b>							
1 July 2002	8,000	125,616	1,530,217	377,808	48,207	40,247	2,130,095
Charge for the year	—	13,558	342,964	35,694	7,730	—	399,946
Reclassifications	—	—	(179)	—	—	179	—
Written back on disposals	—	—	(69,635)	(9,506)	(3,392)	(3)	(82,536)
<b>30 June 2003</b>	<b>8,000</b>	<b>139,174</b>	<b>1,803,367</b>	<b>403,996</b>	<b>52,545</b>	<b>40,423</b>	<b>2,447,505</b>
<b>Net book value</b>							
<b>30 June 2003</b>	<b>—</b>	<b>22,882</b>	<b>1,327,089</b>	<b>61,103</b>	<b>10,340</b>	<b>281,806</b>	<b>1,703,220</b>
30 June 2002	—	25,540	1,431,904	70,395	12,566	212,464	1,752,869

As at 30 June 2003, the net book value of fixed assets held by the Group under finance leases amounted to HK\$657,828,203 (2002: HK\$807,959,000).

Included within network under construction are capitalised 3G spectrum utilisation fees of HK\$86,091,000 (2002: HK\$36,091,000).

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

## 16 Interest in an associate

	2003 HK\$000	2002 HK\$000
Group's share of net assets	—	—
Amount due from an associate, less provision	<u>3,050</u>	<u>18,939</u>
	<u>3,050</u>	<u>18,939</u>

Details of the Group's associate at 30 June 2003 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.

## 17 Investments

	2003 HK\$000	2002 HK\$000
<b>Equity securities</b>		
Overseas unlisted investments	<u>44,144</u>	<u>39,213</u>
<b>Held-to-maturity debt securities</b>		
Listed		
Overseas	367,287	293,036
Hong Kong	—	74,193
Unlisted	<u>343,048</u>	<u>275,879</u>
	<u>710,335</u>	<u>643,108</u>
Less: Debt securities maturing within one year included within current assets	<u>(53,387)</u>	<u>—</u>
	<u>656,948</u>	<u>643,108</u>
	<u>701,092</u>	<u>682,321</u>
<b>Market value of listed securities</b>		
Overseas	379,186	293,095
Hong Kong	—	75,244
	<u>379,186</u>	<u>368,339</u>

## 17 Investments (continued)

A loss of HK\$6.3 million (2002: Nil) arose on the disposal of certain listed held-to-maturity debt securities as follows:

	<b>2003</b>	2002
	<b>HK\$000</b>	HK\$000
Proceeds of securities sold during the year	<b>172,883</b>	—
Proceeds of early redemption of securities	<b>429,000</b>	39,000
Total proceeds received	<b>601,883</b>	39,000
Carrying value at dates of disposal or redemption	<b>(608,219)</b>	(39,000)
Net realised loss on disposal	<b>(6,336)</b>	—

The held-to-maturity debt securities sold during the year, were disposed of prior to maturity, as a precautionary measure in light of the deteriorating credit quality of the issuers of the securities.

The early redemption of held-to-maturity debt securities arose due to the issuers of the securities exercising their mandatory rights and not at the discretion of the Group.

## 18 Deferred expenditure

	2003			2002		
	Handset subsidies HK\$000	Licence application expenditure HK\$000	Total HK\$000	Handset subsidies HK\$000	Licence application expenditure HK\$000	Total HK\$000
<b>Cost</b>						
1 July	<b>772,952</b>	<b>4,159</b>	<b>777,111</b>	758,792	4,159	762,951
Additions	<b>14,960</b>	—	<b>14,960</b>	14,160	—	14,160
30 June	<b>787,912</b>	<b>4,159</b>	<b>792,071</b>	772,952	4,159	777,111
<b>Accumulated amortisation</b>						
1 July	<b>768,682</b>	<b>4,125</b>	<b>772,807</b>	728,395	3,709	732,104
Charge for the year	<b>11,676</b>	<b>34</b>	<b>11,710</b>	40,287	416	40,703
30 June	<b>780,358</b>	<b>4,159</b>	<b>784,517</b>	768,682	4,125	772,807
<b>Net book value</b>						
30 June	<b>7,554</b>	—	<b>7,554</b>	4,270	34	4,304

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

## 19 Subsidiaries

	2003 HK\$000	2002 HK\$000
Unlisted shares, at cost	939,189	939,189
Amounts due from subsidiaries (note)	5,186,282	3,793,032
	<b>6,125,471</b>	4,732,221
Amounts due to a subsidiary (note)	(29,387)	(29,387)
	<b>6,096,084</b>	4,702,834

Note:

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

None of the subsidiaries had any loan capital subsisting at the end or at any time during the year ended 30 June 2003 (2002: Nil).

Details of the principal subsidiaries which materially affect the results for the year ended 30 June 2003 or the net assets at 30 June 2003 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 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 Moveis 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 2003 and 2002, all inventories represent goods held for re-sale. At 30 June 2003, the carrying amount of inventories valued at net realisable value was HK\$579,000 (2002: HK\$4,340,000).

## 21 Trade receivables

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

	2003 HK\$000	2002 HK\$000
Current to 30 days	92,423	135,999
31 - 60 days	7,992	22,448
61 - 90 days	2,785	13,889
	<u>103,200</u>	<u>172,336</u>

## 22 Cash and bank balances

	2003 HK\$000	2002 HK\$000
<b>Group</b>		
Pledged bank deposits	392,139	525,402
Cash and bank balances	2,820,725	2,418,105
	<u>3,212,864</u>	<u>2,943,507</u>

Of the HK\$392,139,000 (2002: HK\$525,402,000) pledged bank deposits, HK\$200,000,000 (2002: HK\$250,000,000) has been pledged as cash collateral for the Group's 3G licence performance bond as referred to in note 32 - 'Contingent liabilities'.

	2003 HK\$000	2002 HK\$000
<b>Company</b>		
Pledged bank deposits	387,812	520,465
Cash and bank balances	2,995	4,002
	<u>390,807</u>	<u>524,467</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

## 23 Trade payables

The ageing of the trade payables is as follows:

	2003 HK\$000	2002 HK\$000
Current to 30 days	66,428	31,425
31 - 60 days	33,786	48,130
61 - 90 days	14,111	10,220
Over 90 days	31,577	3,496
	<u>145,902</u>	<u>93,271</u>

## 24 Share capital

	Shares of HK\$0.10 each	HK\$000
<b>Authorised:</b>		
1 July 2002 and 30 June 2003	1,000,000,000	100,000
<b>Issued and fully paid:</b>		
1 July 2001	592,278,842	59,228
Repurchases of shares (note a)	(7,926,000)	(793)
30 June 2002	<u>584,352,842</u>	<u>58,435</u>
1 July 2002	584,352,842	58,435
Repurchases of shares (note b)	(3,107,500)	(311)
Issue of new shares in lieu of cash dividend (note c)	1,769,586	177
<b>30 June 2003</b>	<u><b>583,014,928</b></u>	<u><b>58,301</b></u>

## 24 Share capital (continued)

Notes:

- a During the year ended 30 June 2002, the Company repurchased 7,926,000 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 these repurchases are as follows:

Month of repurchase	Number of shares repurchased	Price per share		Aggregate price paid HK\$
		Highest HK\$	Lowest 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
	<u>7,926,000</u>			<u>69,636,250</u>

- b During the year ended 30 June 2003, the Company repurchased 3,107,500 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 these 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
January 2003	908,500	8.50	8.35	7,708,725
February 2003	377,500	8.50	8.50	3,208,750
	<u>3,107,500</u>			<u>25,369,575</u>

- c 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 26).

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

## 25 Employee share option schemes

Pursuant to the share option scheme adopted by the Company, employees in full time employment of the Group, including executive directors, may be granted options to subscribe for shares of the Company. Details of the share option scheme are set out in the Report of the Directors.

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.

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 remained valid and exercisable in accordance with its provisions. Subsequent to 15 November 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.

### Movement in share options

	Year ended 30 June 2003			Year ended 30 June 2002
	New Share Option Scheme	Old Share Option Scheme	Total	Old Share Option Scheme
Number of shares				
1 July	—	7,975,000	7,975,000	4,947,000
Issued	5,200,000	—	5,200,000	5,400,000
Cancelled or lapsed	—	(7,975,000)	(7,975,000)	(2,372,000)
30 June	5,200,000	—	5,200,000	7,975,000
Options vested at 30 June	1,066,667	—	1,066,667	2,575,000

There were no share options exercised during the year ended 30 June 2003 (2002: Nil).

## 25 Employee share option schemes (continued)

### Unexpired and unexercised share options

At 30 June 2003, options to subscribe for 5,200,000 shares under the New Share Option Scheme (2002: 7,975,000 shares under the Old Share Option Scheme) were outstanding:

Date of grant	Exercise period	Exercise price HK\$	30 June 2003 Number of shares*	30 June 2002 Number of shares†
3 December 1996	1 January 1997 to 31 December 2003	16.10	—	53,000
4 April 1998	14 April 1999 to 13 April 2005	20.60	—	812,500
17 November 1999	17 November 2000 to 16 November 2007	27.70	—	1,609,500
22 March 2000	22 March 2001 to 21 March 2007	25.50	—	100,000
13 July 2001	13 July 2002 to 12 July 2008	9.20	—	100,000
17 July 2001	17 July 2002 to 16 July 2011	9.29	—	5,000,000
19 March 2002	19 March 2003 to 18 March 2009	8.97	—	100,000
2 May 2002	2 May 2003 to 1 May 2012	9.20	—	200,000
10 February 2003	10 February 2003 to 16 July 2011	9.29	5,000,000	—
10 February 2003	2 May 2003 to 1 May 2012	9.20	200,000	—
			<b>5,200,000</b>	<b>7,975,000</b>

\* All options outstanding at 30 June 2003 were granted under the New Share Option Scheme

† All options outstanding at 30 June 2002 were granted under the Old Share Option Scheme

### Share options granted during the year

Date of grant	Exercise period	Exercise price HK\$	30 June 2003 Number of shares*	30 June 2002 Number of shares†
13 July 2001	13 July 2002 to 12 July 2008	9.20	—	100,000
17 July 2001	17 July 2002 to 16 July 2011	9.29	—	5,000,000
19 March 2002	19 March 2003 to 18 March 2009	8.97	—	100,000
2 May 2002	2 May 2003 to 1 May 2012	9.20	—	200,000
10 February 2003	10 February 2003 to 16 July 2011	9.29	5,000,000	—
10 February 2003	2 May 2003 to 1 May 2012	9.20	200,000	—
			<b>5,200,000</b>	<b>5,400,000</b>

\* All options granted during the year ended 30 June 2003 were granted under the New Share Option Scheme

† All options granted during the year ended 30 June 2002 were granted under the Old Share Option Scheme

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

## 26 Reserves

	Share premium HK\$000	Capital redemption reserve HK\$000	Contributed surplus HK\$000	Retained profits HK\$000	Total HK\$000
<b>Group</b>					
1 July 2001	4,298,104	1,357	199,800	528,516	5,027,777
Repurchases of shares (note 24a)	(68,844)	793	—	(793)	(68,844)
Profit for the year	—	—	—	115,169	115,169
1 July 2002	4,229,260	2,150	199,800	642,892	5,074,102
Repurchases of shares (note 24b)	(25,059)	311	—	(311)	(25,059)
Issue of new shares in lieu of cash					
2002 final dividend (note 24c)	14,316	—	—	(14,493)	(177)
Payment of 2002 final dividend	—	—	—	(26,284)	(26,284)
Payment of 2003 interim dividend	—	—	—	(116,603)	(116,603)
Profit for the year	—	—	—	407,815	407,815
<b>30 June 2003</b>	<b>4,218,517</b>	<b>2,461</b>	<b>199,800</b>	<b>893,016</b>	<b>5,313,794</b>
<b>Company</b>					
1 July 2001	4,298,104	1,357	938,989	36,536	5,274,986
Repurchases of shares (note 24a)	(68,844)	793	—	(793)	(68,844)
Loss for the year	—	—	—	(35,411)	(35,411)
1 July 2002	4,229,260	2,150	938,989	332	5,170,731
Repurchases of shares (note 24b)	(25,059)	311	—	(311)	(25,059)
Issue of new shares in lieu of cash					
2002 final dividend (note 24c)	14,316	—	—	(14,493)	(177)
Payment of 2002 final dividend	—	—	—	(26,284)	(26,284)
Payment of 2003 interim dividend	—	—	—	(116,603)	(116,603)
Profit for the year	—	—	—	1,426,305	1,426,305
<b>30 June 2003</b>	<b>4,218,517</b>	<b>2,461</b>	<b>938,989</b>	<b>1,268,946</b>	<b>6,428,913</b>

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.

## 27 Deferred taxation

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

	Group	
	2003 HK\$000	2002 HK\$000
Accelerated depreciation allowances	(74,422)	(46,726)
Tax losses	135,650	136,990
Other timing differences	—	(644)
	<u>61,228</u>	<u>89,620</u>

## 28 Related party transactions

- a During the year, the Group had significant transactions with certain related parties in the ordinary course of business as set out below. All related party transactions are carried out in accordance with the terms of the relevant agreements governing the transactions.

	2003 HK\$000	2002 HK\$000
Operating lease rentals for land and buildings and transmission sites (note i)	55,716	70,406
Insurance expense (note ii)	7,747	4,970
Consultancy fees (note iii)	279	1,776
Mobility Leaders membership subscription fee (note iv)	—	354
Genie portal service (note v)	—	951
Leased line and IT outsourcing (note vi)	663	475

Notes:

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

Certain subsidiaries and associated companies of Sun Hung Kai Properties Limited ('SHKP'), the ultimate holding company of the Group, 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 2003, rental and licence fees paid and payable to subsidiaries and associated companies of SHKP totalled HK\$55,716,000 (2002: HK\$70,406,000). The expense for the year ended 30 June 2003 includes nil (2002: HK\$7,832,000) in respect of the early termination of certain office leases granted to the Group by SHKP.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

## 28 Related party transactions (continued)

Notes: (continued)

### (ii) Insurance services

Sun Hung Kai Properties Insurance Limited and Hung Kai Insurance Brokers Company Limited, wholly-owned subsidiaries of SHKP, provide general insurance services to the Group. For the year ended 30 June 2003, insurance premiums paid and payable were HK\$7,747,000 (2002: HK\$4,970,000).

### (iii) Consultancy services

British Telecommunications Plc. ('BT'), a substantial shareholder of the Company until 7 January 2003, and a subsidiary company of BT have provided consultancy services to the Group. For the year ended 30 June 2003, the consultancy fees paid were HK\$279,000 (2002: HK\$366,000).

The Group paid consultancy and technical support fees to companies in which a non-executive director who resigned in the year ended 30 June 2002 has an interest. For the year ended 30 June 2003, there were no transactions and accordingly the total fees paid were nil (2002: HK\$1,295,000).

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 2003, there were no transactions and accordingly the consultancy fees paid were nil (2002: HK\$115,000).

### (iv) Mobility Leaders membership subscription fees

The Group subscribed to Mobility Leaders, an information sharing program organised by BT. The contract was terminated during the year ended 30 June 2002 and for the year ended 30 June 2003, the subscription fees paid were nil (2002: HK\$354,000).

### (v) Genie portal service

The Group contracted with Genie Internet (Hong Kong) Limited, a subsidiary of BT, to provide mobile portal services. The contract was terminated during the year ended 30 June 2002 and for the year ended 30 June 2003, fees paid were nil (2002: HK\$951,000).

### (vi) Leased line and IT outsourcing

SUNeVision Super e-Technology Services Limited and SUNeVision (Management Services) Limited, subsidiaries of SHKP, have contracted with the Group to provide leased line and IT outsourcing services respectively. For the year ended 30 June 2003, the leased line rentals and IT outsourcing services fees paid were HK\$120,000 (2002: HK\$475,000) and HK\$503,000 (2002: Nil) respectively.

- b At 30 June 2003, the Group had 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 2003 (2002: Nil).

## 28 Related party transactions *(continued)*

- d The trading balances set out below with SHKP and its subsidiaries (the 'SHKP Group') (including buildings and estates managed by the SHKP Group) are included within the relevant balance sheet items:

	<b>30 June 2003</b> <b>HK\$000</b>
Trade receivables	<b>331</b>
Deposits and prepayments	<b>7,061</b>
Trade payables	<b>329</b>
Other payables and accruals	<b>467</b>

The trading balances are unsecured, interest-free and repayable on similar terms to those offered to unrelated parties. The Group was not a subsidiary of SHKP at 30 June 2002.

## 29 Capital commitments

	Group	
	<b>2003</b> <b>HK\$000</b>	2002 HK\$000
Contracted but not provided for		
Fixed assets	<b>82,408</b>	63,345
Further advances to an associate	<b>1,324</b>	28,728
Equity securities	<b>27,300</b>	35,100
Authorised but not contracted for	<b>418,730</b>	408,000
	<b>529,762</b>	535,173

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

## 30 Lease commitments

The Group had future aggregate minimum operating lease commitments in respect of the following:

	Group	
	2003 HK\$000	2002 HK\$000
Land and buildings and transmission sites		
Within one year	220,746	243,408
In the second to fifth year inclusive	121,944	127,522
After the fifth year	17,524	3,388
	<u>360,214</u>	<u>374,318</u>
Leased lines		
Within one year	37,164	4,732
In the second to fifth year inclusive	3,129	1,799
	<u>40,293</u>	<u>6,531</u>

The Company did not have any operating lease commitments as at 30 June 2003 (2002: Nil).

## 31 Notes to the consolidated cash flow statement

Reconciliation of profit for the year to net cash inflow generated from operations

	2003 HK\$000	2002 HK\$000
Profit for the year	407,085	109,095
Depreciation	399,946	410,348
Amortisation of deferred expenditure	11,710	40,703
Loss on disposal of fixed assets	1,777	12,099
Interest income	(72,140)	(86,108)
Impairment charge (note 6)	—	122,495
Share of loss of an associate	16,620	3
<b>Net cash inflow from operations before working capital changes</b>	<u>764,998</u>	<u>608,635</u>
Decrease/(increase) in inventories and inventories in transit	4,851	(10,463)
Decrease/(increase) in trade receivables, prepayments, deposits and other receivables	103,876	(14,401)
Decrease in payables, accruals, deferred income and customers' deposits	(29,822)	(196,742)
<b>Net cash inflow generated from operations</b>	<u>843,903</u>	<u>387,029</u>

## 32 Contingent liabilities

### a Performance bonds

	Group		Company	
	2003 HK\$000	2002 HK\$000	2003 HK\$000	2002 HK\$000
Hong Kong 3G licence (note c)	200,000	250,000	200,000	250,000
Other	1,942	57,942	—	56,000
	<b>201,942</b>	<b>307,942</b>	<b>200,000</b>	<b>306,000</b>

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 2003, 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 obligations 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 third generation ('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 in Hong Kong using third-generation mobile services technology. The Licence is for a duration of fifteen years. The following fees are payable under the Licence:

- (i) For each of the first five 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 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 total 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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

## 32 Contingent liabilities (continued)

### c Acquisition of telecommunications licence for third generation ('3G') services (continued)

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. Therefore, 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.

## 33 Ultimate holding company

The directors regard Sun Hung Kai Properties Limited ('SHKP') as being the ultimate holding company of SmarTone Telecommunications Holdings Limited. SHKP is a company incorporated in Hong Kong with its shares listed on the main board of The Stock Exchange of Hong Kong Limited.

## 34 Proposed cancellation of share premium account

On 23 September 2003, the Company announced that it proposed to cancel the entire amount of HK\$4,218,517,000 standing to the credit of the share premium account. The credit arising from the cancellation to be transferred to the contributed surplus account. The share premium account cancellation is conditional upon the shareholders of the Company passing a special resolution to approve the cancellation at the Annual General Meeting of the Company to be held on 7 November 2003.

The effect of the share premium cancellation will be to reduce the share premium account from HK\$4,218,517,000 to nil and increase the contributed surplus account from HK\$938,989,000 to HK\$5,157,506,000. Amounts standing to the credit of the contributed surplus account are distributable to shareholders, whereas amounts standing to the credit of the share premium account are not distributable. The cancellation of the share premium account and transfer to contributed surplus account will therefore increase the distributable reserves of the company by HK\$4,218,517,000.

## 35 Approval of financial statements

The financial statements were approved by the board of directors on 23 September 2003.