



15 SHARE CAPITAL

| | Shares of \$0.10 each | \$000 |
|----------------------------------|--------------------------|---------------|
| Authorised: | | |
| 1 July 2003 and 31 December 2003 | 1,000,000,000 | 100,000 |
| Issued and fully paid: | | |
| 1 July 2003 | 583,014,928 | 58,301 |
| Exercise of share options | 2,066,500 | 207 |
| 31 December 2003 | 585,081,428 | 58,508 |

During the six months ended 31 December 2003, the Company repurchased 317,500 shares on The Stock Exchange of Hong Kong Limited. These repurchased shares were cancelled subsequent to 31 December 2003. Accordingly, their repurchase has not been included as a movement of issued and fully paid share capital for the six months ended 31 December 2003.

Details of these repurchases are as follows:

| Month of repurchase | Number of shares repurchased | Price per share \$ | Aggregate price paid \$ |
|---------------------|---------------------------------|-----------------------|-------------------------------|
| December 2003 | 317,500 | 7.55 | 2,397,000 |

16 EMPLOYEE SHARE OPTION SCHEME

At 31 December 2003, the outstanding options granted under the Company's share option scheme are as follows:

| Date granted | Exercise period | Exercise price per share \$ | Number of options | | |
|------------------|-------------------------------------|-----------------------------------|-------------------|-----------------------------------|------------------|
| | | | 1 July 2003 | Exercised during the period | 31 December 2003 |
| 10 February 2003 | 10 February 2003 to 16 July 2011 | 9.29 | 5,000,000 | (2,000,000) | 3,000,000 |
| 10 February 2003 | 2 May 2003 to 1 May 2012 | 9.20 | 200,000 | (66,500) | 133,500 |
| | | | 5,200,000 | (2,066,500) | 3,133,500 |

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(All references to "\$" are to the Hong Kong dollar)

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 31 December 2003

17 RESERVES

| | Share premium \$000 | Capital redemption reserve \$000 | Contributed surplus \$000 | Retained profits \$000 | Total \$000 |
|--|---------------------------|---|---------------------------------|------------------------------|------------------|
| <i>1 July 2003, as previously reported</i> | 4,218,517 | 2,461 | 199,800 | 893,016 | 5,313,794 |
| Adoption of SSAP 12 (revised) (note 1a) | — | — | — | (50,473) | (50,473) |
| <i>1 July 2003, restated</i> | 4,218,517 | 2,461 | 199,800 | 842,543 | 5,263,321 |
| Exercise of share options | 18,985 | — | — | — | 18,985 |
| Cancellation of share premium | (4,237,502) | — | 4,237,502 | — | — |
| Payment of 2003 final dividend | — | — | — | (157,972) | (157,972) |
| Repurchase of shares | — | — | (2,365) | (32) | (2,397) |
| Payment of special cash dividend | — | — | (2,047,785) | — | (2,047,785) |
| Profit for the period | — | — | — | 235,146 | 235,146 |
| 31 December 2003 | — | 2,461 | 2,387,152 | 919,685 | 3,309,298 |

Following the passing of a special resolution at the Annual General Meeting of the Company held on 7 November 2003, the share premium account was cancelled and the entire balance of the account amounting to \$4,237,502,000 was transferred to the contributed surplus account. In accordance with Bermuda company law, the contributed surplus account is distributable.

18 DISCONTINUING OPERATION

In the six months to 31 December 2002, the Group discontinued providing fixed broadband and narrow band 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.



19 CONTINGENT LIABILITIES

The contingent liabilities as disclosed in the Group's annual report for the year ended 30 June 2003 continue to exist and are unchanged except for a reduction in performance bonds as set out below:

Performance bonds

| | 31 December 2003 \$000 | 30 June 2003 \$000 |
|----------------------|---------------------------|-----------------------|
| Hong Kong 3G licence | 150,000 | 200,000 |
| Other | 1,942 | 1,942 |
| | <u>151,942</u> | <u>201,942</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.

On 22 October 2003, the second anniversary of the issue of the Hong Kong 3G Licence and subsequent to the payment of the second year spectrum utilisation fee of \$50 million, the performance bond was revised. In accordance with a further one-year waiver granted by the TA, the revised bond was for \$150 million with a duration of three years.

20 RELATED PARTY TRANSACTIONS

- a 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 | |
|---|---------------------------------|---------------|
| | 2003 \$000 | 2002 \$000 |
| Operating lease rentals for land and buildings and transmission sites (note i) | 27,372 | 29,919 |
| Insurance services (note ii) | 4,960 | 2,066 |

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(All references to "\$" are to the Hong Kong dollar)

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 31 December 2003

20 RELATED PARTY TRANSACTIONS (continued)

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 six months ended 31 December 2003, rental and licence fees paid and payable to subsidiaries and associated companies of SHKP totalled \$27,372,000 (2002: \$29,919,000).

- 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 six months ended 31 December 2003, insurance premiums paid and payable were \$4,960,000 (2002: \$2,066,000).

- b At 31 December 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 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 2003, no fee was paid by the Group as New-Alliance Management (Asia) Limited is remunerated by way of fee levied on funds under management.
- 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:

| | 31 December 2003 | 30 June 2003 |
|-----------------------------|------------------|--------------|
| | \$000 | \$000 |
| Trade receivables | 670 | 331 |
| Deposits and prepayments | 4,280 | 7,061 |
| Trade payables | 408 | 329 |
| Other payables and accruals | 564 | 467 |

The trading balances are unsecured, interest-free and repayable on similar terms to those offered to unrelated parties.



21 CAPITAL COMMITMENTS

| | 31 December 2003 | 30 June 2003 |
|-----------------------------------|------------------|----------------|
| | \$000 | \$000 |
| Contracted but not provided for | | |
| Fixed assets | 75,123 | 82,408 |
| Further advances to an associate | 1,324 | 1,324 |
| Equity securities | 23,400 | 27,300 |
| Authorised but not contracted for | 213,373 | 418,730 |
| | <u>313,220</u> | <u>529,762</u> |

22 LEASE COMMITMENTS

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

| | 31 December 2003 | 30 June 2003 |
|---|------------------|----------------|
| | \$000 | \$000 |
| Land and buildings and transmission sites | | |
| Within one year | 225,346 | 220,746 |
| In the second to fifth year inclusive | 142,154 | 121,944 |
| After the fifth year | 16,789 | 17,524 |
| | <u>384,289</u> | <u>360,214</u> |
| Leased lines | | |
| Within one year | 21,434 | 37,164 |
| In the second to fifth year inclusive | 630 | 3,129 |
| | <u>22,064</u> | <u>40,293</u> |