NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004
(Expressed in Hong Kong dollars)

1 Principal accounting policies

a Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which includes all applicable Statements of Standard Accounting Practice ("SSAP") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. The effect from the adoption of SSAP 12 (revised) "Income taxes" is set out in note 10. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the principal accounting policies adopted by the Group is set out below.

b Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is historical cost.

c 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, directly or indirectly, 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 and any related accumulated foreign currency translation reserve.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004
(Expressed in Hong Kong dollars)

1 Principal accounting policies *(continued)*

d Associated company

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

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

In the Company's balance sheet the investments in the associated companies are stated at cost less provision for impairment losses. The results of associated companies 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 an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

e Goodwill

Goodwill represents 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 eliminated against reserves.

Where an indication of impairment exists, the carrying amount of any goodwill, including goodwill previously written off against reserves, is assessed and written down immediately to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

f Fixed assets

Fixed assets are stated at cost less accumulated depreciation and 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 are as follows:

Leasehold land and buildings	Over the lease term
Leasehold improvements	Over the lease term
Network and testing equipment	10% - 50%
Computer, billing and office telephone equipment	20% - $33\frac{1}{3}$%
Other fixed assets	20% - $33\frac{1}{3}$%

The cost of the network comprises assets and equipment of the digital mobile radio telephone network purchased at cost. Depreciation of each part of the network commences from the date of launch of the relevant services.

No depreciation is provided for any part of the 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.

1 Principal accounting policies *(continued)*

f Fixed assets *(continued)*

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. 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.

g 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 services over the shorter of the remaining life of the licence or the estimated useful life of the fixed assets.

h Leased assets

Leases of assets under which the lessee assumes substantially all the risks and benefits of ownership are classified as finance leases. Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

(i) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Finance charges implicit in the lease payments are charged to the profit and loss account over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Assets acquired under finance leases are depreciated over the shorter of their estimated useful lives and the lease periods. Impairment losses are accounted for in accordance with the accounting policy as set out in note 1f.

(ii) Operating lease charges

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the profit and loss account on a straight-line basis over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the profit and loss account as an integral part of the aggregate net lease payments made.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004
(Expressed in Hong Kong dollars)

1 Principal accounting policies *(continued)*

i Investments

(i) Investment securities
Investment securities are stated at cost less any provision for impairment losses.

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. This impairment loss is written back to profit and loss account when the circumstances and events that led to the write-downs cease to exist and there is persuasive evidence that the new circumstances and events will persist 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 in the profit and loss account. Provision is made when there is a diminution in value other than temporary.

The carrying amounts of individual 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 as an expense.

j 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 estimated subscription life of twelve months on average.

k 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.

l 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.

1 Principal accounting policies *(continued)*

m Cash and cash equivalents

In the cash flow statement, cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the group's cash management are also included.

n Provisions

Provisions are recognised for liabilities of uncertain timing or amount when the Company or Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

o 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 of annual leave arising from services 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 of leave.

(ii) Profit sharing and bonus plans

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

(iii) Retirement benefits

Contributions to defined contribution plans, including contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in the profit and loss account as incurred.

(iv) Employee share option schemes

When the Group grants employees options to acquire shares of the Company, no employee benefit cost or obligation is recognised at the date of grant. When the options are exercised, the amount of the proceeds received is credited to share capital and share premium account.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004
(Expressed in Hong Kong dollars)

1 Principal accounting policies *(continued)*

p Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The principal temporary differences arise from depreciation on fixed assets and tax losses carried forward; and, in relation to acquisitions, on the difference between the fair values of the net assets acquired and their tax base. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

q 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.

1 Principal accounting policies *(continued)*

r Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue can be measured reliably, revenue is recognised in the profit and loss account as follows:

(i) Sale of goods

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

(ii) Mobile and Internet related services

Revenue from mobile and Internet related services is measured based on the usage of the Group's telecommunications network and facilities and is recognised when the services are rendered. Mobile service revenue in respect of standard service plans billed in advance is deferred and included under deferred income.

(iii) Interest income

Interest income is accrued on a time-apportioned basis by reference to the principal outstanding and the rate applicable.

(iv) Dividend income

Dividend income is recognised when the right to receive payment is established.

s Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the profit and loss account.

The results of foreign enterprises are translated into Hong Kong dollars at the average exchange rates for the year; balance sheet items are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in reserves.

t Borrowing costs

Borrowing costs are expensed in the profit and loss account in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use.

u Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004
(Expressed in Hong Kong dollars)

2 Turnover

The Group is principally engaged in the provision of mobile services and the sale of mobile telephones and accessories. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2004	2003
	$000	$000
Mobile services	**2,489,007**	2,263,140
Mobile telephone and accessory sales	**878,029**	556,120
Internet services (note 9)	**—**	12,278
	3,367,036	2,831,538

3 Segment reporting

For the years ended 30 June 2003 and 2004, more than 90% of the Group's turnover, operating profit and operating assets 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

	2004	2003
	$000	$000
Cost of goods sold	**848,871**	552,499
Interconnect and international telecommunications charges	**351,892**	280,254
Other	**58,715**	40,828
	1,259,478	873,581

5 Other operating expenses

	2004	2003
	$000	$000
Network costs	**449,339**	456,022
Staff costs	**358,936**	360,104
Sales and marketing expenses	**153,783**	158,990
Rental and utilities	**102,889**	106,090
Other operating expenses	**123,544**	123,463
Depreciation	**412,193**	399,946
Loss on disposal of fixed assets	**15,269**	1,777
	1,615,953	1,606,392

6 Operating profit

Operating profit is arrived at after charging:

	2004 $000	2003 $000
Depreciation		
Owned fixed assets	280,495	257,705
Leased fixed assets	131,698	142,241
Amortisation of deferred expenditure	24,637	11,710
Operating lease rentals for land and buildings, transmission sites and leased lines	405,937	442,336
Auditors' remuneration	1,020	1,070
Net exchange loss	4,865	268
Provision for bad and doubtful debts	12,841	18,848
Contributions to defined contribution plans* (note 14)	14,750	18,437

* Net of forfeited contributions of $4,366,000 (2003: $2,617,000).

7 Finance income

	2004 $000	2003 $000
Interest income from debt securities		
Listed	19,559	17,365
Unlisted	28,257	16,899
Net realised loss on disposal of listed debt securities (note 22)	—	(6,336)
	47,816	27,928
Interest income from deposits with banks and other financial institutions	12,652	44,212
	60,468	72,140

8 Finance costs

	2004 $000	2003 $000
Interest expense on bank loans repayable within five years	974	—
Other borrowing costs	190	—
	1,164	—

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004
(Expressed in Hong Kong dollars)

9 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:

	2004 **$000**	2003 $000
Turnover and results		
Turnover	**—**	12,278
Interest income	**—**	2
Operating costs	**(112)**	(10,477)
Operating (loss)/profit	**(112)**	1,803
Cash flows		
Net operating cash outflow	**(270)**	(1,445)
Net investing cash inflow	**—**	2
Total net cash outflow	**(270)**	(1,443)
Assets and liabilities		
Current assets	**598**	902
Total liabilities	**(256)**	(718)
Net assets	**342**	184

The above assets and liabilities exclude intragroup payables and receivables.

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

10 Adoption of SSAP 12 (revised) "Income taxes"

In prior years, deferred tax liabilities were provided in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which were expected with reasonable probability to crystallise in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt. With effect from 1 July 2003, in order to comply with SSAP 12 (revised) "Income taxes" issued by the HKICPA, the Group adopted a new policy for deferred tax as set out in note 1p. As a result of the adoption of this accounting policy, the Group's profit for the year, net of minority interest, has been declined by $77,957,000 (2003: $29,480,000) and the net assets at the year end have been declined by $128,430,000 (2003: $50,473,000).

The new accounting policy has been adopted retrospectively, with the opening balances of retained profits and the comparative information adjusted for the amounts relating to prior periods as disclosed in the consolidated statement of changes in equity.

11 Taxation

a Taxation in the consolidated profit and loss account

	2004 $000	2003 $000 (restated)
Deferred tax (note 28)		
Origination and reversal of temporary differences	**78,625**	26,625
Effect of increase in tax rate on deferred tax balances at 1 July	**—**	1,968
	78,625	28,593

No provision has been made for Hong Kong or overseas taxation for the year as the Group has sufficient tax losses brought forward to offset the assessable profits for the year (2003: Nil).

b Reconciliation between taxation charge and accounting profit at Hong Kong tax rate

	2004 $000	2003 $000 (restated)
Profit before taxation	**550,909**	407,085
Notional tax on profit before taxation, calculated at Hong Kong tax rate of 17.5% (2003: 17.5%)	**96,409**	71,240
Effect of different tax rates in other countries	**(576)**	—
Effect on opening deferred tax balances resulting from an increase in tax rate during the year	**—**	1,968
Tax effect of non-deductible expenses	**2,939**	5,215
Tax effect of non-taxable revenue	**(10,106)**	(10,574)
Tax effect of current tax losses not recognised	**929**	1,720
Recognition of previously unrecognised tax losses	**(10,556)**	(70,201)
(Reversal)/charge of previously over/underprovided temporary differences	**(414)**	29,225
Taxation charge	**78,625**	28,593

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004
(Expressed in Hong Kong dollars)

12 Directors' emoluments

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

	2004	2003
	$000	$000
Non-executive directors		
Fees	**1,060**	945
Executive directors		
Fees	**160**	160
Salaries and allowances	**9,396**	9,452
Bonuses	**4,230**	260
Retirement scheme contributions	**673**	809
	14,459	10,681
	15,519	11,626

During the years ended 30 June 2003 and 2004, no director

- received any emoluments from Sun Hung Kai Properties Limited ("SHKP"), the ultimate holding company of the Company, in respect of their services to the Group;
- waived any right to receive emoluments; or
- received any amount as inducement to join the Group or as compensation for loss of office.

In addition to the above emoluments, a director was granted share options under the Company's share option scheme during the year. The details of these benefits in kind are disclosed under the section "Share Option Schemes" in the Report of the Directors and note 30.

The emoluments of the directors are within the following bands:

	2004	2003
	Number of directors	Number of directors
$0 - $1,000,000	**9**	12
$3,000,001 - $3,500,000	**1**	1
$7,000,001 - $7,500,000	**—**	1
$11,000,001 - $11,500,000	**1**	—
	11	14

13 Five highest paid individuals

Of the five highest paid individuals, two (2003: two) are directors whose emoluments are disclosed in note 12. The aggregate of the emoluments in respect of the other three (2003: three) individuals are as follows:

	2004	2003
	$000	$000
Salaries and allowances	**6,746**	6,893
Bonuses	**600**	448
Retirement scheme contributions	**627**	624
	7,973	7,965

In addition to the above emoluments, the three highest paid individuals were granted share options under the Company's share option scheme during the year. The details of these benefits in kind are disclosed under the section "Share Option Schemes" in the Report of the Directors and note 30.

The emoluments of the three (2003: three) highest paid individuals are within the following bands:

	2004	2003
	Number of individuals	Number of individuals
$2,000,001 - $2,500,000	**1**	1
$2,500,001 - $3,000,000	**1**	2
$3,000,001 - $3,500,000	**1**	—
	3	3

14 Employee retirement benefits

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

Contributions to the Occupational Retirement Scheme by the Group and the employees are calculated as specified percentages of each employee's basic salary. Where employees leave the scheme prior to the full vesting of the employer's contributions, the amount of forfeited contributions is used to reduce the contributions payable by the Group. At 30 June 2003 and 2004, all available forfeited contributions had been utilised by the Group to reduce its contributions payable.

A Mandatory Provident Fund 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 Mandatory Provident Fund Scheme. Both the Group and the employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of $20,000. Contributions to the scheme vest immediately.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004
(Expressed in Hong Kong dollars)

15 Profit attributable to shareholders

The consolidated profit attributable to shareholders includes a profit of $3,585,000 (2003: $1,426,305,000) which has been dealt with in the financial statements of the Company.

16 Dividends

	2004	2003
	$000	$000
Interim, paid, of $0.20 (2003: $0.20) per share	**116,953**	116,603
Final, proposed, of $0.33 (2003: $0.27) per share	**192,321**	157,414*
Attributable to the year	**309,274**	274,017
Special cash dividend, proposed, of nil (2003: $3.50) per share	**—**	2,040,552*
	309,274	2,314,569

* The actual 2003 final and special dividend paid during the year ended 30 June 2004 and reflected as an appropriation of retained profits in the year was $157,972,000 and $2,047,785,000 respectively based on a total number of 585,081,428 shares in issue on the ex-dividend date.

At a meeting held on 16 September 2004, the directors proposed a final dividend of $0.33 per share. This proposed dividend is not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained profits for the year ending 30 June 2005.

17 Earnings per share

The calculations of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of $466,454,000 (2003 (restated): $378,335,000).

The basic earnings per share is based on the weighted average number of shares in issue during the year of 584,194,428 (2003: 583,327,626). The diluted earnings per share is based on 584,388,352 shares which is the weighted average number of shares in issue during the year plus the weighted average number of 193,924 shares deemed to be issued at no consideration if all outstanding options had been exercised.

No diluted earnings per share was presented for the year ended 30 June 2003 as there were no potentially dilutive shares outstanding.

18 EBITDA

EBITDA represents earnings before finance income and finance costs, depreciation and loss on disposal of fixed assets, share of loss of associate, taxation and minority interest. EBITDA includes all costs in relation to customer acquisition and amortisation of handset subsidies.

19 Fixed assets

	Medium term leasehold land and buildings in Hong Kong $000	Leasehold improvements $000	Network and testing equipment $000	Computer, billing and office telephone equipment $000	Other fixed assets $000	Network under construction $000	Total $000
Cost							
At 1 July 2003	8,000	162,056	3,130,456	465,099	62,885	322,229	4,150,725
Additions	—	20,342	22,167	45,611	10,663	581,661	680,444
Reclassifications	—	—	244,453	—	2	(244,455)	—
Disposals	—	(1,296)	(121,626)	(8,802)	(8,561)	(19,398)	(159,683)
Exchange adjustment	—	(21)	—	(29)	(1)	—	(51)
At 30 June 2004	**8,000**	**181,081**	**3,275,450**	**501,879**	**64,988**	**640,037**	**4,671,435**
Accumulated depreciation and impairment loss							
At 1 July 2003	8,000	139,174	1,803,367	403,996	52,545	40,423	2,447,505
Charge for the year	—	11,843	362,612	29,229	8,509	—	412,193
Written back on disposals	—	(1,093)	(116,546)	(8,398)	(7,536)	(8,484)	(142,057)
At 30 June 2004	**8,000**	**149,924**	**2,049,433**	**424,827**	**53,518**	**31,939**	**2,717,641**
Net book value							
At 30 June 2004	**—**	**31,157**	**1,226,017**	**77,052**	**11,470**	**608,098**	**1,953,794**
At 30 June 2003	—	22,882	1,327,089	61,103	10,340	281,806	1,703,220

At 30 June 2004, the net book value of fixed assets held by the Group under finance leases amounted to $525,848,340 (2003: $657,828,203).

Included within network under construction are capitalised 3G spectrum utilisation fees of $136,091,000 (2003: $86,091,000).

NOTES TO THE FINANCIAL STATEMENTS

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20 Investments in subsidiaries

	2004 $000	2003 $000
Unlisted shares, at cost	**939,189**	939,189
Amounts due from subsidiaries, less provision	**2,906,708**	5,186,282
	3,845,897	6,125,471
Amount due to a subsidiary	**—**	(29,387)
	3,845,897	6,096,084

Amounts due from/(to) subsidiaries are unsecured and interest-free, and are not expected to be repayable within the next twelve months.

Particulars of the principal subsidiaries at 30 June 2004 are as follows:

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 radio telephone services and sales of mobile telephones and accessories in Hong Kong	100,000,000 ordinary shares of $1 each	100%
SmarTone 3G Limited	Hong Kong	Provision of 3G mobile radio telephone services in Hong Kong	2 ordinary shares of $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 $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	100,000 share of MOP100 each	72%

* Subsidiary held directly by the Company.

All of the above subsidiaries are limited liability companies.

21 Interest in an associate

	2004 $000	2003 $000
Share of net assets	**—**	—
Amount due from an associate, less provision	**3,050**	3,050
	3,050	3,050

Amount due from an associate is unsecured and interest free, and has no fixed terms of repayment.

Particulars of the associate at 30 June 2004 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 holding	375 ordinary shares of US$1 each	37.5%

22 Investments

	2004 $000	2003 $000
Investment securities		
Unlisted equity securities	**47,744**	44,144
Held-to-maturity debt securities		
Listed outside Hong Kong	**595,204**	367,287
Unlisted	**974,430**	343,048
	1,569,634	710,335
Less: Debt securities maturing within one year of the balance sheet date included under current assets	**(471,081)**	(53,387)
	1,098,553	656,948
Total non-current investments	**1,146,297**	701,092
Market value of listed securities	**592,683**	379,186

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22 Investments *(continued)*

During the year ended 30 June 2004, no loss (2003: a loss of $6,336,000) arose on the disposal of certain listed held-to-maturity debt securities as follows:

	2004	2003
	$000	$000
Proceeds from sale of securities	**—**	172,883
Proceeds from early redemption of securities	**15,600**	429,000
Proceeds from maturity of securities	**52,659**	—
Total proceeds received	**68,259**	601,883
Carrying value at dates of sale/redemption/maturity	**(68,259)**	(608,219)
Net realised loss on disposal	**—**	(6,336)

The held-to-maturity debt securities sold during the year ended 30 June 2003 were disposed of prior to maturity as a precautionary measure in light of the deteriorating credit quality of the issuers of the securities at that time.

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

23 Deferred expenditure

	2004			2003		
	Handset subsidies $000	**Licence application expenditure $000**	**Total $000**	Handset subsidies $000	Licence application expenditure $000	Total $000
Net book value at 1 July	**7,554**	**—**	**7,554**	4,270	34	4,304
Additions	**30,074**	**—**	**30,074**	14,960	—	14,960
Amortisation for the year	**(24,637)**	**—**	**(24,637)**	(11,676)	(34)	(11,710)
Net book value at 30 June	**12,991**	**—**	**12,991**	7,554	—	7,554

At 30 June 2004, cost and accumulated amortisation of handset subsidies was $27,604,000 (2003: $787,912,000) and $14,613,000 (2003: $780,358,000) respectively. Licence application expenditure were both nil (2003: both $4,159,000).

24 Inventories

Inventories represent goods held for re-sale. At 30 June 2004, inventories carried at cost and inventories carried at net realisable value amounted to $123,924,000 (2003: $29,026,000) and $306,000 (2003: $579,000) respectively.

25 Trade receivables

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

	2004	2003
	$000	$000
Current to 30 days	**144,386**	92,423
31 - 60 days	**18,283**	7,992
61 - 90 days	**3,920**	2,785
Over 90 days	**690**	—
	167,279	103,200

26 Cash and bank balances

	Group		Company	
	2004	2003	**2004**	2003
	$000	$000	**$000**	$000
Pledged bank deposits	**325,620**	392,139	**321,293**	387,812
Cash and cash equivalents	**328,188**	2,820,725	**2,761**	2,995
	653,808	3,212,864	**324,054**	390,807

Of the pledged bank deposits, $150,000,000 (2003: $200,000,000) has been pledged as cash collateral for the Group's 3G licence performance bond as referred to in note 33 - 'Contingent liabilities'.

27 Trade payables

An ageing analysis of trade payables is as follows:

	2004	2003
	$000	$000
Current to 30 days	**64,374**	66,428
31 - 60 days	**53,004**	33,786
61 - 90 days	**15,774**	14,111
Over 90 days	**21,701**	31,577
	154,853	145,902

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28 Deferred taxation

Deferred taxation for the Group's temporary differences arising from operations in Hong Kong and overseas is calculated at 17.5% (2003: 17.5%) and the appropriate current rates of taxation ruling in the relevant countries respectively.

The component of deferred tax (assets)/liabilities recognised in the consolidated balance sheet and the movements during the year are as follows:

	Depreciation allowances in excess of related depreciation $000	Tax losses $000	Total $000
At 1 July 2002, as previously reported	—	—	—
Prior year adjustment	112,142	(91,149)	20,993
At 1 July 2002, as restated	112,142	(91,149)	20,993
Charged to consolidated profit and loss account (note 11a)	16,751	11,842	28,593
At 30 June 2003	128,893	(79,307)	49,586
At 1 July 2003, as previously reported	—	—	—
Prior year adjustment	128,893	(79,307)	49,586
At 1 July 2003, as restated	128,893	(79,307)	49,586
Charged to consolidated profit and loss account (note 11a)	6,199	72,426	78,625
At 30 June 2004	**135,092**	**(6,881)**	**128,211**

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

	2004 $000	2003 $000
Deferred tax assets	**(2,857)**	(8,417)
Deferred tax liabilities	**131,068**	58,003
	128,211	49,586

The Group has not recognised deferred tax assets in respect of tax losses of $49,251,000 (2003: $55,467,000). The tax losses do not expire under current tax legislation.

29 Share capital

	Shares of $0.1 each	$000
Authorised		
At 1 July 2003 and 30 June 2004	1,000,000,000	100,000
Issued and fully paid		
At 1 July 2002	584,352,842	58,435
Issue of new shares in lieu of cash dividend (note a)	1,769,586	177
Repurchases of shares (note b)	(3,107,500)	(311)
At 30 June 2003	583,014,928	58,301
At 1 July 2003	583,014,928	58,301
Issue of new shares upon exercise of share options (note c)	2,066,500	207
Repurchases of shares (note d)	(1,769,500)	(177)
At 30 June 2004	**583,311,928**	**58,331**

Notes:

a On 24 September 2002, the Company proposed a final dividend of $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. On 18 November 2002, 1,769,586 shares of $0.10 each were issued as fully paid under the scrip dividend alternative, at a value of $8.19 per share. A premium of $14,316,000 arose in respect of the issue.

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 cancelled prior to 30 June 2003 and the amount by which the Company's issued share capital was diminished was transferred to the capital redemption reserve.

Details of these repurchases are as follows:

Month of repurchase	Number of shares repurchased	Price per share Highest	Price per share Lowest	Aggregate price paid $000
July 2002	109,500	$7.95	$7.90	865
August 2002	1,712,000	$8.25	$7.60	13,587
January 2003	908,500	$8.50	$8.35	7,709
February 2003	377,500	$8.50	$8.50	3,209
	3,107,500			25,370

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29 Share capital *(continued)*

c During the year ended 30 June 2004, options were exercised to subscribe for 2,066,500 shares in the Company at a consideration of $19,192,000, of which $207,000 was credited to share capital and the balance of $18,985,000 was credited to the share premium account.

d During the year ended 30 June 2004, the Company repurchased 2,290,000 shares on The Stock Exchange of Hong Kong Limited. Of these repurchased shares, 1,769,500 shares were cancelled prior to 30 June 2004 and the amount by which the Company's issued share capital was diminished was transferred to the capital redemption reserve. The remaining 520,500 shares were cancelled subsequent to 30 June 2004 and accordingly, their repurchases have not been included as a movement of issued and fully paid share capital for the year ended 30 June 2004.

Details of these repurchases are as follows:

Month of repurchase	Number of shares repurchased	Price per share Highest	Lowest	Aggregate price paid $000
December 2003	317,500	$7.55	$7.55	2,397
May 2004	939,000	$8.25	$7.95	7,629
June 2004	1,033,500	$8.50	$8.10	8,608
	2,290,000			18,634

30 Employee share option schemes

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.

Pursuant to the New Share Option Scheme, employees of the Group, including 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.

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 $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 SHKP ("General Offer"). Those options acquired pursuant to the General Offer were subsequently cancelled.

30 Employee share option schemes *(continued)*

a Movements in share options

Number of shares	**2004** **New Share Option Scheme**	2003 New Share Option Scheme	2003 Old Share Option Scheme	2003 Total
At 1 July	**5,200,000**	—	7,975,000	7,975,000
Issued	**9,457,000**	5,200,000	—	5,200,000
Exercised	**(2,066,500)**	—	—	—
Cancelled or lapsed	**—**	—	(7,975,000)	(7,975,000)
At 30 June	**12,590,500**	5,200,000	—	5,200,000
Options vested at 30 June	**66,833**	1,066,667	—	1,066,667

b Terms of unexpired and unexercised share options at balance sheet date

Date of grant	Exercise period	Exercise price	**2004 Number of shares**	2003 Number of shares
10 February 2003	10 February 2003 to 16 July 2011	$9.29	**3,000,000**	5,000,000
10 February 2003	2 May 2003 to 1 May 2012	$9.20	**133,500**	200,000
5 February 2004	5 February 2005 to 4 February 2014	$9.00	**9,457,000**	—
			12,590,500	5,200,000

c Details of share options granted

Details of share options granted during the year at a nominal consideration of $1 for each lot of share options granted are as follows:

Date of grant	Exercise period	Exercise price	**2004 Number of shares**	2003 Number of shares
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
5 February 2004	5 February 2005 to 4 February 2014	$9.00	**9,457,000**	—
			9,457,000	5,200,000

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30 Employee share option schemes *(continued)*

d Details of share options exercised

Exercise date	Exercise price	Market value per share at exercise date	Proceeds received $000	Number of shares
27 October 2003	$9.29	$12.55	18,580	2,000,000
28 October 2003	$9.20	$12.55	612	66,500
			19,192	2,066,500

No share options were exercised during the year ended 30 June 2003.

31 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.

	2004 **$000**	2003 $000
Operating lease rentals for land and buildings and transmission sites (note i)	**52,807**	55,716
Insurance expense (note ii)	**9,249**	7,747
Leased line and information technology (“IT”) outsourcing (note iii)	**—**	663
Consultancy fees (note iv)	**—**	279

Notes:

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

Certain subsidiaries and associated companies of SHKP 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, antennae and telephone cables on certain premises owned by them.

For the year ended 30 June 2004, rental and licence fees paid and payable to subsidiaries and associated companies of SHKP totalled $52,807,000 (2003: $55,716,000).

(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 year ended 30 June 2004, insurance premiums paid and payable were $9,249,000 (2003: $7,747,000).

31 Related party transactions *(continued)*

(iii) Leased line and IT outsourcing

SUNeVision Super e-Technology Services Limited and SUNeVision (Management Services) Limited, subsidiaries of SHKP, contracted with the Group to provide leased line and IT outsourcing services respectively. The contracts were terminated during the year ended 30 June 2003 and for the year ended 30 June 2004, the leased line rentals and IT outsourcing services fees paid were both nil (2003: $120,000 and $503,000 respectively).

(iv) Consultancy services

British Telecommunications Plc. ("BT"), a substantial shareholder of the Company until 7 January 2003, and a subsidiary company of BT provided consultancy services to the Group. For the year ended 30 June 2004, there were no transactions and accordingly the consultancy fees paid were nil (2003: $279,000).

b At 30 June 2004, 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 ("New Alliance"), an associate of SHKP, has been appointed as the investment manager of the Group's Occupational Retirement Scheme since October 1999. For the years ended 30 June 2003 and 2004, no fees were paid by the Group as New-Alliance is remunerated by way of fee levied on mutual funds to which the Group's Occupational Retirement Scheme subscribes.

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:

	2004	2003
	$000	$000
Trade receivables	**634**	331
Deposits and prepayments	**6,337**	7,061
Trade payables	**393**	329
Other payables and accruals	**407**	467

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

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32 Commitments

a Capital commitments

Capital commitments outstanding at 30 June 2004 not provided for in the financial statements were as follows:

	Group	
	2004	2003
	$000	$000
Contracted for		
Fixed assets	**29,737**	82,408
Equity securities	**19,500**	27,300
Further advances to an associate	**—**	1,324
Authorised but not contracted for	**745,589**	418,730
	794,826	529,762

The Company did not have any capital commitments at 30 June 2004 (2003: Nil).

b Operating lease commitments

At 30 June 2004, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	Group	
	2004	2003
	$000	$000
Land and buildings and transmission sites		
Within one year	**239,704**	220,746
After one year but within five years	**161,036**	121,944
After five years	**14,369**	17,524
	415,109	360,214
Leased lines		
Within one year	**29,832**	37,164
After one year but within five years	**2,852**	3,129
	32,684	40,293

The Company did not have any operating lease commitments at 30 June 2004 (2003: Nil).

33 Contingent liabilities

a Performance bonds

	Group		Company	
	2004	2003	**2004**	2003
	$000	$000	**$000**	$000
Hong Kong 3G licence (note c)	**150,000**	200,000	**150,000**	200,000
Other	**1,942**	1,942	**—**	—
	151,942	201,942	**150,000**	200,000

The performance bonds were issued by certain banks in favour of the Telecommunications Authorities of Hong Kong (“TA”) 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 2004, 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 3G services

On 22 October 2001, a wholly owned subsidiary of the Company was issued a Mobile Carrier Licence (“the Licence”). This Licence is for the provision of public telecommunications network services in Hong Kong using 3G 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, $50 million per annum payable at the end of each year;

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

- 5% of network turnover (as defined in the Licence) in respect of the relevant year; or
- The Appropriate Fee (as defined in the Licence) in respect of the relevant year; and

(iii) $1,388,889 payable on the issue of the Licence.

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33 Contingent liabilities *(continued)*

c Acquisition of telecommunications licence for 3G services *(continued)*

The total amount of the annual fees for the first five years of the Licence is $250 million. The total minimum amount of fees payable over the remaining ten years is $1,057 million giving a total minimum amount of annual fees over the fifteen years of the Licence of $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%, is approximately $458 million.

The Group is required to provide a performance bond to the TA. The Licence sets out the amount and duration of the performance bond as follows:

- A performance bond upon inception of the Licence with a duration of five years and for an amount equal to the fees for the first five years ($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 2003, the second anniversary of the issue of the 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.

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.

d Bank facilities guarantees

At 30 June 2004, there were contingent liabilities in respect of guarantees given by the Company on behalf of a wholly owned subsidiary relating to short term revolving credit facilities granted by certain banks of up to $600 million (2003: Nil). Of this amount, $150 million (2003: Nil) was utilised by the subsidiary at 30 June 2004.

34 Comparative figures

Certain comparative figures have been adjusted as a result of the change in accounting policy for deferred taxation, details of which are set out in note 10.

35 Ultimate holding company

The directors consider the ultimate holding company at 30 June 2004 to be Sun Hung Kai Properties Limited, a company incorporated in Hong Kong with its shares listed on the main board of The Stock Exchange of Hong Kong Limited.

36 Approval of financial statements

The financial statements were approved by the board of directors on 16 September 2004.