

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2005

1. (I) SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (“HKAS”) 34, Interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). It was authorised for issuance on 29 August 2005.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2004 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2005 annual financial statements. Details of these changes in accounting policies are set out in note 1(II).

(b) Basis of preparation

The preparation of interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Company since the 2004 annual financial statements. The condensed financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”).

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700, Engagements to review interim financial reports, issued by the HKICPA. KPMG’s independent review report to the Board of Directors is included on page 9.

The financial information relating to the financial year ended 31 December 2004 that is included in the interim financial report as being previously reported information does not constitute the Company’s statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2004 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 17 March 2005.

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1. (II) CHANGES IN ACCOUNTING POLICIES

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards (which collectively includes HKASs and Interpretations) that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. The Board of Directors has determined the accounting policies to be adopted in the preparation of the Company's annual financial statements for the year ending 31 December 2005, on the basis of HKFRSs currently in issue.

The HKFRSs that will be effective or are available for voluntary early adoption in the annual financial statements for the year ending 31 December 2005 may be affected by the issue of additional interpretation(s) or other changes announced by the HKICPA subsequent to the date of issuance of the interim financial report. Therefore, the policies that will be applied in the Company's financial statements for that period cannot be determined with certainty at the date of issuance of the interim financial report.

The following table set out the summaries of the effect of changes in accounting policies for the annual accounting period beginning on 1 January 2005 which have been reflected in the interim financial report.

(a) Summary of the effect of changes in the accounting policies

The following table sets out the adjustments that have been made to the opening balances at 1 January 2005. These are the aggregate effect of retrospective adjustment to the net assets as at 31 December 2004 and the opening balance adjustments made as at 1 January 2005.

<i>Effect of new policy</i> <i>((decrease)/increase)</i>	<i>Note</i>	Retained Profits \$'000	Employee Share Based Compensation Reserve \$'000	Total Equity \$'000
<i>Prior period adjustment:</i>				
<i>HKFRS 2</i>				
Equity settled share-based transactions	<i>I(III)</i>	(947)	947	–
<i>HKAS 17</i>				
Leasehold land and buildings held for own use	<i>I(IV)</i>	–	–	–
<i>Total effect at 1 January 2005</i>		<u>(947)</u>	<u>947</u>	<u>–</u>

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(b) Summary on profit after taxation for the six months ended 30 June 2005 (estimated) and 30 June 2004 (as adjusted)

In respect of the six months period ended 30 June 2005, the following table provides estimates of the extent to which the profit for that period is higher or lower than it would have been had the previous policies still been applied in the interim period, where it is practicable to make such estimates.

In respect of the six months period ended 30 June 2004, the table discloses that adjustments that have been made to the profit as previously reported for that period, in accordance with the transitional provisions of the respective HKFRSs. As retrospective adjustments have not been made for all changes in policies, as explained in note 1(III) and 1(IV), the amounts shown for the six months period ended 30 June 2004 may not be comparable to the amounts shown for the current interim period.

		Six months ended 30 June	
<i>Effect of new policy ((decrease)/increase)</i>		2005 \$'000	2004 \$'000
	<i>Note</i>		
<i>HKFRS 2</i>			
Equity settled share-based transactions	<i>1(III)</i>	(235)	(316)
<i>HKAS 17</i>			
Leasehold land and buildings held for own use	<i>1(IV)</i>	—	—
Total effect for the period		<u>(235)</u>	<u>(316)</u>
Effect on earnings per share:			
– basic		<u>0.03 cents</u>	0.05 cents
– diluted		<u>0.03 cents</u>	<u>0.05 cents</u>

1. (III) EMPLOYEE SHARE OPTION SCHEME (HKFRS 2, SHARE-BASED PAYMENT)

In the prior year, no amount was recognised when employees (which term includes Directors) were granted share options over shares in the Company. If the employees chose to exercise the options, the nominal amount of share capital and share premium were credited only to the extent of the option's exercise price receivable.

With effect from 1 January 2005, in order to comply with HKFRS 2, the Company recognises the fair value of such share options as an expense in the income statement. A corresponding increase is recognised in a capital reserve, "Employee Share Based Compensation Reserve" within equity.

Where the employees are required to meet vesting conditions before they become entitled to the options, the Company recognises the fair value of the options granted over the vesting period.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2005

1. (III) EMPLOYEE SHARE OPTION SCHEME (HKFRS 2, SHARE-BASED PAYMENT)

If an employee chooses to exercise options, the related capital reserve is transferred to share capital and share premium, together with the exercise price. If the options lapse unexercised the related capital reserve is transferred directly to retained earnings.

The new accounting policy has been applied retrospectively with comparatives restated in accordance with HKFRS 2.

The Company has no options granted to employee on or before 7 November 2002.

The amount of the prior period adjustment and the effect on the results for the six months ended 30 June 2005, and the reserves as of that date, are set out in the above summary. No adjustment to the opening balances as at 1 January 2004 is required as no options existed at that time which were unvested at 1 January 2005.

The amount charged to the income statement as a result of the change of policy increased staff costs for the six months ended 30 June 2005 by \$235,000 (six months ended 30 June 2004: \$316,000) with the corresponding amounts credited to the capital reserve.

Details of the employee share option scheme can be found in the Company's annual report for the year ended 31 December 2004 and note 19 on this interim financial report.

1. (IV) LEASEHOLD LAND AND BUILDINGS HELD FOR OWN USE (HKAS 17, LEASE)

The adoption of revised HKAS 17 "Leases" has resulted in a change in the accounting policy relating to the classification of leasehold land. In accordance with HKAS 17, a lease of land and building should be split into a lease of land and a lease of building in proportion to the relative fair values of the leasehold interests in the land element and the building element of the lease at the inception of the lease.

Any prepaid land premiums for acquiring the land leases, or other lease payments, are amortised on a straight line basis over the lease term. The amortisation charge is recognised in the income statement immediately.

Any buildings held for own use which are situated on such land leases continue to be presented as part of property, plant and equipment.

The new accounting policies have been adopted retrospectively.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2005

2. TURNOVER

The principal activity of the Company is the provision of mobile telecommunications and related services.

Turnover represents the value of goods sold and airtime and services charged to subscribers, net of returns and discounts:

	Six months ended 30 June	
	2005 \$'000	2004 \$'000 (restated)
Sales of handsets and accessories	232,324	176,652
Airtime and service charges	663,852	654,134
	<u>896,176</u>	<u>830,786</u>

3. SEGMENT REPORTING

For the six months ended 30 June 2005, the Company's turnover and operating profit were solely attributable to its mobile communications operations in the Special Administrative Region of Hong Kong. Accordingly, no analysis by either business or geographical segment is included.

4. OTHER INCOME

	Six months ended 30 June	
	2005 \$'000	2004 \$'000 (restated)
Other revenue		
Bank interest income	1,074	218
Commission income	21	37
Sundry income	1,885	1,475
	<u>2,980</u>	<u>1,730</u>
Other net income		
Exchange gain	57	40
	<u>57</u>	<u>40</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

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5. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

	Six months ended 30 June	
	2005 \$'000	2004 \$'000 (restated)
(i) Finance costs:		
Interest on bank and other loans repayable within 5 years	2,203	1,103
Interest on shareholders' loans	–	10,905
Dividend on convertible Preference Shares	–	1,942
Redemption premium on convertible Preference Shares	–	697
	<u>2,203</u>	<u>14,647</u>
Less: Borrowing costs capitalised ⁽¹⁾	(8)	–
	<u>2,195</u>	<u>14,647</u>
(ii) Staff costs:		
Retirement costs	4,230	4,199
Salaries, wages and other benefits	88,923	79,765
	<u>93,153</u>	<u>83,964</u>
Less: Staff costs capitalised ⁽²⁾	(13,745)	(14,341)
	<u>79,408</u>	<u>69,623</u>
Other items:		
Depreciation	105,097	93,932
Amortisation of leasehold land	133	133
Amortisation of intangible assets	9,108	9,366
Cost of inventories sold	219,509	159,274
Inventory write down	552	–
Loss on disposal of fixed assets	114	270
Operating lease rentals in respect of properties	91,359	93,480
Provision for bad and doubtful debts	12,078	12,545
	<u>105,097</u>	<u>93,932</u>
	<u>133</u>	<u>133</u>
	<u>9,108</u>	<u>9,366</u>
	<u>219,509</u>	<u>159,274</u>
	<u>552</u>	<u>–</u>
	<u>114</u>	<u>270</u>
	<u>91,359</u>	<u>93,480</u>
	<u>12,078</u>	<u>12,545</u>

(1) The borrowing costs attributable to the construction of assets have been capitalised at a rate of 4.20 per cent. – 4.22 per cent. (2004: Nil).

(2) The staff costs directly attributable to the construction of fixed assets have been capitalised and included in network and billing equipment.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2005

6. TAXATION

- a. No provision for Hong Kong Profits Tax has been made for the period as the Company has sufficient tax losses brought forward to offset the assessable profits for the period (2004: Nil).
- b. Income tax expense charged to the condensed income statement represents:

	Six months ended 30 June	
	2005	2004
	\$'000	\$'000
		(restated)
Deferred tax		
Reversal of temporary differences	<u>26,275</u>	<u>28,697</u>

- c. Reconciliation between tax expense and accounting profit at applicable rate:

	Six months ended 30 June	
	2005	2004
	\$'000	\$'000
		(restated)
Profit before taxation	<u>140,844</u>	<u>147,417</u>
Notional tax on profit before tax, calculated at 17.5 per cent.	24,648	25,798
Tax effect of non-deductible expenses	1,815	3,043
Tax effect of non-taxable revenue	<u>(188)</u>	<u>(144)</u>
	<u>26,275</u>	<u>28,697</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2005

7. DIVIDEND

(a) Dividend attributable to interim period

	Six months ended 30 June	
	2005	2004
	\$'000	\$'000 (restated)
First quarter dividend declared and payable during the interim period of \$0.06 per share (2004: Nil)	44,618	–
Second quarter dividend declared and paid after the interim period of \$0.075 per share (2004: Nil)	55,773	–
Interim dividend declared and paid after the interim period (2004: \$0.13 per share)	–	96,673
	<u>100,391</u>	<u>96,673</u>

The second quarter dividend declared after the interim period has not been recognised as a liability at the Balance Sheet date.

(b) Dividend attributable to the previous financial year, approved and paid during the interim period

	Six months ended 30 June	
	2005	2004
	\$'000	\$'000 (restated)
Final dividend in respect of the financial year ended 31 December 2004, approved and paid of \$0.18 per share (year ended 31 December 2003: Nil)	<u>133,855</u>	<u>–</u>

Notes:

- (1) The first quarter dividend of \$44,618,000 was paid on 13 July 2005.
- (2) At a Board meeting held on 29 August 2005, the Directors declared the second interim dividend of \$55,773,000 (\$0.075 per share) for the three months ended 30 June 2005 (2004: Nil). This declared dividend is not reflected as a dividend payable in these interim financial statements but will be accounted for as an appropriation of retained profits for the year ending 31 December 2005.

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8. BASIC AND DILUTED EARNINGS PER SHARE**a. Basic earnings per share**

	Six months ended 30 June	
	2005	2004
	\$'000	\$'000 (restated)
Profit attributable to shareholders for the period	<u>114,569</u>	<u>118,720</u>
	Number of shares	
	2005	2004
At 1 January	743,641,019	433,000,000
Weighted average number of Ordinary Shares for new issued shares	–	74,725,000
Weighted average number of Ordinary Shares upon conversion of Preference Shares	–	77,062,500
Weighted average number of Ordinary Shares issued pursuant to the Capitalisation Issue	–	<u>3,533,010</u>
At 30 June	<u>743,641,019</u>	<u>588,320,510</u>
Basic earnings per share (in HK\$)	<u>0.15</u>	<u>0.20</u>

b. Diluted earnings per share

No diluted earnings per share is presented for the six months ended 30 June 2005 as the existence of unexercised options during the period has no dilutive effect on the calculation of diluted earnings per share for the period (2004: Nil).

9. EBITDA

EBITDA represents earnings before interest, taxation, depreciation and amortisation expenses. It is a financial measure prepared under a basis other than accounting principles generally accepted in Hong Kong.

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10. FIXED ASSETS

	\$'000 (restated)
<i>Cost:</i>	
At 1 January 2005	2,111,861
Additions	62,027
Transfer from construction in progress (Note 11)	16,373
Disposals/write-off	<u>(238)</u>
At 30 June 2005	<u>2,190,023</u>
<i>Accumulated depreciation:</i>	
At 1 January 2005	955,941
Charge for the period	105,097
Disposals/write-off	<u>(112)</u>
At 30 June 2005	<u>1,060,926</u>
<i>Net book value:</i>	
At 30 June 2005	<u>1,129,097</u>
At 31 December 2004	<u>1,155,920</u>

At 30 June 2005, the net book value of fixed assets held by the Company under finance leases amounted to \$183,000 (31 December 2004: \$220,000)

11. CONSTRUCTION IN PROGRESS

	\$'000 (restated)
<i>Costs:</i>	
At 1 January 2005	9,049
Additions	17,251
Transfer to fixed assets (Note 10)	<u>(16,373)</u>
At 30 June 2005	<u>9,927</u>

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12. INTANGIBLE ASSETS

	\$'000 (restated)
<i>Costs:</i>	
At 1 January 2005	25,956
Additions	6,332
Amortisation	(9,108)
At 30 June 2005	<u>23,180</u>

Intangible assets comprise of the initial license fee for the provision of PCS and the access fee for the utilisation of a distributed communication system and customers retention cost which represents the discount amount on sale of handsets to existing subscribers. Initial license fee and customer retention cost are amortised on a straight-line basis in accordance with the lease period of base stations and the terms of service agreements, respectively.

13. TRADE AND OTHER RECEIVABLES

	30 June 2005 \$'000	31 December 2004 \$'000 (restated)
Trade receivables, net of provision for bad and doubtful debts	79,335	90,062
Other receivables and prepayments	55,826	64,268
	<u>135,161</u>	<u>154,330</u>

All of the trade and other receivables are expected to be recovered within one year. The ageing analysis of the trade receivables of the Company are as follows:

Current	57,533	63,622
Over 1 month but less than 3 months	17,869	20,935
Over 3 months but less than one year	3,933	5,505
	<u>79,335</u>	<u>90,062</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

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14. CASH AND CASH EQUIVALENTS

	30 June 2005 \$'000	31 December 2004 \$'000 (restated)
Deposits with banks	74,140	155,850
Cash at banks and in hand	27,565	40,899
	<u>101,705</u>	<u>196,749</u>

15. TRADE AND OTHER PAYABLES

	30 June 2005 \$'000	31 December 2004 \$'000 (restated)
Trade payables	100,958	111,278
Bills payable	27,269	78,164
Other payables and accruals	89,169	80,024
	<u>217,396</u>	<u>269,466</u>

The ageing analysis of the trade payables of the Company are as follow:

Current	57,420	57,649
Over 1 month but less than 2 months	23,252	30,126
Over 2 months but less than 3 months	3,155	4,397
Over 3 months	17,131	19,106
	<u>100,958</u>	<u>111,278</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

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16. BANK LOANS

At 30 June 2005, the bank loans are repayable as follows:

	30 June 2005 \$'000	31 December 2004 \$'000 (restated)
Within 1 year	–	150,000
After 1 year but within 2 years	100,000	75,000
	100,000	225,000

On 5 May 2005, the Company entered into a new unsecured \$150 million loan facility with floating rate interest to finance the capital expenditure and general working capital requirements of the Company. The loan facility is repayable in three equal instalments with the final instalment repayable in November 2007.

As at 30 June 2005, a total amount of \$100 million was drawn down under this loan facility.

The Company has fully repaid and settled the outstanding balance of the pre-existing \$300 million loan facility during the six month period under review.

17. DEFERRED TAXATION

The components of deferred tax (assets)/liabilities recognised in the balance sheet and movement during the period are as follows:

	30 June 2005 \$'000	31 December 2004 \$'000 (restated)
Depreciation allowance in excess of related depreciation	112,884	121,813
General provision for bad debts	(4,864)	(4,604)
Tax losses	(60,128)	(95,592)
Total	47,892	21,617

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18. SHARE CAPITAL

	30 June 2005 \$'000	31 December 2004 \$'000 (restated)
<i>Authorised:</i>		
2,500,000,000 Ordinary Shares of \$0.48 each	1,200,000	1,200,000
154,125,000 Preference Shares of \$0.48 each	73,980	73,980
	<u>1,273,980</u>	<u>1,273,980</u>
<i>Issued and fully paid:</i>		
743,641,019 Ordinary Shares of \$0.48 each	<u>356,948</u>	<u>356,948</u>

19. EMPLOYEE SHARE OPTION SCHEME

On 4 March 2004, the Company has adopted a Pre-IPO Share Option Scheme that entitles participants, including Directors and employees, to purchase shares in the Company. On 11 March 2004, 591 options to subscribe 58,100,000 shares were granted to employees and Directors for a total consideration of \$591. The terms and conditions of the share option scheme and grants made during the year ended 31 December 2004 are set out in the 2004 Annual Report. The share options are exercisable at \$4.55 per share, which was the Offer Price of the Company's shares pursuant to the Global Offering.

During the six months ended 30 June 2005, 36 options to subscribe for 3,200,000 shares were cancelled upon termination of employment of certain employees (2004: 53 options to subscribe 3,750,000 shares were cancelled) and no options were exercised during the period.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

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20. RESERVES

	Share Premium \$'000	Employee Share Based Compensation Reserve \$'000	Other Reserve \$'000	Retained Profits \$'000	Total \$'000
As at 1 January 2005					
(as previously reported)	594,099	-	63,055	91,827	748,981
Prior period adjustment arising from change of accounting policy	-	947	-	(947)	-
As at 1 January 2005 (as restated)	594,099	947	63,055	90,880	748,981
Payment of 2004 final dividend (note 7 (b))	-	-	(63,055)	(70,800)	(133,855)
Payment of 2005 first quarter dividend (note 7 (a))	-	-	-	(44,618)	(44,618)
Employee share option benefits	-	235	-	-	235
Profit for the period	-	-	-	114,569	114,569
As at 30 June 2005	594,099	1,182	-	90,031	685,312

(restated)	Share Premium \$'000	Employee Share Based Compensation Reserve \$'000	Other Reserve \$'000	Retained Profits/ (Accumulated Losses) \$'000	Total \$'000
As at 1 January 2004	-	-	-	(368,410)	(368,410)
Capital Reduction	-	-	-	305,305	305,305
Issue of new shares (net of listing expenses)	596,654	-	-	-	596,654
Issue of new shares upon conversion of Preference Shares	-	-	63,055	-	63,055
Capitalisation Issue	(3,392)	-	-	-	(3,392)
Employee share option benefits (as restated)	-	316	-	-	316
Profit for the period (as restated)	-	-	-	118,720	118,720
As at 30 June 2004 (as restated)	593,262	316	63,055	55,615	712,248

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20. RESERVES (Continued)

Notes:

1. The application of the share premium account is governed by Section 48B of the Hong Kong Companies Ordinance.
2. As at 30 June 2005, the Company had \$90,031,000 reserve available for distribution to its shareholders.

21. COMMITMENTS

a. Commitments under operating leases

At 30 June 2005, the total future minimum lease payments under non-cancellable operating leases in respect of property rentals are payable as follows:

	30 June 2005 \$'000	31 December 2004 \$'000
Within 1 year	125,323	131,806
After 1 year but within 5 years	53,209	49,181
Over 5 years	2,880	—
	<u>181,412</u>	<u>180,987</u>

b. Capital commitments

	30 June 2005 \$'000	31 December 2004 \$'000
Contracted but not provided for	<u>20,547</u>	<u>29,367</u>

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22. MATERIAL RELATED PARTY TRANSACTIONS

During the six months period, the Company had certain significant transactions with the following related parties in the ordinary course of business:

Name of party	Relationship
China Resources Group of Companies	Each an associate or subsidiary of China Resources (Holdings) Company Limited, the controlling shareholder of this Company.
Onwel Group	Each an associate or subsidiary of Onwel Capital Company Limited, a company controlled by a Director of the Company.
Telepaging Limited	A company owned by a Director and the controlling shareholder of the Company.
mVantage Limited	A company controlled by the spouse of a Director of the Company.

Recurring transactions

	Six months ended 30 June	
	2005 \$'000	2004 \$'000 (restated)
(i) China Resources Group of Companies		
Property rental paid	2,163	1,998
Commissions paid on sales of prepaid cards	68	32
	<u>2,231</u>	<u>2,030</u>
(ii) Onwel Group		
Property rental paid	224	224
Property rental received	–	5
	<u>224</u>	<u>229</u>
(iii) Telepaging Limited		
Sales of handsets and accessories	28,237	28,641
Commission paid on SIM activation and airtime	18,884	20,095
Fees paid for the provision of information and content	266	298
Fees paid for the returned mail and outbound call service	760	–
	<u>48,147</u>	<u>49,034</u>
(iv) mVantage Limited		
Sales of secondhand and obsolete handsets	4,365	6,528
Consultancy fee paid	600	600
	<u>4,965</u>	<u>7,128</u>
(v) China Resources Insurance Consultants Limited		
Insurance premium paid	1,372	710
	<u>1,372</u>	<u>710</u>