SmarTone Telecommunications Holdings Limited

(Stock code: 315)

Interim Report 2005/2006

(Financial figures are expressed in Hong Kong dollars)

I am pleased to announce the financial results of the Group for the six months ended 31 December 2005.

FINANCIAL HIGHLIGHTS

The Group has changed certain of its accounting policies as a consequence of its adoption of new/revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (collectively referred to hereinafter "new HKFRS") which are effective for accounting periods commencing on or after 1 January 2005. Comparative figures have been restated accordingly.

The adoption of the new HKFRS from 1 July 2005 has resulted in a $29 million reduction in profit attributable to equity holders for the six months ended 31 December 2005. The major part of this, amounting to $24 million, is attributable to the adoption of Hong Kong Accounting Standard 38 "Intangible Assets" ("HKAS 38") for 3G licence fee.

The adoption of HKAS 38 requires the 3G licence to be treated as an intangible asset. As of 31 December 2005, the adoption of HKAS 38 resulted in an intangible asset, amounting to $614 million, and a corresponding contractual obligation amounting to $543 million. The intangible asset is to be amortised over the remaining licence period from commercial launch and all continuing 3G licence fee payments are to be set off against the contractual obligation.

Turnover of the Group increased to $1,859 million, a growth of 2% and 4% on the same period last year and the preceding six months respectively. Earnings before interest, tax, depreciation and amortisation ("EBITDA") was $396 million, representing a 16% decrease on the corresponding period last year and a 3% increase on the previous half year. Profit attributable to equity holders declined and amounted to $37 million. Earnings per share for the period was $0.06.

DIVIDEND

The existing dividend policy of distributing two-thirds of net profit as dividend remains unchanged. In view of the first half results, your Board does not declare the payment of an interim dividend.

BUSINESS REVIEW

HONG KONG MOBILE BUSINESS

SmarTone-Vodafone continued to deliver growth in service revenue, driven by the rising ARPU. Blended ARPU for the period of $210 registered a 7% year-on-year growth and a 3% increase compared to the preceding six months, resulting from the increasing number of higher value customers, including data users and business customers. With increasing revenue from data and roaming services, postpaid ARPU increased to $240, representing a growth of 5% on the first half of last year and 2% on the previous six months. Data revenue continued to grow and its contribution to service revenue increased to 8.7%. Total customer number as at the end of the period was 1,054,000. Postpaid churn rate for December 2005 remained stable at 2.4%.

The period saw an increase in operating expenses and depreciation related to 3G. Coupled with the growth in handset subsidies driven by the intensifying price competition in the market, profitability of the business was reduced.

There has been a continuing improvement in customer profile, evidenced by the increase in ARPU. The company's 3G customer base continued to grow and totalled 100,000 in February 2006. Multimedia usage and ARPU of 3G customers have been significantly higher than those of 2G.

CHAIRMAN'S STATEMENT

(Financial figures are expressed in Hong Kong dollars)

SmarTone-Vodafone continues to extend its leadership in service innovation and quality with enhancements in its customer propositions.

- Bet to Win, a leading mobile betting and information service, has been improved with a wider range of content and offerings. SmarTone-Vodafone also leads the market by partnering with the Hong Kong Jockey Club to launch the first secure WAP-based mobile betting service in Hong Kong. This service allows customers to enjoy a much-enhanced mobile betting experience with a comprehensive range of 2G and 3G handsets.

- SmarTone-Vodafone's mobile news service has been improved with enriched content. It now offers the fullest English language mobile news coverage in the market. In particular, it provides customers with the strongest line-up of English mobile TV financial news in Hong Kong, supported by the unique Electronic Programme Guide enabling customers to pre-order the programmes of their choice and view their programmes with a single click.

- Music Now, the company's marketing platform for music on mobile, continues to add on new content and artists. It leads the market by supporting free sampling before purchase for all music content and offering customers the largest library of mobile music in Hong Kong.

- In addition to Email on the go and BlackBerry® from Vodafone, SmarTone-Vodafone Mobile Email is enhancing its range of leading push email solutions with the upcoming launch of Windows Mobile Email. It caters for the different needs of different customers with the widest choice of mobile email solutions and the broadest range of handheld business devices.

- Leveraging the global scale and best practices of the Vodafone Group, SmarTone-Vodafone has upgraded its laptop connectivity solutions with the introduction of Vodafone Mobile Connect Card, enabling business customers to enjoy enhanced features.

To ensure the delivery of the best customer experience in the market, the company continues to upgrade its key commercial enablers.

- 3G roaming coverage has been expanded to cover over 60 overseas destinations, including Japan and Korea where 2G GSM roaming is not available. This allows SmarTone-Vodafone's customers to continue to enjoy the widest 3G roaming coverage among Hong Kong operators.

- SmarTone-Vodafone is the first in the world to enable all audio and video content for Progressive Download, enabling customers to replay multimedia content immediately after the download commences, without having to wait until the completion of the download process.

- The company has introduced a range of new handset models, including Sharp SX833, Sharp SX313, Samsung Anycall Z308, Toshiba TS10, Toshiba TX60 and Motorola E770, to broaden the choice of superior handsets for customers, and currently offers the largest number of 3G handset brands in Hong Kong. It has also launched the BlackBerry® 8700v™ from Vodafone, a new email device designed for customers who demand uncompromising email, voice and browsing performance in an all-in-one device.

In the 2005 Service & Courtesy Award of Hong Kong Retail Management Association, the major association representing Hong Kong's retail industry, SmarTone-Vodafone again achieved outstanding results by winning four top service awards. The company has outperformed leading retailers from a wide range of businesses in Hong Kong and won 'The Best Team Performance Award' five years in a row, demonstrating its continuing innovation and clear leadership in customer service.

Macau Mobile Business

Turnover and profits increased during the period, as the economy of Macau continued to grow.

Prospects

Market competition has intensified following recent merger and acquisition transactions in Hong Kong. Our brand position, customer propositions, network quality and customer service have made great strides in the past several years. Together with a strong financial position, I am confident that your Company will be able to develop new services and to compete aggressively in the market to increase revenue market share. Leveraging on a widening choice of compelling 3G handsets for customers as well as the declining handset costs, your Company will benefit from more growth opportunities arising from 3G in the future, and enhance value for shareholders.

Severe pressure on profits in the current financial year is expected given the costs increase related to 3G and the competitive market.

Appreciation

I would like to take this opportunity to express my gratitude to our customers, shareholders and fellow directors for their continual support, as well as to our staff for their contributions and hard work.

Raymond Kwok Ping-luen
Chairman

Hong Kong, 28 February 2006

(Financial figures are expressed in Hong Kong dollars)

New and revised accounting standards

The Group has changed certain of its accounting policies following its adoption of new/revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRS") in its accounts for the financial year commencing 1 July 2005 through to 30 June 2006. The adoption of the new HKFRS from 1 July 2005 has resulted in a $29 million reduction in profit attributable to equity holders for the six months ended 31 December 2005. The major part of this, amounting to $24 million, is attributable to the adoption of Hong Kong Accounting Standard 38 "Intangible Assets" ("HKAS 38") for 3G licence fee.

The adoption of HKAS 38 requires the 3G licence to be treated as an intangible asset. As of 31 December 2005, the adoption of HKAS 38 resulted in an intangible asset, amounting to $614 million, and a corresponding contractual obligation amounting to $543 million. The intangible asset is to be amortised over the remaining licence period from commercial launch and all continuing 3G licence fee payments are to be set off against the contractual obligation.

Effects of changes in the accounting policies on profit attributable to equity holders of the Company, the various balance sheet items and opening equity attributable to equity holders of the Company are summarised in Note 2 to the condensed consolidated interim financial statements.

Review of financial results

Operating revenue rose by $28 million to $1,859 million, driven by a 7% growth in mobile services revenue due to increase in ARPU. Operating profit, however, fell by $180 million or 75% to $60 million, as operating expenses, depreciation and amortisation rose significantly as a result of 3G and intensifying market competition. Finance income dropped by $2 million amidst lower average balance of held-to-maturity investments and bank deposits. Despite that the Group had no bank and other borrowings, finance costs increased by $26 million due to higher accretion expenses in respect of contractual obligations for 3G licence fees, arising from a change in accounting policy upon the adoption of HKAS 38. Taxation charge fell by $23 million accordingly. Profit attributable to equity holders of the Company for the six months ended 31 December 2005 fell to $37 million from $224 million for the same period last year.

Turnover increased by $28 million to $1,859 million (first half of 2004/05: $1,831 million) as higher mobile services revenue was partially offset by lower handset and accessory sales.

- Mobile services revenue grew by $96 million or 7% to $1,406 million (first half of 2004/05: $1,310 million) driven by higher prepaid, data and roaming services revenues, partially offset by a reduction in local voice revenue as a result of continued downward pressures on tariffs.

  Hong Kong blended ARPU for the six months ended 31 December 2005 rose by $14 to $210 (first half of 2004/05: $196), reflecting continued improvement in customer profile in both business and consumer segments.

  Despite intensifying price competition, postpaid ARPU for the period under review recorded a 5% increase to $240 (first half of 2004/05: $228). Revenues from all services other than local voice recorded growth.

Multimedia services revenue achieved a strong year-on-year increase of 34% as a result of increasing 3G customer base and the Group's continued success in enhancing its customer propositions to different customer segments. The growth was driven by the enrichment of SmarTone *iN!* services, which included the launch of Football Express, Music Now and Bet to Win. Data service revenue continued to grow and accounted for 8.7% of mobile services revenue for the six months ended 31 December 2005 (first half of 2004/05: 7.0%).

- Handset and accessory sales fell by 13% to $454 million (first half of 2004/05: $521 million) despite higher sales volume, as heavy handset subsidies prevalent in the market resulted in lower handset selling prices.

Cost of goods sold and services provided rose by $25 million to $749 million (first half of 2004/05: $724 million). Cost of handsets and accessories sold fell by 9% to $449 million. Cost of services provided rose by 30% to $300 million as interconnect, prepaid IDD costs, roaming partner charges and data related services costs increased due to higher usage.

Other operating expenses (excluding depreciation, amortisation and loss on disposal of fixed assets) rose by $79 million to $714 million (first half of 2004/05: $635 million). Major areas of increase were network costs incurred upon 3G rollout; marketing and sales costs incurred for the promotion of 3G handsets and services; and an unrealised exchange loss arising from the translation of net monetary assets denominated in United States dollars.

Depreciation and disposal loss rose by $31 million to $244 million (first half of 2004/05: $213 million) due to depreciation for the 3G network.

Amortisation of intangible assets increased substantially by $74 million to $92 million (first half of 2004/05: $18 million). Handset subsidy amortisation rose by $50 million to $64 million (first half of 2004/05: $14 million) due to the significant amounts of handset subsidy capitalised for 3G handsets sold. Handset subsidies are deferred and amortised on a straight-line basis over the customer contract periods. 3G licence fee amortisation, arising upon the adoption of HKAS 38, rose by $24 million to $28 million (first half of 2004/05: $4 million). 3G licence fees are amortised on a straight-line basis over the remaining licence period from the date of commercial launch of 3G.

Finance income fell by $2 million to $24 million (first half of 2004/05: $26 million) mainly due to lower average balance of held-to-maturity investments and bank deposits.

Finance costs increased by $26 million to $33 million (first half of 2004/05: $7 million). This was attributable to higher accretion expenses in respect of 3G licence fee obligations, arising upon the adoption of HKAS 38, which were accounted for upon the commercial launch of 3G.

Macau operations continued to improve and contributed positively to the Group's performance for the six months ended 31 December 2005. Operating revenue rose by 17% to $95 million. Operating profit rose by 29% to $28 million amidst strong revenue growth, partially offset by higher network costs and sales and marketing expenses.

(Financial figures are expressed in Hong Kong dollars)

Capital structure, liquidity and financial resources

There had been no major changes to the Group's capital structure during the six months ended 31 December 2005. The Group was financed by share capital, internally generated funds and short-term Hong Kong dollar floating rate revolving credit facilities (expired in November 2005 and not being renewed) during the period. The cash resources of the Group remain strong with cash and bank balances and held-to-maturity investments at 31 December 2005 of $1,720 million.

During the period, the Group's net cash generated from operating activities and interest received amounted to $470 million and $30 million respectively. The Group's major outflows of funds in the period were payment of final dividends for the financial year 2004/05 and purchases of fixed assets.

The directors are of the opinion that the Group can fund its capital expenditure and working capital requirements for the current financial year ending 30 June 2006 from existing cash resources.

Treasury policy

The Group invests its surplus funds in accordance with a treasury policy approved from time to time by the board of directors. Surplus funds are placed as deposit with banks in Hong Kong or invested in investment grade debt securities. Bank deposits in Hong Kong are maintained in Hong Kong or United States dollars.

The Group's investments in debts securities are denominated in either Hong Kong or United States dollars with a maximum maturity of 3 years. The Group's policy is to hold its investments in debt securities until maturity.

As at 31 December 2005, the Group's total available banking facilities amounted to $100 million, represented by uncommitted trade finance facilities. No amount of the facilities was utilised as at 31 December 2005.

The Group is required to arrange for banks to issue performance bonds and letters of credit on its behalf. In certain circumstances, the Group will partially or fully collateralise such instruments by cash deposits to lower the issuance cost. Total amount of pledged deposits at 31 December 2005 was $329 million (30 June 2005: $328 million).

Functional currency and foreign exchange exposure

The functional currency of the Group is the Hong Kong dollar. All material revenues, expenses, assets and liabilities, except its United States dollar fixed income investments and bank deposits, are denominated in Hong Kong dollars. The Group therefore does not have any significant exposure to foreign currency gains and losses other than those arising due to its United States dollar denominated fixed income investments and bank deposits. The Group does not currently undertake any foreign exchange hedging.

Contingent liabilities

Performance Bonds

Certain banks, on the Group's behalf, have issued performance bonds to the telecommunications authorities of Hong Kong and Macau in respect of obligations under licences issued by those authorities. The total amount outstanding at 31 December 2005 under these performance bonds was $353 million (30 June 2005: $313 million).

Lease Out, Lease Back Arrangement

A bank, on the Group's behalf, had issued a letter of credit to guarantee the Group's obligations under a lease out, lease back arrangement entered into during the year ended 30 June 1999. This letter of credit is fully cash collateralised using surplus cash deposits. The directors are of the opinion that the risk of the Group being required to make payment under this guarantee is remote.

Bank Facilities Guarantees

At 31 December 2005, there were contingent liabilities in respect of guarantees given by the Company on behalf of a wholly owned subsidiary relating to uncommitted trade finance facilities granted by a bank of up to $100 million (30 June 2005: $300 million).

Employees and share option scheme

The Group had 1,605 full-time employees at 31 December 2005, with majority of which based in Hong Kong. Total staff costs were $177 million in the period under review (first half of 2004/05: $177 million).

Employees receive a remuneration package consisting of basic salary, bonus and other benefits. Bonus payments are discretionary and depend, inter-alia, on both the Group's performance and the performance of the individual employee. Benefits include retirement schemes and medical and dental care insurance. Employees are provided with both internal and external training appropriate to each individual's requirements.

The Group has a share option scheme under which the Company may grant options to the participants, including directors and employees, to subscribe for shares of the Company. No share options were granted or exercised, and 898,000 share options were cancelled during the six months ended 31 December 2005. At 31 December 2005, 12,194,500 share options were outstanding.

TO THE BOARD OF DIRECTORS OF SMARTONE TELECOMMUNICATIONS HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

INTRODUCTION

We have been instructed by the Company to review the interim financial statements set out on pages 9 to 41.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of interim financial statements to be in compliance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the relevant provisions thereof. The interim financial statements are the responsibility of, and have been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial statements and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of these statements.

REVIEW WORK PERFORMED

We conducted our review in accordance with Statement of Auditing Standard 700 "Engagements to Review Interim Financial Reports" issued by the HKICPA. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial statements and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial statements.

OPINION

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial statements for the six months ended 31 December 2005.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 February 2006

(Expressed in Hong Kong dollars)

Consolidated profit and loss account

For the six months ended 31 December 2005

	Note	Unaudited six months ended 31 December 2005 $000	2004 $000 (Restated)
Mobile services		**1,405,937**	1,309,857
Mobile telephone and accessory sales		**453,530**	520,721
Turnover		**1,859,467**	1,830,578
Cost of goods sold and services provided	5	**(748,970)**	(724,443)
Gross profit		**1,110,497**	1,106,135
Network costs	5	**(272,946)**	(240,613)
Staff costs		**(177,230)**	(177,454)
Sales and marketing expenses		**(132,892)**	(99,394)
Rental and utilities	5	**(59,880)**	(54,094)
Other operating expenses	5	**(71,384)**	(62,985)
Depreciation and amortisation	5	**(336,487)**	(231,780)
Operating profit		**59,678**	239,815
Finance income	6	**24,057**	26,333
Finance costs	6	**(33,237)**	(7,274)
Profit before taxation		**50,498**	258,874
Income tax expense	7	**(6,293)**	(29,714)
Profit after taxation		**44,205**	229,160
Attributable to:			
Equity holders of the Company		**37,045**	224,025
Minority interests		**7,160**	5,135
		44,205	229,160
Dividends			
In respect of the period	8	**—**	110,730
Attributable to prior years paid in the period	8	**116,558**	192,321
Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in $ per share)			
Basic	9	**$0.06**	$0.38
Diluted	9	**$0.06**	$0.38

(Expressed in Hong Kong dollars)

CONSOLIDATED BALANCE SHEET

As at 31 December 2005 and 30 June 2005

	Note	Unaudited 31 December 2005 $000	Audited 30 June 2005 $000 (Restated)
Non-current assets			
Fixed assets	10	1,962,818	2,068,270
Interest in an associate		20,464	29,469
Financial investments	11	81,691	744,898
Intangible assets	12	789,595	693,710
Deferred tax assets		4,156	8,311
		2,858,724	3,544,658
Current assets			
Inventories		144,250	189,100
Financial investments	11	1,042,163	390,895
Trade receivables	13	179,068	168,116
Deposits and prepayments		124,586	117,158
Other receivables		25,973	33,528
Cash and bank balances	14	645,071	765,212
		2,161,111	1,664,009
Current liabilities			
Trade payables	15	128,210	137,317
Other payables and accruals		614,330	708,518
Taxation payable		9,185	6,956
Customers' deposits		23,198	23,085
Contractual obligations – current portion		50,000	50,000
Deferred income		75,566	72,915
		900,489	998,791
Net current assets		1,260,622	665,218
Total assets less current liabilities		4,119,346	4,209,876
Non-current liabilities			
Contractual obligations		529,573	547,056
Deferred tax liabilities		149,209	152,957
Net assets		3,440,564	3,509,863
Capital and reserves			
Share capital	16	58,279	58,279
Reserves		3,351,603	3,428,062
Total equity attributable to equity holders of the Company		3,409,882	3,486,341
Minority interests		30,682	23,522
Total equity		3,440,564	3,509,863

Consolidated cash flow statement

For the six months ended 31 December 2005

	Note	Unaudited six months ended 31 December 2005 $000	2004 $000 (Restated)
Net cash generated from operating activities		**470,056**	436,834
Net cash used in investing activities		**(480,999)**	(356,016)
Net cash used in financing activities		**(110,841)**	(184,276)
Decrease in cash and cash equivalents		**(121,784)**	(103,458)
Effect of foreign exchange rate change		**(212)**	—
Cash and cash equivalents at the beginning of the period		**437,673**	328,188
Cash and cash equivalents at the end of the period		**315,677**	224,730
Analysis of balances of cash and cash equivalents			
Cash and bank balances	14	**645,071**	561,908
Less: pledged bank deposits	14	**(329,394)**	(337,178)
		315,677	224,730

Consolidated statement of changes in equity

For the six months ended 31 December 2004

	Unaudited							
	Attributable to equity holders of the Company						Minority interests	Total
	Share capital	Capital redemption reserve	Contributed surplus	Employee share-based compensation reserve	Exchange reserve	Retained profits		
	$000	$000	$000	$000	$000	$000	$000	$000
At 1 July 2004, as previously reported as equity	58,331	2,638	2,371,112	—	26	1,033,843	—	3,465,950
At 1 July 2004, as previously separately reported as minority interest	—	—	—	—	—	—	21,407	21,407
Prior period adjustment in respect of adoption of HKAS 38	—	—	—	—	—	10,469	—	10,469
Prior period adjustment in respect of adoption of HKFRS 2	—	—	—	4,160	—	(4,160)	—	—
At 1 July 2004, as restated	58,331	2,638	2,371,112	4,160	26	1,040,152	21,407	3,497,826
Currency translation differences	—	—	—	—	(22)	—	—	(22)
Profit for the period	—	—	—	—	—	224,025	5,135	229,160
Cancellation of shares repurchased	(52)	52	—	—	—	—	—	—
Employee share-based compensation	—	—	—	3,176	—	—	—	3,176
Payment of 2003/04 final dividend	—	—	—	—	—	(192,321)	—	(192,321)
At 31 December 2004	58,279	2,690	2,371,112	7,336	4	1,071,856	26,542	3,537,819

For the six months ended 31 December 2005

	Unaudited							
	Attributable to equity holders of the Company						Minority interests	Total
	Share capital $000	Capital redemption reserve $000	Contributed surplus $000	Employee share-based compensation reserve $000	Exchange reserve $000	Retained profits $000	$000	$000
At 1 July 2005, as previously reported as equity	58,279	2,690	2,371,112	—	(3)	1,069,601	—	3,501,679
At 1 July 2005, as previously separately reported as minority interest	—	—	—	—	—	—	23,522	23,522
Prior period adjustment in respect of adoption of HKAS 16	—	—	—	—	—	(4,062)	—	(4,062)
Prior period adjustment in respect of adoption of HKAS 38	—	—	—	—	—	(11,276)	—	(11,276)
Prior period adjustment in respect of adoption of HKFRS 2	—	—	—	10,583	—	(10,583)	—	—
At 1 July 2005, as restated	58,279	2,690	2,371,112	10,583	(3)	1,043,680	23,522	3,509,863
Currency translation differences	—	—	—	—	185	—	—	185
Profit for the period	—	—	—	—	—	37,045	7,160	44,205
Employee share-based compensation	—	—	—	2,869	—	—	—	2,869
Payment of 2004/05 final dividend	—	—	—	—	—	(116,558)	—	(116,558)
At 31 December 2005	**58,279**	**2,690**	**2,371,112**	**13,452**	**182**	**964,167**	**30,682**	**3,440,564**

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 31 December 2005

1 BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial statements ("interim financial statements") have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. These interim financial statements should be read in conjunction with the 2004/05 annual financial statements.

The accounting policies and methods of computation used in the preparation of these interim financial statements are consistent with those used in the annual financial statements for the year ended 30 June 2005 except that the Group has changed certain of its accounting policies following its adoption of new/revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRS") which are effective for accounting periods commencing on or after 1 January 2005.

These interim financial statements have been prepared in accordance with the new HKFRS issued and effective as at the time of preparing these interim financial statements. The new HKFRS that will be applicable at 30 June 2006, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing these interim financial statements.

The changes to the Group's accounting policies and the effect of adopting these new policies are set out in note 2 below.

2 CHANGES IN ACCOUNTING POLICIES

(a) *Effect of adopting new HKFRS*

In 2005/06, the Group adopted the new HKFRS below, which are relevant to its operations. The 2004/05 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employees Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 34	Interim Financial Reporting
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 2	Share-based Payments

Notes to the Condensed Consolidated Interim Financial Statements (Continued)

For the six months ended 31 December 2005

2 Changes in accounting policies *(continued)*

(a) *Effect of adopting new HKFRS (continued)*

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 12, 14, 17, 18, 19, 21, 23, 24, 27, 28, 33, 34, 36 and 37 did not result in substantial changes to the Group's accounting policies. In summary:

- HKAS 1 has affected the presentation of minority interests, share of net after-tax results of associates and other disclosures.
- HKASs 2, 7, 8, 10, 12, 14, 17, 18, 19, 23, 27, 28, 33, 34, 36 and 37 had no material effect on the Group's policies.
- HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as the presentation currency for respective entity financial statements. The entity of which the functional currency differs from the presentation currency is translated based on the guidance of the revised standard.
- HKAS 24 has affected the identification of related parties and some other related party disclosures.

The adoption of HKAS 16 has resulted in a change in accounting policy relating to the recognition of fixed assets and liabilities subject to retirement obligations at fair value.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy for recognition, measurement, derecognition and disclosure of financial instruments. Following the adoption of HKASs 32 and 39, the financial assets have been classified into loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Held-to-maturity investments are stated in the balance sheet at amortised cost. Interest income from held-to-maturity investments is calculated using the effective interest method. Available-for-sale financial assets that are quoted in an active market are measured at fair value and changes in fair value are recognised in the investment revaluation reserve. Available-for-sale financial assets that are not quoted in an active market are measured at cost less impairment. Loans and receivables are stated in the balance sheet at amortised cost.

2 Changes in accounting policies *(continued)*

(a) Effect of adopting new HKFRS (continued)

The adoption of HKAS 38 has resulted in a change in accounting policy relating to the recognition of the fees and royalties payable for the third generation licence telecommunications spectrum ("3G Licence"). The 3G Licence is considered an intangible asset representing the right to provide a telecommunications service rather than a right to use an identifiable asset, being the radio spectrum allocated to the Group under the terms of the licence. In order to measure the intangible asset, HKAS 39 Financial Instruments: Recognition and Measurement is applied for recognition of the minimum annual fee and royalty payments as they constitute a contractual obligation to deliver cash and hence should be considered a financial liability. As a result, capitalised minimum annual payments together with the interest accrued prior to commercial launch, are classified as an intangible asset and amortised on a straight-line basis over the remaining licence period from the date the asset is ready for its intended use. Interest is accrued on the outstanding minimum annual fees and charged to finance costs in the profit and loss account after the commercial launch. Variable annual payments on top of the minimum annual payments, if any, are recognised in the profit and loss account as incurred. The change in accounting policy is applied retrospectively.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 30 June 2005, the provision of share options to employees did not result in an expense in the profit and loss account. Effective on 1 July 2005, the Group expenses the cost of share options in the profit and loss account. As a transitional provision, the cost of share options granted after 7 November 2002 and had not yet vested on 1 July 2005 was expensed retrospectively in the profit and loss account of the respective periods.

All changes in the accounting policies have been made in accordance with the transitional provisions in the respective standards. All standards adopted by the Group require retrospective application other than:

- HKAS 39 – does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous Statement of Standard Accounting Practice ("SSAP") 24 "Accounting for investments in securities" for the 2004/05 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised at 1 July 2005;

- HKFRS 2 – only retrospective application for all equity instruments granted after 7 November 2002 and not vested at 1 July 2005.

Notes to the condensed consolidated interim financial statements (continued)

For the six months ended 31 December 2005

2 Changes in accounting policies *(continued)*

(a) Effect of adopting new HKFRS (continued)

(i) The adoption of HKAS 16 resulted in:

	As at 31 December 2005 $000	As at 30 June 2005 $000
Increase in fixed assets	**29,967**	31,054
Increase in liabilities	**36,310**	35,116
Decrease in retained profits	**6,343**	4,062

	For the year ended 30 June 2005 $000	Six months ended 31 December 2005 $000	Six months ended 31 December 2004 $000
Decrease in profit attributable to equity holders	4,062	**2,281**	1,843
Decrease in basic earnings per share ($)	0.01	**0.00**	0.00
Decrease in diluted earnings per share ($)	0.01	**0.00**	0.00

(ii) The adoption of HKASs 32 and 39 resulted in:

- redesignate all "non-trading securities" as "available-for-sale financial assets" or "loans and receivables", at 1 July 2005; and
- restate the held-to-maturity investments at amortised cost using effective interest method instead of straight line method from 1 July 2005.

2 CHANGES IN ACCOUNTING POLICIES *(continued)*

(a) *Effect of adopting new HKFRS (continued)*

(iii) The adoption of HKAS 38 resulted in:

	As at 31 December 2005 $000	As at 30 June 2005 $000
Increase in intangible assets	**614,223**	642,637
Decrease in fixed assets	**138,685**	146,462
Increase in liabilities	**510,773**	507,451
Decrease in retained profits	**35,235**	11,276

	For the year ended 30 June 2005 $000	Six months ended 31 December 2005 $000	Six months ended 31 December 2004 $000
(Decrease)/increase in profit attributable to equity holders	(21,745)	**(23,959)**	3,415
Decrease in basic earnings per share ($)	0.04	**0.04**	0.00
Decrease in diluted earnings per share ($)	0.04	**0.04**	0.00

(iv) The adoption of HKFRS 2 resulted in:

	As at 31 December 2005 $000	As at 30 June 2005 $000
Increase in employee share-based compensation reserve	**13,452**	10,583
Decrease in retained profits	**13,452**	10,583

	For the year ended 30 June 2005 $000	Six months ended 31 December 2005 $000	Six months ended 31 December 2004 $000
Decrease in profit attributable to equity holders	6,423	**2,869**	3,176
Decrease in basic earnings per share ($)	0.01	**0.00**	0.01
Decrease in diluted earnings per share ($)	0.01	**0.00**	0.01

Notes to the condensed consolidated interim financial statements (continued)

For the six months ended 31 December 2005

2 Changes in accounting policies *(continued)*

(b) New accounting policies

The accounting policies used for the interim financial statements for the six months ended 31 December 2005 are the same as those set out in note (1) to the 2004/05 annual financial statements except for the following:

(i) Foreign currency translation

(1) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency"). These interim financial statements are presented in HK dollars, which is the Company's functional and presentation currency.

(2) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(3) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

a. assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

2 Changes in accounting policies *(continued)*

(b) New accounting policies (continued)

(i) Foreign currency translation *(continued)*

(3) Group companies (continued)

b. income and expenses for each profit and loss account are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

c. all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the profit and loss account as part of the gain or loss on sale.

(ii) Fixed assets

The assets' residual value and useful lives are reviewed and adjusted, if applicable, at each balance sheet date.

(iii) Intangible assets – telecommunications licence for third generation ("3G") services

The discounted value of the minimum annual fees and royalties payable for the 3G Licence over the licence period together with the interest accrued prior to commercial launch, are classified as an intangible asset and amortised on a straight-line basis over the remaining licence period from the date the asset is ready for its intended use. Interest is accrued on the outstanding minimum annual fees and charged to finance costs in the profit and loss account after the commercial launch. Variable annual payments on top of the minimum annual payments, if any, are recognised in the profit and loss account as incurred.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 31 December 2005

2 CHANGES IN ACCOUNTING POLICIES *(continued)*

(b) New accounting policies (continued)

(iv) Financial investments

From 1 July 2004 to 30 June 2005:

The Group classified its investments in securities, other than subsidiaries, associates and jointly controlled entities, as non-trading securities and held-to-maturity debt securities.

(1) Non-trading securities

Investments that were held for non-trading purpose were 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.

(2) 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.

2 Changes in accounting policies *(continued)*

(b) New accounting policies (continued)

(iv) Financial investments *(continued)*

From 1 July 2005 onwards:

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

(1) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date. During the period, the Group did not hold any investments in this category.

(2) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet.

(3) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. They are included in non-current assets, except for those with maturities less than 12 months after the balance sheet date. These are classified as current assets.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 31 December 2005

2 CHANGES IN ACCOUNTING POLICIES *(continued)*

(b) New accounting policies (continued)

(iv) Financial investments *(continued)*

(4) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the profit and loss account in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the profit and loss account as gains or losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active, and for unlisted securities, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

2 Changes in accounting policies *(continued)*

(b) New accounting policies (continued)

(iv) Financial investments *(continued)*

(4) Available-for-sale financial assets (continued)

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the profit and loss account – is removed from equity and recognised in the profit and loss account. Impairment losses recognised in the profit and loss account on equity instruments are not reversed through the profit and loss account.

(v) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the profit and loss account.

(vi) Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Notes to the Condensed Consolidated Interim Financial Statements (Continued)

For the six months ended 31 December 2005

2 Changes in accounting policies *(continued)*

(b) New accounting policies (continued)

(vii) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(viii) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the profit and loss account, and a corresponding adjustment to equity over the remaining vesting period. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and the share premium when the options are exercised.

(ix) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continuous unwinding the discount as interest income.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

Major areas where critical estimates and assumptions are applied include those related to impairment and useful lives of plant and equipment, contractual obligations - asset retirement obligations, estimated fair value of financial instruments and deferred taxation.

(a) Impairment and useful lives of plant and equipment

The plant and equipment used in the network are long-lived but may be subject to technical obsolescence. The annual depreciation charges are sensitive to the estimated economic useful lives the Group allocates to each type of fixed assets. Management performs annual reviews to assess the appropriateness of their estimated economic useful lives. Such reviews take into account the technological changes, prospective economic utilisation and physical condition of the assets concerned. Management also regularly reviews whether there are any indications of impairment and will recognise an impairment loss if the carrying amount of an asset is lower than its recoverable amount which is the greater of its net selling price or its value in use. In determining the value in use, management assess the present value of the estimated future cash flows expected to arise from the continuing use of the asset and from its disposal at the end of its useful life. Estimates and judgements are applied in determining these future cash flows and the discount rate. Management estimates the future cash flows based on certain assumptions, such as the market competition and development and the expected growth in subscribers and average revenue per subscriber.

(b) Contractual obligations - asset retirement obligations

The Group evaluates and recognises, on a regular basis, the fair value of fixed assets and obligations which arise from future reinstatement of leased properties upon end of lease terms. To establish the fair values of the asset retirement obligations, estimates and judgement are applied in determining these future cash flows and the discount rate. Management estimates the future cash flows based on certain assumptions, such as the types of leased properties, probability of renewal of lease terms and restoration costs. The discount rate used is referenced to the Group's historical weighted average cost of capital.

(c) Estimated fair value of financial instruments

The fair value of financial instruments that are not traded in active market is determined based on the latest available financial information existing at each balance sheet date.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 31 December 2005

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

(d) Deferred taxation

The Group provides for deferred taxation in full, using the liability method, on temporary difference arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation. Deferred tax assets are only recognised to the extent that it is probable future taxable profits will be available against which the temporary differences can be utilised. Deferred taxation is provided on temporary difference arising from depreciation on fixed assets 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.

4 SEGMENT REPORTING

Segment information is presented by way of geographical regions as the primary reporting format. An analysis of the Group's segment information by geographical segment is set out as follows:

	Six months ended 31 December 2005			
	Hong Kong	Macau	Inter-segment elimination	Consolidated
	$000	$000	$000	$000
Turnover	1,776,949	94,799	(12,281)	1,859,467
Operating profit	32,098	27,580	—	59,678
Finance income				24,057
Finance costs				(33,237)
Profit before taxation				50,498
Income tax expense				(6,293)
Profit after taxation				44,205

4 Segment reporting *(continued)*

	Six months ended 31 December 2004 (Restated)			
			Inter-segment	
	Hong Kong	Macau	elimination	Consolidated
	$000	$000	$000	$000
Turnover	1,764,142	81,297	(14,861)	1,830,578
Operating profit	218,504	21,311	—	239,815
Finance income				26,333
Finance costs				(7,274)
Profit before taxation				258,874
Income tax expense				(29,714)
Profit after taxation				229,160

More than 90% of the Group's turnover and operating profit was attributable to its mobile communications operations. Accordingly, no analysis by business segment is included in these interim financial statements.

5 Expenses by nature

	Six months ended 31 December	
	2005	2004
	$000	$000
Cost of inventories sold	**449,125**	493,243
Depreciation:		
Owned fixed assets	**184,888**	147,778
Leased fixed assets	**57,040**	62,823
Amortisation of intangible assets	**92,372**	18,473
Operating lease rentals for land and buildings, transmission sites and leased lines	**244,984**	211,027
Loss on disposal of fixed assets	**2,187**	2,706
Provision for bad and doubtful debts	**6,646**	7,786
Net exchange loss	**7,366**	226

(Expressed in Hong Kong dollars)

Notes to the condensed consolidated interim financial statements (continued)

For the six months ended 31 December 2005

6 Net finance (costs)/income

	Six months ended 31 December 2005 $000	Six months ended 31 December 2004 $000
Finance income		
Interest income from:		
Listed debt securities	**4,086**	8,973
Unlisted debt securities	**8,628**	13,417
Deposits with banks and other financial institutions	**11,343**	3,943
	24,057	26,333
Finance costs		
Interest expense on bank loans repayable within five years	**—**	(105)
Other borrowing costs	**(76)**	(267)
Accretion expenses		
3G licence fee obligations	**(31,323)**	(5,165)
Asset retirement obligations	**(1,838)**	(1,737)
	(33,237)	(7,274)
	(9,180)	19,059

Accretion expenses represented changes in the contractual obligations due to passage of time by applying an interest method of allocation to the amount of the liability at the beginning of the period.

7 Income tax expense

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profit for the period. Taxation on overseas profits has been provided on the estimated profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged to the consolidated profit and loss account represents:

	Six months ended 31 December	
	2005	2004
	$000	$000
Current taxation		
Hong Kong	**3,696**	14,972
Overseas	**2,190**	2,073
Deferred taxation relating to the origination of temporary differences	**407**	12,669
	6,293	29,714

8 Dividends

	Six months ended 31 December	
	2005	2004
	$000	$000
In respect of the period		
Interim declared/paid, of Nil per share (2004: $0.19 per share)	—	110,730
Attributable to prior years paid in the period		
Final of $0.20 per share (2004: $0.33 per share)	**116,558**	192,321
	116,558	303,051

At a meeting held on 5 September 2005, the directors declared a final dividend of $0.20 per share for the year ended 30 June 2005, which was paid on 11 November 2005 and has been reflected as an appropriation of retained profits for the six months ended 31 December 2005.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 31 December 2005

9 BASIC AND DILUTED EARNINGS PER SHARE

The calculations of basic and diluted earnings per share are based on the profit attributable to equity holders of $37,045,000 (2004 restated: $224,025,000).

The basic earnings per share is based on the weighted average number of shares in issue during the period of 582,791,428 (2004: 582,834,803). The diluted earnings per share is based on 582,853,905 (2004: 582,853,706) shares which is the weighted average number of shares in issue during the period plus the weighted average number of 62,477 (2004: 18,903) shares deemed to be issued at no consideration if all outstanding options had been exercised.

10 FIXED ASSETS

	$000 (Restated)
Opening net book value at 1 July 2005	2,068,270
Additions	138,839
Disposals	(2,572)
Exchange adjustment	209
Depreciation	(241,928)
Closing net book value at 31 December 2005	**1,962,818**
Opening net book value at 1 July 2004	1,851,553
Additions	283,412
Disposals	(3,470)
Exchange adjustment	(29)
Depreciation	(210,601)
Closing net book value at 31 December 2004	1,920,865
Additions	392,599
Disposals	(5,180)
Exchange adjustment	(5)
Depreciation	(240,009)
Closing net book value at 30 June 2005	2,068,270

At 31 December 2005, the net book value of fixed assets held by the Group under finance leases amounted to $334,427,000 (30 June 2005: $394,541,000).

11 Financial investments

	31 December 2005 $000	30 June 2005 $000
Available-for-sale financial assets	**49,404**	49,013
Held-to-maturity investments	**1,074,450**	1,086,780
	1,123,854	1,135,793
Less: Held-to-maturity investments maturing within one year of the balance sheet date included under current assets	**(1,042,163)**	(390,895)
Total non-current financial investments	**81,691**	744,898

	Available-for-sale financial assets $000	Held-to-maturity investments $000	Total $000
Carrying value at 31 December 2005			
Listed outside Hong Kong	—	337,458	337,458
Unlisted, traded on inactive markets and of private issuers	49,404	736,992	786,396
	49,404	1,074,450	1,123,854

	$000
(a) Available-for-sale financial assets	
At 1 July 2005	49,013
Additions	3,900
Impairment provisions recognised in profit and loss account	(3,509)
At 31 December 2005	**49,404**

There were no disposals on available-for-sale financial assets during the six months ended 31 December 2005.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 31 December 2005

11 FINANCIAL INVESTMENTS *(continued)*

		$000
(b)	Held-to-maturity investments	
	At 1 July 2005	1,086,780
	Amortisation	(5,886)
	Exchange adjustment	(6,444)
	At 31 December 2005	**1,074,450**

During the six months ended 31 December 2004 and 2005, no gain or loss arose on the disposal of held-to-maturity investments.

12 INTANGIBLE ASSETS

	Deferred expenditure $000	3G licence fee $000 (Restated)	Total $000 (Restated)
Opening net book value at 1 July 2005	51,073	642,637	693,710
Additions	188,257	—	188,257
Amortisation	(63,958)	(28,414)	(92,372)
Closing net book value at 31 December 2005	**175,372**	**614,223**	**789,595**
Opening net book value at 1 July 2004	12,991	650,003	662,994
Additions	12,548	25,784	38,332
Amortisation	(13,737)	(4,736)	(18,473)
Closing net book value at 31 December 2004	11,802	671,051	682,853
Additions	56,476	—	56,476
Amortisation	(17,205)	(28,414)	(45,619)
Closing net book value at 30 June 2005	51,073	642,637	693,710

13 Trade receivables

	31 December 2005 $000	30 June 2005 $000
Trade receivables	**192,796**	181,951
Less: provision for impairment of receivables	**(13,728)**	(13,835)
	179,068	168,116

The Group allows an average credit period of 30 days to its subscribers and other customers. The ageing of the trade receivables, net of provisions, is as follows:

	31 December 2005 $000	30 June 2005 $000
Current to 30 days	**156,030**	147,715
31 - 60 days	**18,368**	11,451
61 - 90 days	**2,550**	4,259
Over 90 days	**2,120**	4,691
	179,068	168,116

There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of customers.

The Group has recognised a loss of $6,646,000 (2004: $7,786,000) for the impairment of its trade receivables during the six months ended 31 December 2005. The loss has been included in other operating expenses in the profit and loss account.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 31 December 2005

14 CASH AND BANK BALANCES

	31 December 2005 $000	30 June 2005 $000
Pledged bank deposits	**329,394**	327,539
Cash and bank balances	**315,677**	437,673
	645,071	765,212

Of the pledged bank deposits, $183,548,000 (30 June 2005: $170,910,000) has been pledged as cash collateral for the Group's 3G licence performance bond as referred to in note 20 – "Contingent liabilities".

15 TRADE PAYABLES

The ageing of the trade payables is as follows:

	31 December 2005 $000	30 June 2005 $000
Current to 30 days	**54,118**	95,906
31 - 60 days	**41,544**	21,075
61 - 90 days	**5,789**	3,276
Over 90 days	**26,759**	17,060
	128,210	137,317

16 SHARE CAPITAL

	Shares of $0.10 each	$000
Authorised:		
1 July 2005 and 31 December 2005	1,000,000,000	100,000
Issued and fully paid:		
1 July 2005 and 31 December 2005	582,791,428	58,279

17 Employee share option scheme

At 31 December 2005, movements in the number of share options outstanding and their exercise prices granted under the Company's share option scheme are as follows:

			Number of options					
Date granted	Exercise period	Exercise price per share $	1 July 2005	Granted during the period	Cancelled during the period	Exercised during the period	Expired during the period	31 December 2005
10 February 2003	10 February 2003 to 16 July 2011	9.29	3,000,000	—	—	—	—	**3,000,000**
10 February 2003	2 May 2003 to 1 May 2012	9.20	133,500	—	—	—	—	**133,500**
5 February 2004	5 February 2005 to 4 February 2014	9.00	9,380,000	—	(898,000)	—	—	**8,482,000**
6 December 2004	6 December 2005 to 5 December 2014	8.01	193,000	—	—	—	—	**193,000**
4 January 2005	4 January 2006 to 3 January 2015	8.70	193,000	—	—	—	—	**193,000**
1 March 2005	1 March 2006 to 28 February 2015	9.05	193,000	—	—	—	—	**193,000**
			13,092,500	—	(898,000)	—	—	**12,194,500**

18 Capital commitments

	31 December 2005 $000	30 June 2005 $000
Contracted for		
Fixed assets	**45,697**	31,790
Equity securities	**7,800**	11,700
Authorised but not contracted for	**297,968**	450,182
	351,465	493,672

Notes to the condensed consolidated interim financial statements (continued)

For the six months ended 31 December 2005

19 Operating lease commitments

At 31 December 2005 and 30 June 2005, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	31 December 2005 $000	30 June 2005 $000
Land and buildings and transmission sites		
Within one year	**277,855**	289,108
After one year but within five years	**218,571**	187,877
After five years	**41,525**	9,742
	537,951	486,727
Leased lines		
Within one year	**33,658**	36,870
After one year but within five years	**2,110**	3,102
	35,768	39,972

20 Contingent liabilities

(a) Performance bonds

	31 December 2005 $000	30 June 2005 $000
Hong Kong 3G licence	**351,243**	310,746
Other	**1,942**	1,942
	353,185	312,688

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 2005, the fourth anniversary of the issue of the Hong Kong 3G Licence and subsequent to the payment of the fourth year spectrum utilisation fee of $50 million, the performance bond was revised to $351 million with a duration of five years.

20 CONTINGENT LIABILITIES *(continued)*

(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) Bank facilities guarantees

At 31 December 2005, there were contingent liabilities in respect of guarantees given by the Company on behalf of a wholly owned subsidiary relating to uncommitted trade finance facility granted by certain banks of up to $100 million (30 June 2005: short term revolving credit facilities and uncommitted trade finance facility of $300 million). No amount was utilised by the subsidiary at 31 December 2005 and 30 June 2005.

21 RELATED PARTY TRANSACTIONS

(a) During the six months ended 31 December 2005, the Group had the following significant transactions with certain related parties in the ordinary course of business:

	Six months ended 31 December	
	2005	2004
	$000	$000
Operating lease rentals for land and buildings and transmission sites (note i)	**26,009**	25,586
Insurance expenses (note ii)	**2,635**	4,800

(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 2005, rental and licence fees paid and payable to subsidiaries and associated companies of SHKP totalled $26,009,000 (2004: $25,586,000).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 31 December 2005

21 RELATED PARTY TRANSACTIONS *(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 six months ended 31 December 2005, insurance premiums paid and payable were $2,635,000 (2004: $4,800,000).

(b) At 31 December 2005, 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 six months ended 31 December 2005 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) Key management compensation

	Six months ended 31 December	
	2005	2004
	$000	$000
Salaries and other short-term employee benefits	**14,710**	11,111
Share-based payments	**1,100**	1,507
	15,810	12,618

21 Related party transactions *(continued)*

(e) 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 2005 $000	30 June 2005 $000
Trade receivables	**479**	631
Deposits and prepayments	**4,303**	4,967
Trade payables	**251**	168
Other payables and accruals	**3,768**	3,361

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

22 Comparative figures

The comparative figures presented in these interim financial statements are prepared by the Group and have been adjusted for the impact of the relevant new HKFRSs as set out in note 2.

(Financial figures are expressed in Hong Kong dollars)

Interim dividend

The directors do not recommend the payment of an interim dividend for the six months ended 31 December 2005 (2004: $0.19 per share).

Share Option Scheme

Pursuant to the terms of the share option scheme adopted by the Company on 15 November 2002 (the "Share Option Scheme"), the Company may grant options to the participants, including directors and employees of the Group, to subscribe for shares of the Company. Movements of the share options granted to the participants pursuant to the Share Option Scheme during the six months period ended 31 December 2005 are as follows:

Grantee	Date of grant	Exercise price $	Exercise period	Outstanding at 1 July 2005	Granted during the period	Exercised during the period	Cancelled/ Lapsed during the period	Outstanding at 31 December 2005
Directors								
Douglas Li	10 February 2003	9.29	10 February 2003 to 16 July 2011	3,000,000	—	—	—	3,000,000
Patrick Chan Kai-lung	10 February 2003	9.20	2 May 2003 to 1 May 2012	133,500	—	—	—	133,500
	5 February 2004	9.00	5 February 2005 to 4 February 2014	970,000	—	—	—	970,000
Employees	5 February 2004	9.00	5 February 2005 to 4 February 2014	8,410,000	—	—	(898,000)	7,512,000
	6 December 2004	8.01	6 December 2005 to 5 December 2014	193,000	—	—	—	193,000
	4 January 2005	8.70	4 January 2006 to 3 January 2015	193,000	—	—	—	193,000
	1 March 2005	9.05	1 March 2006 to 28 February 2015	193,000	—	—	—	193,000

Other than the share options stated above, no share options had been granted by the Company to the other participants pursuant to the Share Option Scheme.

Save as disclosed above, no other share options were granted, exercised, cancelled or lapsed during the period.

Directors' interests and short positions

At 31 December 2005, the interests of the directors, chief executive and their respective associates in shares, underlying shares and debentures of the Company and its associated corporations (as defined in the Securities and Futures Ordinance (the "SFO")) as recorded in the register maintained by the Company under section 352 of the SFO were as follows:

Interests in shares and underlying shares of the Company

	Shares				Equity derivatives		
Name of director	Personal	Spouse or child under 18	Controlled corporation	Others	Share options (Note)	Aggregate interests	Percentage of aggregate interests to issued capital
Raymond Kwok Ping-luen	—	—	—	2,237,767	—	2,237,767	0.38%
Douglas Li	—	—	—	—	3,000,000	3,000,000	0.51%
Patrick Chan Kai-lung	—	—	—	—	1,103,500	1,103,500	0.19%

Note: Information of the share options is listed below:

Name of director	Date of grant	Exercise price $	Outstanding at 1 July 2005	Granted during the period	Exercised during the period	Cancelled/ Lapsed during the period	Outstanding at 31 December 2005
Douglas Li (Note 1)	10 February 2003	9.29	3,000,000	—	—	—	3,000,000
Patrick Chan Kai-lung (Notes 2 & 3)	10 February 2003	9.20	133,500	—	—	—	133,500
	5 February 2004	9.00	970,000	—	—	—	970,000

Notes:

1. The options are exercisable at $9.29 per share during the period from 10 February 2003 to 16 July 2011. The options, in the original number of 5,000,000, can be exercised up to 20% from 10 February 2003, up to 40% from 17 July 2003, up to 60% from 17 July 2004, up to 80% from 17 July 2005 and in whole from 17 July 2006.

2. The options are exercisable at $9.20 per share during the period from 2 May 2003 to 1 May 2012. The options, in the original number of 200,000, can be exercised up to one-third from 2 May 2003, up to two-thirds from 2 May 2004 and in whole from 2 May 2005.

3. The options are exercisable at $9.00 per share during the period from 5 February 2005 to 4 February 2014. The options can be exercised up to one-third from 5 February 2005, up to two-thirds from 5 February 2006 and in whole from 5 February 2007.

(Financial figures are expressed in Hong Kong dollars)

INTERESTS IN ASSOCIATED CORPORATIONS

1. Interests in shares and underlying shares of Sun Hung Kai Properties Limited

	Shares				Equity derivatives		
Name of director	Personal	Spouse or child under 18	Controlled corporation	Others (Note 1)	Share options (Note 2)	Aggregate interests	Percentage of aggregate interests to issued capital
Raymond Kwok Ping-luen	—	—	—	1,079,815,895	75,000	1,079,890,895	44.97%
Michael Wong Yick-kam	70,904	—	—	—	75,000	145,904	0.006%
Ernest Lai Ho-kai	—	—	—	—	36,000	36,000	0.001%
Eric Li Ka-cheung	—	—	18,000	—	—	18,000	0.0007%

Note 1: Of these shares, Messrs Walter Kwok Ping-sheung, Thomas Kwok Ping-kwong and Raymond Kwok Ping-luen were deemed to be interested in 1,056,638,347 shares, which represented the same interests for the purpose of the SFO.

Note 2: Information of the share options is listed below:

Name of director	Date of grant	Exercise price $	Outstanding at 1 July 2005	Granted during the period	Exercised during the period	Cancelled/ Lapsed during the period	Outstanding at 31 December 2005
Raymond Kwok Ping-luen	16 July 2001	70.00	75,000	—	—	—	75,000
Michael Wong Yick-kam	16 July 2001	70.00	75,000	—	—	—	75,000
Ernest Lai Ho-kai	16 July 2001	70.00	36,000	—	—	—	36,000

All options granted and accepted can be exercised up to one-third during the second year from the date of grant, up to two-thirds during the third year from the date of grant, and in whole or in part during the fourth and fifth years from the date of grant, thereafter, the relevant options will expire.

2. *Interests in shares and underlying shares of SUNeVision Holdings Ltd.*

Name of director	Shares: Personal	Shares: Spouse or child under 18	Shares: Controlled corporation	Shares: Others (Note 1)	Equity derivatives: Share options (Note 2)	Aggregate interests	Percentage of aggregate interests to issued capital
Raymond Kwok Ping-luen	—	—	—	1,742,500	233,333	1,975,833	0.09%
Michael Wong Yick-kam	100,000	—	—	—	120,000	220,000	0.01%
Andrew So Sing-tak	—	—	—	—	1,800,000	1,800,000	0.08%

Note 1: Of these shares, Messrs Walter Kwok Ping-sheung, Thomas Kwok Ping-kwong and Raymond Kwok Ping-luen were deemed to be interested in 1,070,000 shares, which represented the same interests for the purpose of the SFO.

Note 2: Information of the share options is listed below:

Name of director	Date of grant	Exercise price $	Outstanding at 1 July 2005	Granted during the period	Exercised during the period	Cancelled/ Lapsed during the period	Outstanding at 31 December 2005
Raymond Kwok	28 March 2000	10.38	251,666	—	—	(251,666)	—
Ping-luen	7 April 2001	2.34	233,333	—	—	—	233,333
Michael Wong	28 March 2000	10.38	120,000	—	—	(120,000)	—
Yick-kam	7 April 2001	2.34	120,000	—	—	—	120,000
Andrew So Sing-tak	8 July 2002	1.43	400,000	—	—	—	400,000
	29 November 2003	1.59	400,000	—	—	—	400,000
	10 November 2005	1.41	—	1,000,000	—	—	1,000,000

The above share options are exercisable in accordance with the terms of the relevant share option scheme and conditions of grant.

(Financial figures are expressed in Hong Kong dollars)

3. *Interests in shares of other associated corporations*

Mr Raymond Kwok Ping-luen had the following interests in the shares of the following associated corporations:

Name of associated corporation	Beneficial owner	Attributable holding through corporation (Note)	Attributable percentage of shares in issue through corporation	Actual holding through corporation	Actual percentage interests in issued shares
Superindo Company Limited	10	—	—	—	10%
Super Fly Company Limited	10	—	—	—	10%
Splendid Kai Limited	—	2,500	25%	1,500	15%
Hung Carom Company Limited	—	25	25%	15	15%
Tinyau Company Limited	—	1	50%	1	50%
Open Step Limited	—	8	80%	4	40%

Note: Messrs Walter Kwok Ping-sheung, Thomas Kwok Ping-kwong and Raymond Kwok Ping-luen were deemed to be interested in these shares, which represented the same interests for the purpose of the SFO. Those shares were held by corporations in which they were entitled to control the exercise of one-third or more of the voting rights in the general meetings of those corporations.

The interests of the directors and chief executive in the share options of the Company and its associated corporations are being regarded for the time being as unlisted physically settled equity derivatives. The details of the share options of the Company are stated under the Share Option Scheme section above.

Save as disclosed above, at 31 December 2005, none of the directors and chief executive (including their spouses and children under 18 years of age) and their respective associates had or deemed to have any interests or short positions in shares, underlying shares or debentures of the Company, its subsidiaries or any of its associated corporations that were required to be entered into the register kept by the Company pursuant to section 352 of the SFO or were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Part XV of the SFO or pursuant to the "Model Code for Securities Transactions by Directors of Listed Issuers" of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

Disclosable interests and short positions of shareholders under the SFO

At 31 December 2005, the following parties (other than the directors and chief executive of the Company) had interests of 5% or more in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO or as notified to the Company:

Name of shareholder	Note	Number of shares interested	Percentage of shares to issued share capital
Cellular 8 Holdings Limited ("Cellular 8")	1 & 2	294,879,472	50.60%
Sun Hung Kai Properties Limited ("SHKP")	1 & 2	309,047,397	53.03%
HSBC International Trustee Limited ("HSBC")	3	310,092,708	53.21%
Marathon Asset Management Limited		52,720,373	9.05%
Brandes Investment Partners, L.P.		43,287,480	7.43%

Notes:

1. For the purposes of the SFO, the interest of Cellular 8 in the 294,879,472 shares of the Company noted above against the name of Cellular 8 is also attributed to SHKP on the basis that SHKP controls one-third or more of Cellular 8. The number of shares noted above against the name of SHKP therefore duplicates the interest of Cellular 8.

2. For the purposes of the SFO, the same interest of Cellular 8 is also attributed to those subsidiaries of SHKP through which SHKP holds its interest in Cellular 8. These subsidiaries are TFS Development Company Limited and Fourseas Investments Limited.

3. For the purposes of the SFO, the interest of SHKP noted above against its name (and the interest of each of its subsidiaries noted above) is also attributed to HSBC by reference to the interest in shares which HSBC holds (or deemed to hold) in SHKP. The number of shares noted above against the name of HSBC therefore duplicates the interest of SHKP.

Save as disclosed above, no other parties had registered as having an interest of 5% or more in the shares or underlying shares of the Company or having short positions as recorded in the register kept under section 336 of the SFO.

Purchase, Sale or Redemption of Shares

At no time during the six months period ended 31 December 2005 was there any purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's shares.

Review of Interim Results by Audit Committee

The Audit Committee of the Company has been established since 1999 to provide advice and recommendations to the board. The Audit Committee is currently chaired by Mr Eric Li Ka-cheung, an independent non-executive director with professional accounting expertise, and the other members are Mr Ng Leung-sing, Mr Eric Gan Fock-kin and Mr Michael Wong Yick-kam, with the majority being independent non-executive directors of the Company. The Committee members possess appropriate business or financial expertise and experience to provide relevant advice and recommendations to the Company.

The written terms of reference which describe the authority and duties of the Audit Committee were adopted with reference to the Listing Rules and "A Guide for the Formation of an Audit Committee" published by Hong Kong Institute of Certified Public Accountants (formerly Hong Kong Society of Accountants).

The Audit Committee reviewed the relevant interim financial statements as well as the internal audit reports of the Group for the six months period ended 31 December 2005. The Committee was content that the accounting policies and methods of computation adopted by the Group are in accordance with the current best practice in Hong Kong. The Committee found no unusual items that were omitted from the financial statements and was satisfied with the disclosures of data and explanations shown in the financial statements. The Committee was also satisfied with the internal control measures adopted by the Group.

The interim financial statements for the six months ended 31 December 2005 have not been audited but have been reviewed by the Company's external auditors.

The financial information disclosed in this report complies with the disclosure requirements of Appendix 16 of the Listing Rules and has been reviewed by the Audit Committee and the auditors before being put forward to the directors for approval.

Corporate Governance

The Group is committed to building and maintaining high standards of corporate governance. Throughout the six months period ended 31 December 2005, the Group has complied with the requirements set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Listing Rules with the only deviation from code provision A.4.1 in respect of the service term of non-executive directors. Non-executive directors of the Company are not appointed with specific term but they are required to retire from office by rotation and are subject to re-election by shareholders at annual general meeting once every three years.

The board of directors will continue to monitor and review the Group's progress in respect of corporate governance practices to ensure compliance with the Code.

Composition of the Board of Directors

The board of directors, which currently comprises 12 directors, is responsible for supervising the management of the Group.

The presence of ten non-executive directors, of whom four are independent, is considered by the board to be a reasonable balance between executive and non-executive directors, and the board is of the opinion that such balance has and shall continue to provide adequate checks and balances for safeguarding the interests of shareholders and the Group. The non-executive directors provide the Group with a wide range of expertise and experience and play an important role in performing the duties of the board. They contribute significantly to the development of the Group's strategies and policies and are also responsible for resolving potential conflicts of interest in board meetings and serving on Audit, Nomination and Remuneration Committees.

Term of Appointment and Re-election

All directors, including the Chairman and the Chief Executive Officer, are required to retire from office by rotation and are subject to re-election by shareholders at annual general meeting once every three years.

Directors appointed to fill casual vacancy shall hold office only until the first general meeting after their appointment, and shall be subject to re-election by shareholders.

All directors must keep abreast of their collective responsibilities as directors and of the business and activities of the Group. As such, briefings are provided and organised to ensure that the newly appointed directors are familiar with the role of the board, their legal and other duties as a director as well as the business and corporate governance practices of the Group. The Company Secretary will continuously update all directors on latest developments regarding the Listing Rules and other applicable regulatory requirements to ensure compliance of the same by all directors.

Chairman and Chief Executive Officer

The Chairman of the Group is Mr Raymond Kwok Ping-luen and the Chief Executive Officer of the Group is Mr Douglas Li. The roles of Chairman and Chief Executive Officer are separate and not performed by the same individual to avoid power being concentrated in any one individual. The Chairman of the Group is primarily responsible for management of the board, whereas the Chief Executive Officer is primarily responsible for the day-to-day management of the Group. The division of responsibilities between the Chairman and the Chief Executive Officer is set out in writing.

(Financial figures are expressed in Hong Kong dollars)

Board Meetings

With effect from the financial year commencing 1 July 2005, the board of directors meets regularly at least four times every year. The directors participated in person or through electronic means of communication. At least 14 days notice of all board meetings were given to all directors, who were given an opportunity to include matters in the agenda for discussion. The finalised agenda and accompanying board papers were sent to all directors at least three days prior to the meeting.

During regular meetings of the board, the directors discuss and formulate the overall strategies of the Group, monitor financial performances and discuss the annual and interim results, set annual budgets, as well as discuss and decide on other significant matters. Execution of daily operational matters is delegated to management.

The Company Secretary records the proceedings of each board meeting in detail by keeping detailed minutes, including all decisions by the board together with concerns raised and dissenting views expressed (if any). All minutes are open for inspection at any reasonable time on request by any director. All directors have access to all other relevant and timely information at all times. If considered to be necessary and appropriate by the directors, they may retain independent professional advisors for assistance at the Group's expense.

Board Committees

Remuneration Committee

The establishment of Remuneration Committee was approved in September 2005. The chairman of the Committee is Mr Eric Li Ka-cheung, an independent non-executive director of the Company and other members include Mr Ng Leung-sing and Mr Andrew So Sing-tak, the majority being independent non-executive directors of the Company.

The Remuneration Committee is responsible for formulating and recommending to the board the remuneration policy, determining the remuneration of executive directors and members of senior management of the Group, as well as reviewing and making recommendations on the Company's share option scheme, bonus structure and other compensation-related issues. The Committee consults with the Chairman and/or the Chief Executive Officer on its proposals and recommendations, and also has access to professional advice if deemed necessary by the Committee. The Committee is also provided with other resources enabling it to discharge its duties. The specific terms of reference of the Remuneration Committee is posted on the Company's website.

Nomination Committee

The establishment of Nomination Committee was approved in September 2005. The chairman of the Committee is Mr Eric Gan Fock-kin, an independent non-executive director of the Company and other members include Mr Ng Leung-sing and Mr David Norman Prince, the majority being independent non-executive directors of the Company.

The Nomination Committee is responsible for formulating nomination policy, and making recommendations to the board on nomination and appointment of directors and board succession. The Committee will also review the size, structure and composition of the board. The Committee is provided with sufficient resources enabling it to discharge its duties. The specific terms of reference of the Nomination Committee is posted on the Company's website.

Audit Committee

The board is responsible for presenting a balanced, clear and comprehensible assessment of the Group's performance and prospects. The board is also responsible for preparing the accounts of the Company, which give a true and fair view of the financial position of the Group on a going concern basis, and other price-sensitive announcements and other financial disclosures. The Audit Committee is accountable to the board and assists the board in meeting its responsibilities for ensuring an effective system of internal control as well as compliance with the financial reporting obligations and corporate governance requirements.

The Audit Committee, established in 1999, is currently chaired by Mr Eric Li Ka-cheung, an independent non-executive director with professional accounting expertise, and the other members are Mr Ng Leung-sing, Mr Eric Gan Fock-kin and Mr Michael Wong Yick-kam, with the majority being independent non-executive directors of the Company.

The Audit Committee's primary duties include ensuring the Group's financial statements, annual and interim reports, and the auditors' report present a true and balanced assessment of the Group's financial position; reviewing the Group's financial control, internal control and risk management systems; reviewing the Group's financial and accounting policies and practices; and recommending the appointment and remuneration of external auditors. Other duties of the Audit Committee are set out in its specific terms of reference, which is posted on the Company's website. The Audit Committee is provided with sufficient resources enabling it to discharge its duties.

Internal Control

The board is responsible for maintaining sound and effective internal control systems for the Group to safeguard the Group's assets and shareholders' interests. The board will from time to time conduct review of the effectiveness of the Group's internal control systems through evaluation undertaken by the Audit Committee.

Compliance with Model Code for Securities Transactions by Directors

The Group adopted the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 of the Listing Rules as the code of conduct regarding directors' transactions in the securities of the Company. Similar code has also been adopted for relevant employees, who may be in possession of unpublished price-sensitive information, in dealing with the Company's securities. Upon the Group's specific enquiry, each director and relevant employee had confirmed that during the six months period ended 31 December 2005, they had fully complied with the required standard of securities transactions and there was no event of non-compliance.

OTHER INFORMATION

(Financial figures are expressed in Hong Kong dollars)

Investor Relations

To strengthen its relationship with investors, the Group meets regularly with the press and financial analysts and participates frequently in other conferences and presentations. The Company also communicates to its shareholders through announcements and annual and interim reports. All such reports and announcements can also be accessed via the Company's website. The directors, Company Secretary or other appropriate members of senior management also respond to inquiries from shareholders and investors promptly.

By order of the Board
Maria Li
Company Secretary

Hong Kong, 28 February 2006

As at the date of this report, Executive Directors of the Company are Mr Douglas Li and Mr Patrick Chan Kai-lung; Non-Executive Directors are Mr Raymond Kwok Ping-luen, Mr Michael Wong Yick-kam, Mr Ernest Lai Ho-kai, Mr Andrew So Sing-tak, Mr Cheung Wing-yui and Mr David Norman Prince; Independent Non-Executive Directors are Mr Eric Li Ka-cheung, JP, Mr Ng Leung-sing, JP, Mr Yang Xiang-dong and Mr Eric Gan Fock-kin.