Notes to the Financial Statements

For the year ended 30 June 2006
(Expressed in Hong Kong dollars)

1. General information

SmarTone Telecommunications Holdings Limited ("the Company") and its subsidiaries (together the "Group") is principally engaged in the provision of mobile services and the sale of mobile telephones and accessories in Hong Kong and Macau.

The Company is a limited liability company incorporated in Bermuda. The address of its head office and principal place of business is 31/F, Millennium City 2, 378 Kwun Tong Road, Kwun Tong, Hong Kong.

The Company has its primary listing on The Stock Exchange of Hong Kong Limited.

These consolidated financial statements are presented in thousands of units of HK dollars (HK$000), unless otherwise stated. These consolidated financial statements have been approved for issue by the board of directors on 28 August 2006.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

3 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, except for certain financial assets and financial liabilities which are carried at fair values.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4.

a The adoption of new/revised HKFRS

For the year ended 30 June 2006, the Group adopted the new/revised standards and interpretations of HKFRS below, which are relevant to its operations. The comparative figures for the year ended 30 June 2005 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

3 Basis of preparation *(continued)*

a The adoption of new/revised HKFRS *(continued)*

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 36	Impairment of Assets
HKAS 37	Provision, Contingent liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 (Amendment)	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKFRS 2	Share-based Payments

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 12, 14, 17, 18, 19, 21, 23, 24, 27, 28, 33, 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 interest, 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, 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 the consolidated financial instruments. Following the adoption of HKASs 32 and 39, the financial assets have been classified into loans and receivables, held-to-maturity debt securities and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Held-to-maturity debt securities are stated in the consolidated balance sheet at amortised cost. Interest income from held-to-maturity debt securities 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 consolidated balance sheet at amortised cost.

The adoption of HKAS 39 has also resulted in recognising rental deposits relating to cell sites, switch centres, stores and offices as financial assets at fair values. As a result, the difference between nominal and fair values of the deposits is treated as prepaid operating rental expenses. The prepayments are then amortised over the remaining lease terms of the respective cell sites, switch centres, stores and offices, while the rental deposits generate deemed interest income over the remaining lease terms.

3 Basis of preparation *(continued)*

a The adoption of new/revised 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 right to use telecommunication spectrum. This right represents a right to provide a service rather than a right to use an identifiable asset, and is therefore accounted as an intangible asset. 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 and be initially measured at its fair value. 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 consolidated profit and loss account after the commercial launch. Variable annual payments on top of the annual minimum payments, if any, are recognised in the consolidated 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 consolidated profit and loss account. Effective on 1 July 2005, the Group expenses the cost of share options in the consolidated 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 consolidated 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 comparative information of the year ended 30 June 2005. 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.

3 Basis of preparation *(continued)*

a The adoption of new/revised HKFRS *(continued)*

(i) The adoption of HKAS 16 resulted in:

	As at 30 June	
	2006	2005
	$000	$000
Increase in fixed assets	**15,574**	15,823
Increase in other assets	**3,982**	3,054
Increase in liabilities	**38,328**	33,264
Decrease in retained profits	**18,772**	14,387

	For the year ended 30 June	
	2006	2005
	$000	$000
Decrease in profit attributable to equity holders	**4,385**	3,177
Decrease in basic earnings per share ($)	**0.01**	0.01
Decrease in diluted earnings per share ($)	**0.01**	0.01

(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 debt securities at amortised cost using effective interest method instead of straight-line method from 1 July 2005.

	As at 30 June	
	2006	2005
	$000	$000
Increase in available-for-sale financial assets	**40,281**	—
Increase in held-to-maturity debt securities	**692,180**	—
Decrease in non-trading securities	**732,461**	—

3 Basis of preparation *(continued)*

a The adoption of new/revised HKFRS *(continued)*

(iii) The adoption of HKAS 39 resulted in:

	As at 30 June	
	2006	2005
	$000	$000
Increase in prepaid operating rental expenses – non-current assets (a)	**7,199**	—
Increase in rental deposits – non-current assets (a)	**37,097**	—
Increase in prepaid operating rental expenses – current assets (b)	**1,058**	—
Decrease in rental deposits – current assets (b)	**45,354**	—

a Classified under "Deposits and prepayments – non-current portion" in the consolidated balance sheet.

b Classified under "Deposits and prepayments – current portion" in the consolidated balance sheet.

(iv) The adoption of HKAS 38 resulted in:

	As at 30 June	
	2006	2005
	$000	$000
Increase in intangible assets	**585,808**	642,637
Decrease in fixed assets	**130,900**	146,462
Increase in liabilities	**523,591**	515,941
Decrease in retained profits	**68,683**	19,766

	For the year ended 30 June	
	2006	2005
	$000	$000
Decrease in profit attributable to equity holders	**48,917**	2,266
Decrease in basic earnings per share ($)	**0.08**	—
Decrease in diluted earnings per share ($)	**0.08**	—

3 Basis of preparation *(continued)*

a The adoption of new/revised HKFRS *(continued)*

(v) The adoption of HKFRS 2 resulted in:

	As at 30 June	
	2006	2005
	$000	$000
Increase in employee share-based compensation reserve	**14,864**	10,583
Decrease in retained profits	**14,864**	10,583

	For the year ended 30 June	
	2006	2005
	$000	$000
Decrease in profit attributable to equity holders	**4,281**	6,423
Decrease in basic earnings per share ($)	**0.01**	0.01
Decrease in diluted earnings per share ($)	**0.01**	0.01

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting policies beginning on or after 1 July 2006 or later periods but which the Group has not early adopted, as follows:

HKAS 1 (Amendment)	Presentation of Financial Statements – Capital Disclosures
HKAS 19 (Amendment)	Employees benefits – Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 and HKFRS 4 (Amendment)	Financial Guarantee Contracts
HKFRS 1 (Amendment)	First-time Adoption of Hong Kong Financial Reporting Standards
HKFRS 7	Financial Instruments: Disclosures
HKFRS-Int 4	Determining whether an Arrangement contains a Lease

3 Basis of preparation *(continued)*

b Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 30 June.

Subsidiaries are entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of an impairment of the assets transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account and any related accumulated foreign currency translation reserve.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's consolidated balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

c An associate

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost.

The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated profit and loss account, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's consolidated balance sheet the investment in an associate is stated at cost less provision for impairment losses. The results of the associate are accounted for by the Company on the basis of dividend received and receivable.

3 Basis of preparation *(continued)*

d Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

e Foreign currency translation

(i) 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"). The consolidated financial statements are presented in HK dollars, which is the Company's Functional Currency and presentation currency.

(ii) 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 consolidated profit and loss account.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security, and other changes in the carrying amount of the security. Translation differences are recognised in profit or loss, and other changes in carrying amount are recognised in equity.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the fair value reserve in equity.

(iii) 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 consolidated balance sheet presented are translated at the closing rate at the date of that balance sheet;

b. income and expenses for each consolidated 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 operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to equity attributable to equity holders of the Company. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the consolidated profit and loss account as part of the gain or loss on sale.

3 Basis of preparation *(continued)*

f Intangible assets

Intangible assets are stated in the consolidated balance sheet at cost less accumulated amortisation (where the estimated useful life is other than indefinite) and impairment losses as described in note 3 (i).

(i) Mobile licence fees

A mobile carrier licence, which is a right to establish and maintain a telecommunication network and to provide mobile services in Hong Kong, is recorded as an intangible asset. Upon the issue of the third generation licence ("3G Licence") and renewal of the Global System for Mobile communications licence ("GSM Licence"), the cost thereof, which is the discounted value of the minimum annual fees payable over the licence period of 15 years and directly attributable costs of preparing the asset for its intended use, is recorded together with the related obligations. Amortisation is provided on the straight-line basis over the remaining licence period from the date when the asset is ready for its intended use.

The difference between the discounted value and the total of the minimum annual fee payments represents the effective cost of financing and, accordingly, for the period prior to the asset being ready for its intended use, is capitalised as part of the intangible asset consistent with the policy for borrowing costs as set out in note 3 (o). Subsequent to the date when the asset is ready for its intended use, such finance costs will be charged to the consolidated profit and loss account in the year in which they are incurred.

Variable annual payments on top of the minimum annual payments, if any, are recognised in the consolidated profit and loss account as incurred.

(ii) Handset subsidies

Handset subsidies provided to customers are deferred and amortised on a straight-line basis over the minimum enforceable contractual periods. In the event that a customer terminates the contract prior to the end of the minimum enforceable contractual period, the unamortised handset subsidies will be written off.

g Fixed assets

Fixed assets are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the consolidated profit and loss account during the financial period in which they are incurred.

Depreciation of fixed assets is calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives. The principal annual rates are as follows:

Leasehold land and buildings	Over the lease term
Leasehold improvements	Over the lease term
Network and testing equipment	10% – 50%
Computer, billing and office telephone equipment	20% – 33$^1/_3$%
Other fixed assets	20% – 33$^1/_3$%

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

3 Basis of preparation *(continued)*

g Fixed assets *(continued)*

No depreciation is provided for any part of the network under construction, including the equipment therein.

Other fixed assets comprise motor vehicles, equipment, furniture and fixtures.

The assets' carrying values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 3 (i)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the consolidated profit and loss account.

h Leased assets

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

(i) Assets acquired under finance leases

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

Assets acquired under finance leases are depreciated over the shorter of their estimated useful lives and the lease periods. Impairment losses are accounted for in accordance with the accounting policy as set out in note 3 (i).

(ii) Operating lease charges

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

i Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

3 Basis of preparation *(continued)*

j Financial assets

From 1 July 2004 to 30 June 2005:

The Group classified its investments in securities, other than subsidiaries, and an associate, as non-trading securities and held-to-maturity debt securities.

(i) 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 consolidated profit and loss account. This impairment loss is written back to consolidated profit and loss account when the circumstances and events that led to the write-downs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(ii) Held-to-maturity debt securities

Debt securities which are intended to be held until maturity are stated in the consolidated 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 consolidated profit and loss account. Provision is made when there is a diminution in value other than temporary.

From 1 July 2005 onwards:

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

(i) 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 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 classified as "trade and other receivables" in the consolidated balance sheet (note 3 (l)).

(ii) Held-to-maturity debt securities

Held-to-maturity debt securities 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. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale financial assets. Held to maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the balance sheet date, which are classified as current assets.

3 Basis of preparation *(continued)*

j Financial assets *(continued)*

(iii) 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.

Regular 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 are subsequently carried at fair value. Loans and receivables and held-to-maturity debt securities are carried at amortised cost using the effective interest method.

Changes in the fair value of monetary securities denominated in a foreign currency and classifies as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences are recognised in consolidated profit or loss, and other changes in carrying amount are recognised in equity. Changes in the fair value of monetary securities classified as available-for-sale and 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 recognised in equity are included in the consolidated profit and loss account as "gains and losses from investment securities". Interest on available-for-sale securities calculated using the effective interest method is recognised in the consolidated profit and loss account. Dividends on available-for-sale equity instruments are recognised in the consolidated profit and loss account when the Group's right to receive payments is established.

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, making maximum use of market inputs and relying as little possible on entity-specific inputs.

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 an indicator that 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 consolidated profit and loss account – is removed from equity and recognised in the consolidated profit and loss account. Impairment losses recognised in the consolidated profit and loss account on equity instruments are not reversed through the consolidated profit and loss account. Impairment testing of trade receivables is described in note 3 (l).

3 Basis of preparation *(continued)*

k Inventories

Inventories, comprising handsets and accessories, are stated at the lower of cost and net realisable value. Cost is calculated on the weighted average basis. Net realisable value is the estimated selling price in the ordinary cause of business, less applicable variable selling expense.

l 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. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. 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 consolidated profit and loss account within "other operating expenses".

m Cash and cash equivalents

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

n 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.

o 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 consolidated 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.

3 Basis of preparation *(continued)*

p Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and an associate, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

q Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of a past events, it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliable estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

3 Basis of preparation *(continued)*

r Employee benefits

(i) Employee leave entitlements

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

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

(ii) Bonus plans

The Group recognises a liability and an expense for bonuses, based on a formula that takes into consideration the profit attributable to the equity holders of the Company after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(iii) Retirement benefits

The Group operates defined contribution retirement schemes (including the Mandatory Provident Funds) for its employees, the assets of which are generally held in separate trustee-administered funds. The Schemes are generally funded by payments from the relevant Group companies.

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

(iv) 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 consolidated profit and loss account with a corresponding adjustment to equity.

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.

3 Basis of preparation *(continued)*

s Contingent assets and liabilities

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

t Revenue recognition

Revenue comprises the fair value of the considerations received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of return, rebates and discounts and after eliminating sales within the Group.

Revenue is recognised in the consolidated profit and loss account as follows:

(i) Sale of goods
Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed and collectibility of the related receivables is reasonably assured.

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

(iii) Interest income
Interest income is 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.

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

u Dividend distribution

Dividend distribution to the equity holders of the Company is recognised as a liability in the financial statements of the Group in the period in which the dividends are approved by the equity holders of the Company.

3 Basis of preparation *(continued)*

v Related parties

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

w Comparative figures

The comparative figures presented in these financial statements have been adjusted for the impact of the adoption of the relevant new HKFRSs as set out in note 3 (a).

4 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. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

a Useful lives of fixed assets

The fixed assets 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. The useful lives are estimated at the time the purchases are made after considering the future technology changes, business developments and the Group's strategies. Should there be unexpected adverse changes in the circumstances or events, the Group assesses the need to shorten the useful lives and/or make impairment provisions. Indications of these unexpected adverse changes include declines in projected operating results, negative industry or economic trends and rapid advancement in technology.

b 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 Deferred income tax

The Group provides for deferred income tax in full, using the liability method, on temporary difference arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Tax rates enacted or substantially enacted by the balance sheet date are used to determine deferred income tax. Deferred income 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 income tax 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 Critical accounting estimates and judgements *(continued)*

d Impairment of assets

At each balance sheet date, the Group performs an impairment assessment of the following assets:

- fixed assets; and
- intangible assets

Management judgement is required in the area of asset impairment, particularly in assessing whether (1) an event has occurred that may affect asset values; (2) the carrying value of an asset can be supported by the net present value of future cash flows from the assets using estimated cash flow projections; and (3) the cash flow is discounted using an appropriate rate. Changing the assumptions selected by management to determine the level, if any, of impairment, including the discount rates or the growth rate assumption in the cash flows projections, could significantly affect the Group's reported financial condition and results of operations.

e Recognition of intangible asset – Mobile licence fees

In establishing the fair value of the minimum annual fee and royalty payments for the right of use of the Telecommunication Licence, the discount rate used is an indicative incremental borrowing rate estimated by the management.

Changing the discount rate used to determine the fair value could significantly affect the Group's reported financial condition and results of operations.

In order to measure the intangible assets, HKAS 39 "Financial Instruments: Recognition and Measurement" is applied for recognition of the minimum annual fee and royalty payments as they constitute contractual obligations to deliver cash and, hence, should be considered as financial liabilities.

5 Financial risk management

Exposure to credit and market risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

a Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has policies in place and exposures to these credit risks are monitored on an ongoing basis.

The average credit period granted by the Group is 30 days from the date of invoice. Sales of goods and services to customers are primarily made in cash or via major credit cards and the Group does not have a significant exposure to any individual debtors.

b Market risk

Market risks are primarily composed of foreign currency exposures derived from the Group's operations. The Group does not have any significant exposure to market risks.

c Fair value estimation

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. The carrying amounts of financial assets, trade receivables and payables are assumed to approximate their fair values.

6 Segment reporting

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

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:

	For the year ended 30 June 2006			
	Hong Kong	**Macau**	**Elimination**	**Consolidated**
	$000	**$000**	**$000**	**$000**
Revenues	**3,613,226**	**189,329**	**(23,340)**	**3,779,215**
Operating profit	**50,736**	**53,968**	**321**	**105,025**
Finance income				**56,287**
Finance costs				**(69,659)**
Profit before income tax				**91,653**
Income tax expense				**(7,768)**
Profit after income tax				**83,885**
Assets	**4,359,369**	**104,803**	**—**	**4,464,172**
Liabilities	**(1,567,959)**	**(20,124)**	**—**	**(1,588,083)**
Capital expenditures	**677,185**	**12,903**	**—**	**690,088**
Depreciation	**466,822**	**16,438**	**—**	**483,260**
Amortisation	**223,535**	**1,076**	**—**	**224,611**
Loss on disposal of fixed assets	**2,958**	**169**	**—**	**3,127**
Impairment loss of trade receivables	**12,637**	**275**	**—**	**12,912**
(Reversal of impairment loss)/impairment loss of inventories	**(8,097)**	**176**	**—**	**(7,921)**

6 Segment reporting *(continued)*

	For the year ended 30 June 2005 (restated)			
	Hong Kong	Macau	Elimination	Consolidated
	$000	$000	$000	$000
Revenues	3,482,886	161,854	(25,248)	3,619,492
Operating profit	299,767	41,912	325	342,004
Finance income				48,722
Finance costs				(39,806)
Profit before income tax				350,920
Income tax expense				(13,705)
Profit after income tax				337,215
Assets	3,948,124	71,739	—	4,019,863
Liabilities	(1,508,740)	(28,299)	—	(1,537,039)
Capital expenditures	744,463	27,737	—	772,200
Depreciation	435,341	15,371	—	450,712
Amortisation	62,882	1,210	—	64,092
Loss/(gain) on disposal of fixed assets	569	(118)	—	451
Impairment loss of trade receivables	13,913	698	—	14,611
Impairment loss of inventories	12,056	47	—	12,103

Segment assets consist primarily of fixed assets, intangible assets, inventories, receivables and operating cash. They exclude interest in an associate, financial investments and deferred income tax assets.

Segment liabilities comprise operating liabilities. They exclude items such as current income tax liabilities and deferred income tax liabilities.

Capital expenditures comprise additions to fixed assets and intangible assets and are allocated based on where the assets are located.

7 Other gains

	2006 $000	2005 $000
Write back of certain assets previously written off (a)	**14,045**	—
Write back of provision for amount due from an associate (note 20)	**—**	26,419
	14,045	26,419

a During the year, the Group recognised other gains amounting to $14,045,000 in respect of recovery of certain other assets which were written off in prior years.

8 Expenses by nature

	2006 $000	2005 $000 (restated)
Cost of inventories sold	**886,467**	955,215
Amortisation		
Handset subsidies	**166,209**	30,942
Mobile licence fees	**58,402**	33,150
Depreciation		
Owned fixed assets	**377,522**	325,223
Leased fixed assets	**105,738**	125,489
Operating lease rentals for land and buildings, transmission sites and leased lines	**510,305**	443,677
Auditors' remuneration	**1,632**	1,219
Loss on disposal of fixed assets	**3,127**	451
Net exchange loss/(gain)	**6,220**	(16)
Contributions to defined contribution plans * (note 14)	**17,328**	14,334

* *Net of forfeited contributions of $3,078,000 (2005: $4,250,000).*

9 Finance income

	2006 $000	2005 $000
Interest income from debt securities		
Listed	**7,637**	14,275
Unlisted	**16,795**	23,682
	24,432	37,957
Interest income from deposits with banks and other financial institutions	**29,261**	10,765
Accretion income	**2,594**	—
	56,287	48,722

Accretion income represented changes in the rental deposits due to passage of time calculated by applying an interest method of allocation to the amount of rental deposits at the beginning of the year.

10 Finance costs

	2006 $000	2005 $000 (restated)
Interest expense on bank loans repayable within five years	**—**	144
Accretion expenses		
Asset retirement obligations	**3,559**	3,161
Mobile licence fee liabilities (note 28)	**66,022**	36,153
Other borrowing costs	**78**	348
	69,659	39,806

Accretion expenses represented changes in the asset retirement obligations and mobile licence fee liabilities due to passage of time calculated by applying an interest method of allocation to the amount of the liabilities at the beginning of the year.

11 Income tax expense

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profit for the year. Income tax on overseas profits has been calculated on the estimated assessable profit for the year at the tax rates prevailing in the countries in which the Group operates.

a The amount of income tax expense charged to the consolidated profit and loss account represents:

	2006	2005
	$000	$000
		(restated)
Current income tax		
Hong Kong profits tax	**19,488**	2,114
Overseas tax	**5,369**	4,842
Deferred income tax (note 27)	**(17,089)**	6,749
	7,768	13,705

b Reconciliation between income tax expense and accounting profit at Hong Kong tax rate:

	2006	2005
	$000	$000
		(restated)
Profit before income tax	**91,653**	350,920
Notional tax on profit before income tax, calculated at Hong Kong tax rate of 17.5% (2005: 17.5%)	**16,039**	61,411
Effect of different tax rates in other countries	**(4,308)**	(1,037)
Expenses not deductible for tax purposes	**4,062**	2,933
Income not subject to tax	**(12,296)**	(13,101)
Tax losses for which no deferred income tax asset was recognised	**15**	65
Utilisation of previously unrecognised tax losses	**(8,469)**	(30,080)
Recognition of previously unrecognised tax losses	**(5,450)**	(8,311)
Temporary differences not recognised	**18,175**	1,825
Income tax expense	**7,768**	13,705

c Current income tax liabilities in the consolidated balance sheet:

	2006	2005
	$000	$000
Hong Kong profits tax	**19,705**	2,114
Overseas tax	**8,327**	4,842
	28,032	6,956

12 Directors' emoluments

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

	2006	2005
	$000	$000
Non-executive directors		
Fees	**1,292**	1,220
Executive directors		
Fees	**160**	160
Salaries and allowances	**9,762**	9,720
Bonuses	**3,980**	5,562
Retirement scheme contributions	**631**	627
	14,533	16,069
	15,825	17,289

During the years ended 30 June 2005 and 2006, no director:

— received any emoluments from Sun Hung Kai Properties Limited ("SHKP"), the ultimate holding company of the Company, in respect of their services to the Group;

— waived any right to receive emoluments; or

— received any amount as inducement to join the Group or as compensation for loss of office.

In addition to the above emoluments, directors were granted share options under the Company's share option scheme during the year ended 30 June 2005. The details of these benefits in kind are disclosed under the section "Share Option Schemes" in the Report of the Directors and note 30.

The emoluments of the directors are within the following bands:

	2006 Number of directors	2005 Number of directors
$0 – $1,000,000	**11**	10
$3,500,001 – $4,000,000	**1**	1
$10,500,001 – $11,000,000	**1**	—
$12,000,001 – $12,500,000	**—**	1
	13	12

12 Directors' emoluments *(continued)*

Details of director's and past director's emoluments, on a named basis for the year are as followings:

	2006					2005
	Fees	**Salaries and allowances**	**Bonuses**	**Retirement scheme contributions**	**Total**	Total
	$000	**$000**	**$000**	**$000**	**$000**	$000
Executive Directors						
Mr. Douglas Li	**80**	**6,900**	**3,440**	**345**	**10,765**	12,241
Mr. Patrick Chan Kai-lung	**80**	**2,862**	**540**	**286**	**3,768**	3,828
Non-Executive Directors						
Mr. Raymond Kwok Ping-luen	**100**	**—**	**—**	**—**	**100**	100
Mr. Ernest Lai Ho-kai	**80**	**—**	**—**	**—**	**80**	80
Mr. Michael Wong Yick-kam	**200**	**—**	**—**	**—**	**200**	200
Mr. Andrew So Sing-tak	**80**	**—**	**—**	**—**	**80**	80
Mr. Cheung Wing-yui	**80**	**—**	**—**	**—**	**80**	80
Mr. David Norman Prince (1)	**80**	**—**	**—**	**—**	**80**	—
Mr. Eric Li Ka-cheung, JP *	**200**	**—**	**—**	**—**	**200**	200
Mr. Ng Leung-sing, JP *	**200**	**—**	**—**	**—**	**200**	200
Dr. Sachio Semmoto * (2)	**86**	**—**	**—**	**—**	**86**	200
Mr. Yang Xiang-dong *	**80**	**—**	**—**	**—**	**80**	80
Mr. Eric Gan Fock-kin * (3)	**106**	**—**	**—**	**—**	**106**	—
	1,452	**9,762**	**3,980**	**631**	**15,825**	17,289
2005	1,380	9,720	5,562	627		

* *Independent Non-Executive Director*
(1) *Appointed on 1 July 2005*
(2) *Retired on 4 November 2005*
(3) *Appointed on 1 December 2005*

13 Five highest paid individuals

Of the five highest paid individuals, two (2005: two) are directors whose emoluments are disclosed in note 12. The aggregate of the emoluments in respect of the other three (2005: three) individuals are as follows:

	2006	2005
	$000	$000
Salaries and allowances	**6,661**	7,706
Bonuses	**746**	1,083
Retirement scheme contributions	**596**	633
	8,003	9,422

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

The emoluments of the three (2005: three) highest paid individuals are within the following bands:

	2006 Number of individuals	2005 Number of individuals
$2,000,001 – $2,500,000	**2**	1
$3,000,001 – $3,500,000	**—**	1
$3,500,001 – $4,000,000	**1**	1
	3	3

14 Employee retirement benefits

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

Contributions to the ORSO scheme by the Group and the employees are calculated as specified percentages of each employee's basic salary. Where employees leave the scheme prior to the full vesting of the employer's contributions, the amount of forfeited contributions is used to reduce the contributions payable by the Group. At 30 June 2005 and 2006, all available forfeited contributions had been utilised by the Group to reduce its contributions payable.

A MPF scheme was established under the Hong Kong Mandatory Provident Fund Scheme Ordinance in December 2000 and the Group's employees may elect to join the MPF scheme. Both the Group and the employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of $20,000. Contributions to the scheme vest immediately.

15 Profit attributable to equity holders of the Company

The consolidated profit attributable to equity holders of the Company includes a profit of $11,824,000 (2005: $7,393,000) which has been dealt with in the financial statements of the Company.

16 Dividends

	2006	2005
	$000	$000
Interim, paid, of nil (2005: $0.19) per share	**—**	110,730
Final, proposed, of $0.12 (2005: $0.20) per share	**69,935**	116,558
Attributable to the year	**69,935**	227,288

At a meeting held on 28 August 2006, the directors proposed a final dividend of $0.12 per share. This proposed dividend is not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained profits for the year ending 30 June 2007.

17 Earnings per share

The calculations of basic and diluted earnings per share are based on the Group's profit attributable to equity holders of $70,020,000 (2005 restated: $326,944,000).

The basic earnings per share is based on the weighted average number of shares in issue during the year of 582,791,428 (2005: 582,813,116). The diluted earnings per share is based on 582,889,237 (2005: 582,837,482) shares which is the weighted average number of shares in issue during the year plus the weighted average number of 97,809 (2005: 24,366) shares deemed to be issued at no consideration if all outstanding options had been exercised.

18 Fixed assets

	Medium term leasehold land and buildings in Hong Kong $000	Leasehold improvements $000	Network and testing equipment $000	Computer, billing and office telephone equipment $000	Other fixed assets $000	Network under construction $000	Total $000
At 1 July 2004							
Cost							
As previously reported	8,000	181,081	3,275,450	501,879	64,988	640,037	4,671,435
Prior year adjustment arising from adoption of new accounting standards (note 3 (a))	—	23,522	—	—	—	(134,702)	(111,180)
As restated	8,000	204,603	3,275,450	501,879	64,988	505,335	4,560,255
Accumulated depreciation as previously reported	(8,000)	(149,924)	(2,049,433)	(424,827)	(53,518)	(31,939)	(2,717,641)
Prior year adjustment arising from adoption of new accounting standards (note 3 (a))	—	(7,571)	—	—	—	—	(7,571)
As restated	(8,000)	(157,495)	(2,049,433)	(424,827)	(53,518)	(31,939)	(2,725,212)
Net book amount, as restated	—	47,108	1,226,017	77,052	11,470	473,396	1,835,043
Year ended 30 June 2005							
Opening net book amount, as restated	—	47,108	1,226,017	77,052	11,470	473,396	1,835,043
Exchange differences	—	(14)	—	(15)	(5)	—	(34)
Additions	—	25,632	16,420	27,822	14,759	592,759	677,392
Reclassifications	—	—	640,300	—	—	(640,300)	—
Disposals	—	(471)	(3,852)	(58)	(1,618)	(2,651)	(8,650)
Depreciation	—	(25,185)	(386,580)	(29,001)	(9,946)	—	(450,712)
Closing net book amount	—	47,070	1,492,305	75,800	14,660	423,204	2,053,039

18 Fixed assets *(continued)*

	Medium term leasehold land and buildings in Hong Kong $000	Leasehold improvements $000	Network and testing equipment $000	Computer, billing and office telephone equipment $000	Other fixed assets $000	Network under construction $000	Total $000
At 30 June 2005							
Cost							
As previously reported	—	185,436	4,028,106	514,903	63,388	423,204	5,215,037
Prior year adjustment arising from adoption of new accounting standards (note 3 (a))	—	24,381	(155,535)	—	—	—	(131,154)
As restated	—	209,817	3,872,571	514,903	63,388	423,204	5,083,883
Accumulated depreciation as previously reported	—	(154,189)	(2,389,339)	(439,103)	(48,728)	—	(3,031,359)
Prior year adjustment arising from adoption of new accounting standards (note 3 (a))	—	(8,558)	9,073	—	—	—	515
As restated	—	(162,747)	(2,380,266)	(439,103)	(48,728)	—	(3,030,844)
Net book amount, as restated	—	47,070	1,492,305	75,800	14,660	423,204	2,053,039
Year ended 30 June 2006							
Opening net book amount, as restated	—	47,070	1,492,305	75,800	14,660	423,204	2,053,039
Exchange differences	—	108	—	143	53	—	304
Additions	—	24,978	5,109	48,528	5,194	275,419	359,228
Reclassifications	—	—	482,285	—	—	(482,285)	—
Disposals	—	(692)	(3,296)	(219)	(352)	(688)	(5,247)
Depreciation	—	(31,175)	(409,181)	(33,784)	(9,120)	—	(483,260)
Closing net book amount	—	40,289	1,567,222	90,468	10,435	215,650	1,924,064
At 30 June 2006							
Cost	**—**	**224,431**	**4,317,822**	**558,012**	**62,207**	**215,650**	**5,378,122**
Accumulated depreciation	**—**	**(184,142)**	**(2,750,600)**	**(467,544)**	**(51,772)**	**—**	**(3,454,058)**
Net book amount	**—**	**40,289**	**1,567,222**	**90,468**	**10,435**	**215,650**	**1,924,064**

At 30 June 2006, the net book amount of fixed assets held by the Group under finance leases amounted to $285,301,000 (2005: $394,541,000).

19 Investments in subsidiaries

a Investment in subsidiaries

	2006	2005
	$000	$000
Unlisted shares, at cost	**939,189**	939,189

Particulars of the principal subsidiaries at 30 June 2006 are as follows:

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Group equity interest
SmarTone (BVI) Limited *	The British Virgin Islands ("BVI")	Investment holding and group financing in BVI	1,000 ordinary shares of US$1 each	100%
SmarTone Mobile Communications Limited	Hong Kong	Provision of mobile services and sales of mobile telephones and accessories in Hong Kong	100,000,000 ordinary shares of $1 each	100%
SmarTone 3G Limited	Hong Kong	Provision of 3G mobile services in Hong Kong	2 ordinary shares of $1 each	100%
SmarTone Telecommunications Services (China) Limited	Hong Kong	Provision of agency and consultancy services in Hong Kong and Mainland China	2 ordinary shares of $1 each	100%
SmarTone-Comunicações Móveis S.A.	Macau	Provision of mobile services and sales of mobile telephones and accessories in Macau	100,000 shares of MOP100 each	72%
廣州數碼通客戶服務有限公司	The People's Republic of China	Provision of customer support services and telemarketing services in Mainland China	Registered capital of $9,200,000	100%

* *Subsidiary held directly by the Company.*

All of the above subsidiaries are limited liability companies.

19 Investments in subsidiaries *(continued)*

b Amount due from a subsidiary

	2006	2005
	$000	$000
Amount due from a subsidiary	**2,906,707**	2,906,707

c Amount due to a subsidiary

	2006	2005
	$000	$000
Amount due to a subsidiary	**397,921**	300,204

Amounts due from/to subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

20 Interest in an associate

	2006	2005
	$000	$000
Share of net assets	**—**	—
Amount due from an associate, less provision	**1,812**	29,469
	1,812	29,469

	2006	2005
	$000	$000
At 1 July	**29,469**	3,050
Write back of provisions for amount due from an associate	**—**	26,419
Repayment of amount due from an associate	**(27,657)**	—
At 30 June	**1,812**	29,469

During the year ended 30 June 2005, following an assessment of the recoverability of the amount due from an associate, the Group reversed the provision for amount due from an associate by $26,419,000, which was credited to the consolidated profit and loss account of the Group as other gains (note 7).

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

20 Interest in an associate *(continued)*

Particulars of the associate at 30 June 2006 are as follows:

Name	Place of incorporation and operation	Principal activity	Particulars of issued shares held	Interest held
New Top Finance Limited	The British Virgin Islands	Investment holding	375 ordinary shares of US$1 each	37.5%

The Group has not disclosed the assets, liabilities, accumulated losses and the unrecognised losses of the associate as the amounts are immaterial to the Group.

21 Financial investments

	2006 $000	2005 $000
Investment securities (a)	**—**	49,013
Available-for-sale financial assets (b)	**40,281**	—
Held-to-maturity debt securities (c)	**692,180**	1,086,780
	732,461	1,135,793
Less: Held-to-maturity debt securities maturing within one year of the balance sheet date included under current assets	**(660,237)**	(390,895)
Total non-current financial investments	**72,224**	744,898

	Available-for-sale financial assets $000	Held-to-maturity debt securities $000	Total $000
Carrying value at 30 June 2006			
Listed outside Hong Kong	—	31,943	31,943
Unlisted, traded on inactive markets and of private issuers	40,281	660,237	700,518
	40,281	692,180	732,461

21 Financial investments *(continued)*

a Investment securities

	2006	2005
	$000	$000
At 1 July	**—**	47,744
Additions	**—**	7,800
Provisions for impairment recognised in the consolidated profit and loss account	**—**	(6,531)
At 30 June (i)	**—**	49,013

(i) After the adoption of HKAS 39 as at 1 July 2005, the balance of investment securities of approximately $49,013,000 was classified as available-for-sale financial assets of the same amount.

b Available-for-sale financial assets

	2006	2005
	$000	$000
At 1 July	**49,013**	—
Additions	**3,900**	—
Provisions for impairment recognised in the consolidated profit and loss account	**(12,632)**	—
At 30 June	**40,281**	—

21 Financial investments *(continued)*

c Held-to-maturity debt securities

	2006	2005
	$000	$000
At 1 July	**1,086,780**	1,569,634
Amortisation	**(9,483)**	(15,054)
Disposal	**(379,922)**	(467,800)
Exchange differences	**(5,195)**	—
At 30 June	**692,180**	1,086,780

During the years ended 30 June 2005 and 2006, no gain or loss arose on the disposal of certain listed held-to-maturity debt securities as follows:

	2006	2005
	$000	$000
Proceeds from maturity of securities	**379,922**	467,800
Carrying value at dates of redemption/maturity	**(379,922)**	(467,800)
Net realised gain on disposal	**—**	—

22 Intangible assets

	Handset subsidies $000	Mobile licence fees $000 (restated)	Total $000 (restated)
At 1 July 2004			
Cost			
As per previously reported	27,604	—	27,604
Prior year adjustment arising from adoption of new accounting standard (note 3 (a))	—	650,003	650,003
As restated	27,604	650,003	677,607
Accumulated amortisation	(14,613)	—	(14,613)
Net book amount, as restated	12,991	650,003	662,994

22 Intangible assets *(continued)*

	Handset subsidies $000	Mobile licence fees $000 (restated)	Total $000 (restated)
Year ended 30 June 2005			
Opening net book amount, as restated	12,991	650,003	662,994
Additions	69,024	25,784	94,808
Amortisation *	(30,942)	(33,150)	(64,092)
Closing net book amount	51,073	642,637	693,710
At 30 June 2005			
Cost			
As per previously reported	67,215	—	67,215
Prior year adjustment arising from adoption of new accounting standard (note 3 (a))	—	675,787	675,787
As restated	67,215	675,787	743,002
Accumulated amortisation			
As per previously reported	(16,142)	—	(16,142)
Prior year adjustment arising from adoption of new accounting standard (note 3 (a))	—	(33,150)	(33,150)
As restated	(16,142)	(33,150)	(49,292)
Net book amount, as restated	51,073	642,637	693,710
Year ended 30 June 2006			
Opening net book amount, as restated	51,073	642,637	693,710
Additions	283,598	47,262	330,860
Amortisation *	(166,209)	(58,402)	(224,611)
Closing net book amount	168,462	631,497	799,959
At 30 June 2006			
Cost	**345,571**	**723,049**	**1,068,620**
Accumulated amortisation	**(177,109)**	**(91,552)**	**(268,661)**
Net book amount	**168,462**	**631,497**	**799,959**

The carrying amounts of the intangible assets approximate their fair values.

* *Included handset subsidies written off of $4,156,000 (2005: $593,000).*

23 Inventories

	2006	2005
	$000	$000
Mobile telephones and accessories		
Cost	**86,882**	204,379
Less: provision for impairment of inventories	**(7,310)**	(15,279)
	79,572	189,100

Inventories represent goods held for re-sale. At 30 June 2006, inventories carried at cost and inventories carried at net realisable values amounted to $76,447,000 (2005: $187,917,000) and $3,125,000 (2005: $1,183,000) respectively.

The Group reversed $7,921,000 of impairment loss of inventories during the year ended 30 June 2006 (2005: recognised an impairment loss of $12,103,000). The amount reversed has been included in cost of inventories sold in the consolidated profit and loss account.

24 Trade and other receivables

	Group		Company	
	2006	2005	**2006**	2005
	$000	$000	**$000**	$000
Trade receivables	**166,136**	181,951	**—**	—
Less: provision for impairment of trade receivables	**(14,241)**	(13,835)	**—**	—
Trade receivables – net	**151,895**	168,116	**—**	–
Deposits and prepayments	**119,587**	117,158	**173**	87
Other receivables	**30,435**	33,528	**1,690**	3,493
	301,917	318,802	**1,863**	3,580
Less: deposits and prepayments – non-current portion	**(44,296)**	—	**—**	—
Current portion	**257,621**	318,802	**1,863**	3,580

24 Trade and other receivables *(continued)*

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

	2006	2005
	$000	$000
Current to 30 days	**138,200**	147,715
31 – 60 days	**10,769**	11,451
61 – 90 days	**2,547**	4,259
Over 90 days	**379**	4,691
	151,895	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 $12,912,000 (2005: $14,611,000) for the impairment of its trade receivables during the year ended 30 June 2006. The loss has been included in other operating expenses in the consolidated profit and loss account.

25 Cash and bank balances

	Group		Company	
	2006	2005	**2006**	2005
	$000	$000	**$000**	$000
Short-term pledged bank deposits (a)	**320,130**	327,539	**315,804**	323,213
Cash at bank and in hand	**54,632**	81,295	**4,153**	2,120
Short-term bank deposits	**983,898**	356,378	**—**	—
Cash and cash equivalents	**1,038,530**	437,673	**4,153**	2,120
	1,358,660	765,212	**319,957**	325,333

a Of the pledged bank deposits, $181,733,000 (2005: $170,910,000) has been pledged as cash collateral for the Group's 3G licence performance bonds as referred to in note 31 – "Commitments and contingent liabilities".

26 Trade and other payables

	Group		Company	
	2006	2005	**2006**	2005
	$000	$000	**$000**	$000
		(restated)		
Trade payables	**158,225**	137,317	**—**	—
Other payables and accruals	**663,530**	708,518	**1,540**	1,616
Current portion	**821,755**	845,835	**1,540**	1,616

An ageing analysis of trade payables is as follows:

	2006	2005
	$000	$000
Current to 30 days	**92,994**	95,906
31 – 60 days	**28,922**	21,075
61 – 90 days	**7,860**	3,276
Over 90 days	**28,449**	17,060
	158,225	137,317

27 Deferred income tax

Deferred income tax for the Group's temporary differences arising from operations in Hong Kong and overseas is calculated at 17.5% (2005: 17.5%) and the appropriate current tax rates of ruling in the relevant countries respectively.

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

	2006	2005
	$000	$000
		(restated)
Deferred income tax assets	**(5,450)**	(8,311)
Deferred income tax liabilities	**138,443**	158,393
	132,993	150,082

The gross movement on the deferred income tax liabilities/(assets) is as follows:

	Deferred income tax liabilities in relation to accelerated tax	Deferred income tax assets in relation to tax losses	Total
	$000	$000	$000
	(restated)		(restated)
At 1 July 2004	146,190	(2,857)	143,333
Recognised in the consolidated profit and loss account (note 11 (a))	12,203	(5,454)	6,749
At 30 June 2005	158,393	(8,311)	150,082
At 1 July 2005	158,393	(8,311)	150,082
Recognised in the consolidated profit and loss account (note 11 (a))	(19,950)	2,861	(17,089)
At 30 June 2006	**138,443**	**(5,450)**	**132,993**

Deferred income tax assets are recognised for tax loss carry forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable.

The Group has not recognised deferred income tax assets of $22,550,000 (2005: $35,860,000) in respect of tax losses of $128,859,000 (2005: $204,915,000). The tax losses do not expire under current tax legislation.

28 Mobile licence fee liabilities

	2006 $000	2005 $000
At 1 July	**561,940**	550,003
Additions	**47,262**	—
Accretion expenses		
Capitalised	**—**	25,784
Expensed in consolidated profit and loss account (note 10)	**66,022**	36,153
Payment	**(50,000)**	(50,000)
At 30 June	**625,224**	561,940
Less: mobile licence fee liabilities – current portion	**(52,407)**	(50,000)
Non-current portion	**572,817**	511,940

29 Share capital

	Shares of $0.1 each	$000
Authorised		
At 1 July 2004, 30 June 2005 and 30 June 2006	**1,000,000,000**	**100,000**
Issued and fully paid		
At 1 July 2004, 30 June 2005 and 30 June 2006	**582,791,428**	**58,279**

30 Employee share option schemes

Pursuant to the terms of the share option scheme adopted by the Company, the Company may grant options to the participants, including directors and employees of the Group, to subscribe for shares of the Company. A summary of the terms of the share option scheme is as follow.

a Movements in share options

	2006	2005
Number of share options		
At 1 July	**13,092,500**	12,590,500
Granted	**—**	579,000
Cancelled or lapsed	**(1,258,000)**	(77,000)
At 30 June	**11,834,500**	13,092,500
Share options vested at 30 June	**7,741,165**	4,260,166

(Expressed in Hong Kong dollars)

30 Employee share option schemes *(continued)*

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

Date of grant	Exercise period	Exercise price	**2006 Number of share options**	2005 Number of share options
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	**8,122,000**	9,380,000
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
			11,834,500	13,092,500

c Details of share options granted

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

Date of grant	Exercise period	Exercise price	**2006 Number of share options**	2005 Number of share options
6 December 2004	6 December 2005 to 5 December 2014	$8.01	**—**	193,000
4 January 2005	4 January 2006 to 3 January 2015	$8.70	**—**	193,000
1 March 2005	1 March 2006 to 28 February 2015	$9.05	**—**	193,000
			—	579,000

No share options were granted during the year ended 30 June 2006. The fair value of share options granted during the year ended 30 June 2005 is determined using the Black-Scholes valuation model and are disclosed in the directors' report headed "Share Option Scheme".

31 Commitments and contingent liabilities

a Capital commitments

Capital commitments outstanding at 30 June 2006 not provided for in the financial statements were as follows:

	Group	
	2006	2005
	$000	$000
Contracted for		
Fixed assets	**41,932**	31,790
Equity securities	**7,628**	11,700
Authorised but not contracted for	**563,275**	450,182
	612,835	493,672

The Company did not have any capital commitments at 30 June 2006 (2005: Nil).

b Operating lease commitments

The Group leases various retail outlets, offices, warehouses, transmission sites and leased lines under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

At 30 June 2006, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	Group	
	2006	2005
	$000	$000
Land and buildings and transmission sites		
Within one year	**310,143**	289,108
After one year but within five years	**257,311**	187,877
After five years	**35,264**	9,742
	602,718	486,727
Leased lines		
Within one year	**25,850**	36,870
After one year but within five years	**2,052**	3,102
	27,902	39,972

The Company did not have any operating lease commitments at 30 June 2006 (2005: Nil).

31 Commitments and contingent liabilities *(continued)*

c Performance bonds

	Group		Company	
	2006	2005	**2006**	2005
	$000	$000	**$000**	$000
Hong Kong 3G Licence	**351,243**	310,746	**351,243**	310,746
Other	**1,942**	1,942	**—**	—
	353,185	312,688	**351,243**	310,746

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

d 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.

e Bank facilities guarantees

At 30 June 2006, there were contingent liabilities in respect of guarantees given by the Company on behalf of a wholly owned subsidiary relating to uncommitted banking facility granted by certain banks of up to $100 million (2005: short term revolving credit facilities and uncommitted trade finance facility of $300 million). No amount was utilised by the subsidiary at 30 June 2005 and 2006.

32 Related party transactions

The Group is controlled by Cellular 8 Holdings Ltd, which owns 53% of the Company's shares. The remaining 47% of the shares are widely held. The ultimate parent of the Group is SHKP, a company incorporated in Hong Kong.

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

	2006	2005
	$000	$000
Operating lease rentals for land and buildings and transmission sites (i)		
Fellow subsidiaries	**56,276**	49,430
Insurance expense (ii)		
Fellow subsidiaries	**5,436**	8,096

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

Certain subsidiaries and associated companies of SHKP have leased premises to the Group for use as offices, retail shops and warehouses and have granted licences to the Group for the installation of base stations, antennae and telephone cables on certain premises owned by them.

For the year ended 30 June 2006, rental and licence fees paid and payable to subsidiaries and associated companies of SHKP totalled $56,276,000 (2005: $49,430,000).

(ii) Insurance expenses

Sun Hung Kai Properties Insurance Limited and Hung Kai Insurance Brokers Company Limited, wholly owned subsidiaries of SHKP, provide general insurance services to the Group. For the year ended 30 June 2006, insurance premiums paid and payable were $5,436,000 (2005: $8,096,000).

b At 30 June 2006, 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 up to 2 May 2006, has been appointed as the investment manager of the Group's ORSO scheme since October 1999. For the years ended 30 June 2005 and 2006, 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.

32 Related party transactions *(continued)*

d Key management compensation

	For the year ended 30 June	
	2006	2005
	$000	$000
Salaries and other short-term employee benefits	**22,536**	25,491
Share-based payments	**1,800**	3,029
	24,336	28,520

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:

	2006	2005
	$000	$000
Trade receivables (note 24)	**514**	631
Deposits and prepayments (note 24)	**3,942**	4,967
Trade payables (note 26)	**91**	168
Other payables and accruals (note 26)	**5,716**	3,361

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

33 Ultimate holding company

The directors consider the ultimate holding company at 30 June 2006 to be Sun Hung Kai Properties Limited, a company incorporated in Hong Kong with its shares listed on the main board of The Stock Exchange of Hong Kong Limited.