SmarTone Telecommunications Holdings Limited

(Stock Code: 315)

Interim Report 2006/2007

CONTENTS

CHAIRMAN'S STATEMENT

(Financial figures are expressed in Hong Kong dollars)

I am pleased to report the results of the Group for the six months ended 31 December 2006.

Financial Highlights

Revenues for the period increased to $2,102 million, representing a growth of 13%. Earnings before interest, tax, depreciation and amortisation ("EBITDA") grew by 10% to $437 million. Operating profit decreased by 20% to $48 million, reflecting the impact of higher handset subsidies. As compared to the previous six months, it stabilised and registered a modest growth of 5%. Profit attributable to equity holders was $44 million, an increase of 17% and 32% on the corresponding period last year and the preceding six months respectively. Earnings per share increased to 7.5 cents.

Dividend

Your Board is not declaring the payment of an interim dividend, same as last year. Payment of final dividend for the year ending 30 June 2007 will be based on the Group's existing dividend policy.

Business Review

Hong Kong Mobile Business

SmarTone-Vodafone focuses on the delivery of differentiated and compelling customer propositions for its target segments. With this strategy, the company has been able to improve customer profile, and has delivered consistent growth in service revenue and ARPU over the past few years.

Mobile service revenue continued to increase during the period, with growth in revenue from data services and outbound roaming outweighing the decline in revenue from local voice and inbound roaming. Growth in data service revenue was mainly attributable to the rising popularity of 3G services. Local voice revenue dropped due to fierce price competition in the market, while the reduction in inbound roaming revenue was driven by the global trend of lowering wholesale roaming tariffs.

Blended ARPU for the period increased by 6% to $222. Postpaid ARPU grew by 6% to $254. Our total customer number increased to 1,093,000 as of 31 December 2006. 3G customer base is expanding as more compelling service propositions and a wider choice of devices are made available to customers. It now amounts to 190,000 and represents over 24% of postpaid customers. Postpaid churn rate remained stable and was at 2.3% in December 2006.

During the period, the company successfully launched a range of new compelling services for its target customer segments. These include SmarTone-Vodafone Mobile Broadband, one of the world's fastest mobile broadband services, offering secured, seamless and true broadband connection on the go all over Hong Kong and while travelling overseas; *PLUS*, a mobile investment tool for personal investors to better manage their investments and profit more from the markets; and MultiTalk, a voice-based multiple-recipient messaging service for work and play as an alternative to SMS.

SmarTone-Vodafone continues to enhance its services and extend its leadership in the market. Enhancements to its popular news service include introducing two new mobile TV channels, namely the BBC World and the 24-hour Chinese TV news. This provides customers with the hottest international and local news around-the-clock, and further reinforces its leadership in English news coverage on mobile. Bet-to-win has been upgraded with the All Up Calculator for working out the best money-spinning combination of bets, enabling customers to place complicated wagers very easily. ishow™, a blogging service that supports posting of photos and videos on mobile and the Internet, was enriched with myworld™, which offers public and private sharing.

SmarTone-Vodafone has been leading the field in bringing the widest choice and the highest quality for mobile devices. During the period, the company further enriched its range of exclusive devices for different target customer segments, riding on its partnerships with Sharp, Toshiba and Vodafone. Existing line-up of exclusive devices comprises full-featured 2G and 3G handsets offering richer customer experience for multimedia services, as well as business handheld devices enabling executives and professionals to manage both their personal and business lives with ease. All of these devices complement SmarTone-Vodafone's compelling service propositions and widen its differentiation from competitors.

Macau Mobile Business

Continuing to capitalise on the improving economy, the Macau business achieved growth in service revenue and profits, reflecting the increased customer base.

Prospects

Through driving the advancement of mobile services and providing customers with an enhanced mobile experience, your Company is staying at the forefront of revolutionising the way consumers use mobile communications as part of their everyday lives. I am confident that your Company, as a communications leader, will continue to enhance value for shareholders by further expanding the boundaries of the mobile lifestyle through supporting an even richer variety of advanced multimedia services.

Appreciation

I would like to take this opportunity to express my gratitude to our customers and shareholders for their support, our directors for their guidance, and our staff for their efforts and contributions.

Raymond Kwok Ping-luen
Chairman

Hong Kong, 1 March 2007

MANAGEMENT DISCUSSION AND ANALYSIS

(Financial figures are expressed in Hong Kong dollars)

Review of financial results

Driven by growth in service revenue and higher handset and accessory sales, revenues for the six months ended 31 December 2006 grew by 13% to $2,102 million from $1,859 million in the first half of 2005/06. Operating profit, however, fell by 20% year-on-year to $48 million from $60 million in the first half of 2005/06 amidst increased operating expenses and handset subsidy amortisation. Finance income doubled year-on-year to $48 million as a result of improved cash flows and rising interest rates. Finance costs, comprising mainly of accretion expenses, rose to $38 million from $33 million in the first half of 2005/06 as the renewal of the GSM and PCS licences added to the mobile licence fee liabilities and the corresponding accretion expenses. Income tax expense remained stable at $6 million. Profit attributable to equity holders of the Company for the six months ended 31 December 2006 rose to $44 million from $37 million in the first half of 2005/06.

Revenues increased by 13% to $2,102 million, as mobile service revenue, and handset and accessory sales rose by 10% and 21% year-on-year respectively.

- Mobile service revenue grew by 10% to $1,553 million from $1,406 million in the first half of 2005/06, with growth in revenue from data service and outbound roaming outweighing the decline in revenue from local voice and inbound roaming. Growth in data service revenue was mainly attributable to the rising popularity of 3G services. Local voice revenue dropped due to fierce price competition in the market, while the reduction in inbound roaming revenue was driven by the global trend of lowering wholesale roaming tariffs.

  Hong Kong blended ARPU for the six months ended 31 December 2006 rose by $12 to $222 from $210 in the first half of 2005/06, reflecting a continued improvement in the quality of customers from both the business and consumer segments. Growth in data and roaming revenue contributed significantly to this increase.

  Hong Kong postpaid ARPU for the six months ended 31 December 2006 recorded a 6% growth to $254 from $240 in the first half of 2005/06 despite a highly competitive market with heavy tariff discounting.

  Data service continued to be a key source of revenue growth for the Group, achieving a strong 51% year-on-year increase. This growth attests to the Group's continued success in enhancing the customer proposition to its 3G customer base who increasingly appreciate the benefits of 3G services. Increased data roaming usage as well as continued growth in SmarTone-Vodafone Mobile Email customers also contributed to the growth in data service revenue.

- Handset and accessory sales for the six months ended 31 December 2006 increased by 21% to $549 million from $454 million in the first half of 2005/06 primarily due to higher sales volume.

Cost of goods sold and services provided rose by 15% year-on-year to $859 million. Cost of inventories sold increased by 20% to $539 million from $449 million in the first half of 2005/06 in line with higher sales revenue. Cost of services provided grew by 7% to $320 million from $300 million in the first half of 2005/06, driven by higher interconnect, IDD and data service costs resulted from increased usage.

Other operating expenses (excluding depreciation, amortisation and loss on disposal of fixed assets) rose by $91 million to $805 million from $714 million in the first half of 2005/06. Increased network operating costs for continuing enhancement of network capacity, quality and coverage, higher marketing and sales costs incurred for the promotion of new services and handsets, and rising rental and utilities costs for stores and office premises were the major contributors.

Depreciation and disposal loss remained stable at $244 million.

Handset subsidy amortisation increased significantly by $50 million to $114 million from $64 million in the first half of 2005/06 due to the significant amounts of handset subsidies offered for customer acquisition and retention.

Finance income increased by $24 million to $48 million from $24 million in the first half of 2005/06 due to higher average balance of bank deposits and debt securities, and improved returns thereon. Finance costs rose by $5 million to $38 million from $33 million in the first half 2005/06 due to higher accretion expenses for mobile licence fee liabilities upon the renewal of the GSM and PCS licences.

Macau operations continued to grow during the six months ended 31 December 2006. Mobile service revenue rose by 14% to $101 million from $89 million in the first half of 2005/06 due to continued expansion in customer number. Operating profit rose by $5 million to $33 million from $28 million in the first half of 2005/06 amidst strong revenue growth, but was partially offset by higher network, sales and marketing expenses.

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 2006. The Group was financed by share capital and internally generated funds during the period under review. The cash resources of the Group remain strong with cash and bank balances, and investments in held-to-maturity debt securities of $2,115 million at 31 December 2006.

During the six months ended 31 December 2006, the Group's net cash generated from operating activities and interest received amounted to $431 million and $47 million respectively. The Group's major outflows of funds during the period under review were payments for the purchase of fixed assets, handset subsidies, mobile licence fees and 2005/06 final dividend.

The directors are of the opinion that the Group can fund its capital expenditures and working capital requirements for the current financial year ending 30 June 2007 with internal cash resources.

(Financial figures are expressed in Hong Kong dollars)

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 three years. The Group's policy is to hold its investments in debt securities until maturity.

As at 31 December 2006, the Group's total available banking facilities amounted to $100 million. No amount of the facilities was utilised as at 31 December 2006.

From time to time, certain banks issue performance bonds and letters of credit on behalf of the Group. In certain circumstances, the Group will partially or fully collateralise such instruments by cash deposits to lower the issuance costs. The total amount of pledged deposits as at 31 December 2006 was $330 million (30 June 2006: $320 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 the Group's United States dollar bank deposits and debt securities, are denominated in Hong Kong dollars. The Group therefore does not have any significant exposure to foreign currency gains and losses other than from its United States dollar denominated bank deposits and debt securities. 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 2006 under these performance bonds was $404 million (30 June 2006: $353 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.

Employees and share option scheme

The Group had 1,666 full-time employees as at 31 December 2006, with the majority of them based in Hong Kong. Total staff costs were $189 million for the six months ended 31 December 2006 (first half of 2005/06: $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, 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 participants, including directors and employees, to subscribe for shares of the Company. No share options were granted or exercised, and 359,000 share options were cancelled during the six months ended 31 December 2006. At 31 December 2006, 11,475,500 share options were outstanding.

INDEPENDENT REVIEW REPORT

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 28.

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 condensed consolidated interim financial information 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 Standards 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.

Review conclusion

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 2006.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 1 March 2007

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 31 December 2006

(Expressed in Hong Kong dollars)

	Note	Unaudited six months ended 31 December 2006 $000	2005 $000
Mobile services		**1,552,893**	1,405,937
Mobile telephone and accessory sales		**548,632**	453,530
Revenues	4	**2,101,525**	1,859,467
Cost of goods sold and services provided	5	**(859,354)**	(748,970)
Gross profit		**1,242,171**	1,110,497
Network costs	5	**(313,342)**	(272,946)
Staff costs		**(188,610)**	(177,230)
Sales and marketing expenses		**(163,428)**	(132,892)
Rental and utilities	5	**(72,019)**	(59,880)
Other operating expenses	5	**(67,703)**	(71,384)
Depreciation, amortisation and loss on disposal	5	**(389,372)**	(336,487)
Operating profit		**47,697**	59,678
Finance income	6	**48,408**	24,057
Finance costs	7	**(37,955)**	(33,237)
Profit before income tax		**58,150**	50,498
Income tax expense	8	**(6,396)**	(6,293)
Profit after income tax		**51,754**	44,205
Attributable to:			
Equity holders of the Company		**43,525**	37,045
Minority interests		**8,229**	7,160
		51,754	44,205
Earnings per share for profit attributable to the equity holders of the Company during the period	10		
(expressed in cents per share)			
Basic		**7.5**	6.4
Diluted		**7.5**	6.4
Dividends	9		
In respect of the period		**—**	—
Attributable to prior years paid in the period		**69,935**	116,558

CONSOLIDATED BALANCE SHEET

As at 31 December 2006 and 30 June 2006

(Expressed in Hong Kong dollars)

	Note	Unaudited 31 December 2006 $000	Audited 30 June 2006 $000
Non-current assets			
Fixed assets	11	**1,812,480**	1,924,064
Interest in an associate		**1,812**	1,812
Financial investments	12	**60,567**	72,224
Intangible assets	13	**790,097**	799,959
Deposits and prepayments – non-current portion	14	**48,606**	44,296
Deferred income tax assets		**2,725**	5,450
		2,716,287	2,847,805
Current assets			
Inventories		**86,013**	79,572
Financial investments	12	**31,585**	660,237
Trade receivables	14	**191,501**	151,895
Deposits and prepayments – current portion	14	**77,309**	75,291
Other receivables	14	**26,862**	30,435
Cash and bank balances	15	**2,083,423**	1,358,660
		2,496,693	2,356,090
Current liabilities			
Trade payables	16	**120,398**	158,225
Other payables and accruals		**664,603**	663,530
Current income tax liabilities		**24,485**	28,032
Customers' deposits		**23,928**	26,342
Deferred income		**80,415**	76,434
Mobile licence fee liabilities – current portion		**55,771**	52,407
		969,600	1,004,970
Net current assets		**1,527,093**	1,351,120
Total assets less current liabilities		**4,243,380**	4,198,925
Non-current liabilities			
Asset retirement obligations		**40,541**	38,328
Mobile licence fee liabilities – non-current portion		**622,658**	572,817
Deferred income tax liabilities		**136,981**	138,443
Net assets		**3,443,200**	3,449,337
Capital and reserves			
Share capital	17	**58,188**	58,279
Reserves		**3,355,435**	3,367,263
Total equity attributable to equity holders of the Company		**3,413,623**	3,425,542
Minority interests		**29,577**	23,795
Total equity		**3,443,200**	3,449,337

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 31 December 2006

(Expressed in Hong Kong dollars)

	Note	Unaudited six months ended 31 December 2006 $000	2005 $000
Net cash generated from operating activities		430,586	470,056
Net cash generated from/(used in) investing activities		371,766	(480,999)
Net cash used in financing activities		(88,647)	(110,841)
Net increase/(decrease) in cash and cash equivalents		713,705	(121,784)
Effect of foreign exchange rate change		1,337	(212)
Cash and cash equivalents at 1 July		1,038,530	437,673
Cash and cash equivalents at 31 December		1,753,572	315,677
Analysis of balances of cash and cash equivalents			
Cash and bank balances	15	2,083,423	645,071
Less: short-term pledged bank deposits	15	(329,851)	(329,394)
		1,753,572	315,677

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2006

(Expressed in Hong Kong dollars)

	Unaudited								
	Attributable to equity holders of the Company							Minority interests	Total
	Share capital $000	Revaluation reserve $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	58,279	—	2,690	2,371,112	10,583	(3)	1,024,865	23,522	3,491,048
Currency translation differences	—	—	—	—	—	185	—	—	185
Employee share-based compensation	—	—	—	—	2,869	—	—	—	2,869
Payment of 2005 final dividend	—	—	—	—	—	—	(116,558)	—	(116,558)
Profit for the period	—	—	—	—	—	—	37,045	7,160	44,205
At 31 December 2005	58,279	—	2,690	2,371,112	13,452	182	945,352	30,682	3,421,749
At 1 July 2006	58,279	—	2,690	2,371,112	14,864	270	978,327	23,795	3,449,337
Currency translation differences	—	—	—	—	—	197	—	—	197
Cancellation of shares repurchased	(91)	—	91	(6,628)	—	—	(91)	—	(6,719)
Employee share-based compensation	—	—	—	—	727	—	—	—	727
Revaluation surplus of financial investments	—	20,286	—	—	—	—	—	—	20,286
Payment of 2006 interim dividend to a minority interest	—	—	—	—	—	—	—	(2,447)	(2,447)
Payment of 2006 final dividend	—	—	—	—	—	—	(69,935)	—	(69,935)
Profit for the period	—	—	—	—	—	—	43,525	8,229	51,754
At 31 December 2006	**58,188**	**20,286**	**2,781**	**2,364,484**	**15,591**	**467**	**951,826**	**29,577**	**3,443,200**

1 General information

SmarTone Telecommunications Holdings Limited (the "Company") and its subsidiaries (together, the "Group") are 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 (the "HKSE").

These unaudited condensed consolidated interim financial statements ("Interim Financial Statements") are presented in thousands of units of HK dollars ($000), unless otherwise stated. These Interim Financial Statements have been approved for issue by the board of directors on 1 March 2007.

2 Basis of preparation

These Interim Financial Statements for the six months ended 31 December 2006 have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting". These Interim Financial Statements should be read in conjunction with the annual financial statements for the year ended 30 June 2006.

3 Accounting Policies

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 30 June 2006, as described in the annual financial statements for the year ended 30 June 2006.

The following new standards, amendments to standards and interpretations are mandatory for the financial year ending 30 June 2007.

HKAS 21 (Amendment)	The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation [1]
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions[1] and The Fair Value Option [1]
HKAS 39 & HKFRS 4 (Amendment)	Financial Guarantee Contracts [1]
HKFRS - INT 4	Determining whether an Arrangement contains a Lease [1]
HK (IFRIC) - INT 8	Scope of HKFRS 2 [2]
HK (IFRIC) - INT 9	Reassessment of Embedded Derivatives [3]

[1] Effective for annual periods beginning on or after 1 January 2006.
[2] Effective for annual periods beginning on or after 1 May 2006.
[3] Effective for annual periods beginning on or after 1 June 2006.

3 Accounting Policies *(continued)*

The above mentioned new standards, amendments to standards and interpretations did not result in substantial changes to the Group's accounting policies.

The following new standards, amendments to standards and interpretations have been issued but are not effective for the financial year ending 30 June 2007 and have not been early adopted.

HKAS 1 (Amendment)	Presentation of Financial Statements – Capital Disclosures [1]
HKFRS 7	Financial Instruments – Disclosures [1]
HK (IFRIC) - INT 10	Interim Financial Reporting and Impairment [2]

[1] Effective for annual periods beginning on or after 1 January 2007.
[2] Effective for annual periods beginning on or after 1 November 2006.

4 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 Interim 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:

	Six months ended 31 December 2006			
	Hong Kong $000	Macau $000	Elimination $000	Consolidated $000
Revenues	2,011,095	103,211	(12,781)	2,101,525
Operating profit	14,900	32,636	161	47,697
Finance income				48,408
Finance costs				(37,955)
Profit before income tax				58,150
Income tax expense				(6,396)
Profit after income tax				51,754

4 Segment reporting *(continued)*

	Six months ended 31 December 2005			
	Hong Kong	Macau	Elimination	Consolidated
	$000	$000	$000	$000
Revenues	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 income tax				50,498
Income tax expense				(6,293)
Profit after income tax				44,205

5 Expenses by nature

	Six months ended 31 December	
	2006	2005
	$000	$000
Cost of inventories sold	**538,965**	449,125
Depreciation		
Owned fixed assets	**199,357**	184,888
Leased fixed assets	**43,588**	57,040
Amortisation		
Handset subsidies	**113,846**	63,958
Mobile licence fees	**31,091**	28,414
Operating lease rentals for land and buildings, transmission sites and leased lines	**272,895**	244,984
Provision for impairment of inventories	**900**	2,296
Loss on disposal of fixed assets	**1,490**	2,187
Net exchange (gain)/loss	**(650)**	7,366

6 Finance income

	Six months ended 31 December 2006 $000	2005 $000
Interest income from debt securities		
Listed	**677**	4,086
Unlisted	**1,501**	8,628
	2,178	12,714
Interest income from deposits with banks and other financial institutions	**44,903**	11,343
Accretion income	**1,327**	—
	48,408	24,057

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 period.

7 Finance costs

	Six months ended 31 December 2006 $000	2005 $000
Accretion expenses		
Mobile licence fee liabilities	**37,153**	31,323
Asset retirement obligations	**801**	1,838
Other borrowing costs	**1**	76
	37,955	33,237

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

8 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 period. Income tax on overseas profits has been calculated on the estimated assessable profit for the period at the tax rates prevailing in the countries in which the Group operates.

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

	Six months ended 31 December	
	2006	2005
	$000	$000
Current income tax		
Hong Kong profits tax	**1,263**	3,696
Overseas tax	**3,870**	2,190
Deferred income tax	**1,263**	407
	6,396	6,293

9 Dividends

	Six months ended 31 December	
	2006	2005
	$000	$000
In respect of the period		
Interim declared/paid, of nil per share (2005: nil per share)	—	—
Attributable to prior years paid in the period		
Final of $0.12 per share (2005: $0.20 per share)	**69,935**	116,558
	69,935	116,558

At a meeting held on 28 August 2006, the directors declared a final dividend of $0.12 per share for the year ended 30 June 2006, which was paid on 15 November 2006 and has been reflected as an appropriation of retained profits for the six months ended 31 December 2006.

10 Earnings per share

The calculations of basic and diluted earnings per share are based on the Group's profit attributable to equity holders of $43,525,000 (2005: $37,045,000).

The basic earnings per share is based on the weighted average number of shares in issue during the period of 582,715,303 (2005: 582,791,428). The diluted earnings per share is based on 582,715,425 (2005: 582,853,905) shares which is the weighted average number of shares in issue during the period plus the weighted average number of 122 (2005: 62,477) shares deemed to be issued at no consideration if all outstanding options had been exercised.

11 Fixed assets

	$000
Opening net book amount at 1 July 2006	1,924,064
Additions	133,013
Disposals	(1,847)
Exchange differences	195
Depreciation	(242,945)
Closing net book amount at 31 December 2006	**1,812,480**
Opening net book amount at 1 July 2005	2,053,039
Additions	138,839
Disposals	(2,572)
Exchange differences	209
Depreciation	(241,928)
Closing net book amount at 31 December 2005	1,947,587
Additions	220,389
Disposals	(2,675)
Exchange differences	95
Depreciation	(241,332)
Closing net book amount at 30 June 2006	1,924,064

At 31 December 2006, the net book amount of fixed assets held by the Group under finance leases amounted to $240,378,000 (30 June 2006: $285,301,000).

12 Financial investments

	31 December 2006 $000	30 June 2006 $000
Available-for-sale financial assets	60,567	40,281
Held-to-maturity debt securities	31,585	692,180
	92,152	732,461
Less: held-to-maturity debt securities maturing within one year of the balance sheet date included under current assets	(31,585)	(660,237)
Total non-current financial investments	60,567	72,224

	Available-for-sale financial assets $000	Held-to-maturity debt securities $000	Total $000
Carrying value at 31 December 2006			
Listed outside Hong Kong	—	31,585	31,585
Unlisted, traded on inactive markets and of private issuers	60,567	—	60,567
	60,567	31,585	92,152

12 Financial investments *(continued)*

		$000
a	Available-for-sale financial assets	
	At 1 July 2006	40,281
	Revaluation surplus	20,286
	At 31 December 2006	**60,567**

		$000
b	Held-to-maturity debt securities	
	At 1 July 2006	692,180
	Amortisation	(402)
	Disposal	(660,238)
	Exchange differences	45
	At 31 December 2006	**31,585**

During the six months ended 31 December 2005 and 2006, no gain or loss arose on the disposal of held-to-maturity debt securities.

13 Intangible assets

	Handset subsidies $000	Mobile licence fees $000	Total $000
Opening net book amount at 1 July 2006	168,462	631,497	799,959
Additions	69,023	66,052	135,075
Amortisation	(113,846)	(31,091)	(144,937)
Closing net book amount at 31 December 2006	**123,639**	**666,458**	**790,097**
Opening net book amount 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 amount at 31 December 2005	175,372	614,223	789,595
Additions	95,341	47,262	142,603
Amortisation	(102,251)	(29,988)	(132,239)
Closing net book amount at 30 June 2006	168,462	631,497	799,959

14 Trade and other receivables

	31 December 2006 $000	30 June 2006 $000
Trade receivables	**207,497**	166,136
Less: provision for impairment of trade receivables	**(15,996)**	(14,241)
Trade receivables – net	**191,501**	151,895
Deposits and prepayments	**125,915**	119,587
Other receivables	**26,862**	30,435
	344,278	301,917
Less: deposits and prepayments – non-current portion	**(48,606)**	(44,296)
Current portion	**295,672**	257,621

14 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:

	31 December 2006 $000	30 June 2006 $000
Current to 30 days	171,492	138,200
31 - 60 days	16,003	10,769
61 - 90 days	2,129	2,547
Over 90 days	1,877	379
	191,501	151,895

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 $7,466,000 (2005: $6,646,000) for the impairment of its trade receivables during the six months ended 31 December 2006. The loss has been included in other operating expenses in the consolidated profit and loss account.

15 CASH AND BANK BALANCES

	31 December 2006 $000	30 June 2006 $000
Short-term pledged bank deposits (a)	329,851	320,130
Cash at bank and in hand	107,440	54,632
Short-term bank deposits	1,646,132	983,898
Cash and cash equivalents	1,753,572	1,038,530
	2,083,423	1,358,660

a Of the pledged bank deposits, $200,933,000 (30 June 2006: $181,733,000) has been pledged as cash collateral for the Group's 3G Licence performance bond as referred to in note 19 – "Commitments and contingent liabilities".

16 Trade payables

An ageing analysis of trade payables is as follows:

	31 December 2006 $000	30 June 2006 $000
Current to 30 days	**52,364**	92,994
31 - 60 days	**46,232**	28,922
61 - 90 days	**6,866**	7,860
Over 90 days	**14,936**	28,449
	120,398	158,225

17 Share capital

	Shares of $0.10 each	$000
Authorised:		
At 1 July 2006 and 31 December 2006	1,000,000,000	100,000
Issued and fully paid:		
At 1 July 2006	582,791,428	58,279
Repurchases of shares (a)	(913,500)	(91)
At 31 December 2006	**581,877,928**	**58,188**

a During the six months ended 31 December 2006, the Company repurchased 913,500 shares on the HKSE. These repurchased shares were cancelled prior to 31 December 2006. The total amount paid to acquire these shares of $6,719,000 was deducted from shareholders' equity.

Details of these repurchases are as follows:

Month of repurchase	Number of shares repurchased	Price per share Highest	Price per share Lowest	Aggregate price paid $000
November 2006	847,500	$7.45	$7.22	6,224
December 2006	66,000	$7.50	$7.50	495
	913,500			6,719

(Expressed in Hong Kong dollars)

18 Employee share option scheme

Movements of the share options granted to the participants pursuant to the Company's share option scheme during the six months ended 31 December 2006 are as follows:

			Number of options				
Date granted	Exercise period	Exercise price per share $	Outstanding at 1 July 2006	Granted during the period	Exercised during the period	Cancelled/ Lapsed during the period	Outstanding at 31 December 2006
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	—	—	(359,000)	7,763,000
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	—	—	(359,000)	11,475,500

19 Commitments and contingent liabilities

a Capital commitments

Capital commitments outstanding at 31 December 2006 not provided for in the Interim Financial Statements were as follows:

	31 December 2006 $000	30 June 2006 $000
Contracted for		
Fixed assets	**64,223**	41,932
Equity securities	**5,484**	7,628
Authorised but not contracted for	**373,190**	563,275
	442,897	612,835

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 31 December 2006, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	31 December 2006 $000	30 June 2006 $000
Land and buildings and transmission sites		
Within one year	**331,792**	310,143
After one year but within five years	**243,736**	257,311
After five years	**29,528**	35,264
	605,056	602,718
Leased lines		
Within one year	**31,614**	25,850
After one year but within five years	**3,820**	2,052
After five years	**2,438**	—
	37,872	27,902

19 COMMITMENTS AND CONTINGENT LIABILITIES *(continued)*

c Performance bonds

	31 December 2006 $000	30 June 2006 $000
Hong Kong 3G Licence	**401,865**	351,243
Other	**1,942**	1,942
	403,807	353,185

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 2006, the fifth anniversary of the issue of the 3G Licence and subsequent to the payment of the fifth year spectrum utilisation fee of $50 million, the performance bond was revised. The revised bond was for $402 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.

20 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 Sun Hung Kai Properties Limited ("SHKP"), a company incorporated in Hong Kong.

a During the six months ended 31 December 2006, 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.

	Six months ended 31 December	
	2006	2005
	$000	$000
Operating lease rentals for land and buildings and transmission sites (i)		
Fellow subsidiaries	**32,496**	26,009
Insurance expenses (ii)		
Fellow subsidiaries	**2,199**	2,635

(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 six months ended 31 December 2006, rental and licence fees paid and payable to subsidiaries and associated companies of SHKP totalled $32,496,000 (2005: $26,009,000).

(ii) Insurance expenses
Sun Hung Kai Properties Insurance Limited, a wholly-owned subsidiary of SHKP, provides general insurance services to the Group. For the six months ended 31 December 2006, insurance premiums paid and payable were $2,199,000 (2005: $2,635,000).

b At 31 December 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.

20 Related party transactions *(continued)*

c Key management compensation

	Six months ended 31 December 2006 $000	2005 $000
Salaries and other short-term employee benefits	**11,890**	14,710
Share-based payments	**309**	1,100
	12,199	15,810

d The trading balances set out below with SHKP and its subsidiaries (the "SHKP Group") (including buildings and estates managed by the SHKP Group) are included within the relevant balance sheet items:

	31 December 2006 $000	30 June 2006 $000
Trade receivables (note 14)	**805**	514
Deposits and prepayments (note 14)	**6,877**	3,942
Trade payables (note 16)	**56**	91
Other payables and accruals	**1,813**	5,716

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

(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 2006 (2005: Nil).

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 2006 are as follows:

Grantee	Date of grant	Exercise price $	Exercise period	Outstanding at 1 July 2006	Granted during the period	Exercised during the period	Cancelled/ Lapsed during the period	Outstanding at 31 December 2006
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	7,152,000	—	—	(359,000)	6,793,000
	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.

(Financial figures are expressed in Hong Kong dollars)

DIRECTORS' INTERESTS AND SHORT POSITIONS

At 31 December 2006, 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	0.52%
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 2006	Granted during the period	Exercised during the period	Cancelled/ Lapsed during the period	Outstanding at 31 December 2006
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.

Interests in associated corporations

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

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	75,000	—	—	1,082,165,895	—	1,082,240,895	43.43%
Michael Wong Yick-kam	145,904	—	—	—	—	145,904	0.006%
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 1,058,988,347 shares by virtue of being beneficiaries of certain discretionary trusts, which represented the same and duplicated 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 2006	Granted during the period	Exercised during the period	Cancelled/ Lapsed during the period	Outstanding at 31 December 2006
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)	—	—

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.

(Financial figures are expressed in Hong Kong dollars)

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

	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	—	—	—	1,742,500	116,666	1,859,166	0.09%
Michael Wong Yick-kam	100,000	—	—	—	60,000	160,000	0.008%
Andrew So Sing-tak	326,667	—	—	—	133,333	460,000	0.02%

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 by virtue of being beneficiaries of certain discretionary trusts, which represented the same and duplicated 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 2006	Granted during the period	Exercised during the period	Cancelled/ Lapsed during the period	Outstanding at 31 December 2006
Raymond Kwok Ping-luen	7 April 2001	2.34	166,666	—	—	—	166,666
Michael Wong Yick-kam	7 April 2001	2.34	60,000	—	—	—	60,000
Andrew So Sing-tak	8 July 2002	1.43	400,000	—	(266,667)	(133,333)	—
	29 November 2003	1.59	400,000	—	(266,667)	—	133,333
	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.

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 of interests to issued shares
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 and duplicated interests for the purpose of the SFO. These 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. Details of the share options of the Company are stated under the section headed Share Option Scheme above.

Save as disclosed above, at 31 December 2006, 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 "HKSE") pursuant to Part XV of the SFO or pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

(Financial figures are expressed in Hong Kong dollars)

Disclosable interests and short positions of shareholders under the SFO

At 31 December 2006, 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	306,439,472	52.66%
Sun Hung Kai Properties Limited ("SHKP")	1 & 2	320,607,397	55.10%
HSBC International Trustee Limited ("HSBC")	3	321,599,708	55.27%
Marathon Asset Management Limited		49,328,840	8.48%
Brandes Investment Partners, L.P.		47,367,330	8.14%
Templeton Asset Management Limited		29,214,500	5.02%

Notes:

1. For the purposes of the SFO, the interest of Cellular 8 in the 306,439,472 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. Those 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

During the six months ended 31 December 2006, the Company repurchased 913,500 shares on the HKSE. These repurchased shares were cancelled. Please refer to note 17 of the notes to the interim financial statements for details of the repurchases.

The aggregate price of the repurchased shares (before expenses) in the amount of $6,719,000 has been charged against the retained profits and contributed surplus accounts. A sum equivalent to the nominal value of the repurchased shares amounting to $91,000 has been transferred from retained profits to capital redemption reserve.

Save as disclosed above, at no time during the six months period ended 31 December 2006 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 Audit Committee held a meeting on 9 February 2007 and reviewed the relevant interim financial statements as well as the internal audit reports of the Group for the six months period ended 31 December 2006. 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 2006 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.

OTHER INFORMATION

(Financial figures are expressed in Hong Kong dollars)

Corporate Governance

The Company is committed to building and maintaining high standards of corporate governance. Throughout the six months period ended 31 December 2006, the Company has applied the principles and complied with the requirements set out in the Code on Corporate Governance Practices (the "CG 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 all directors are required to retire from office by rotation and are subject to re-election by shareholders at annual general meeting once every three years in accordance with the Company's bye-laws. As such, no director has a term of appointment longer than three years.

The directors will continue to monitor and review the Company's corporate governance practices to ensure compliance with the CG Code.

Compliance with Model Code for Securities Transactions by Directors

The Group adopted the Model Code contained in Appendix 10 of the Listing Rules as the code of conduct regarding directors' transactions in the securities of the Company. Similar code had also been adopted for relevant employees, who may be in possession of unpublished price-sensitive information, in dealing with the Company's securities. Upon specific enquiry, each director had confirmed that during the six months period ended 31 December 2006, they had fully complied with the required standard set out in the Model Code regarding securities transactions and there was no event of non-compliance.

By order of the Board
Maria Li
Company Secretary

Hong Kong, 1 March 2007

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.