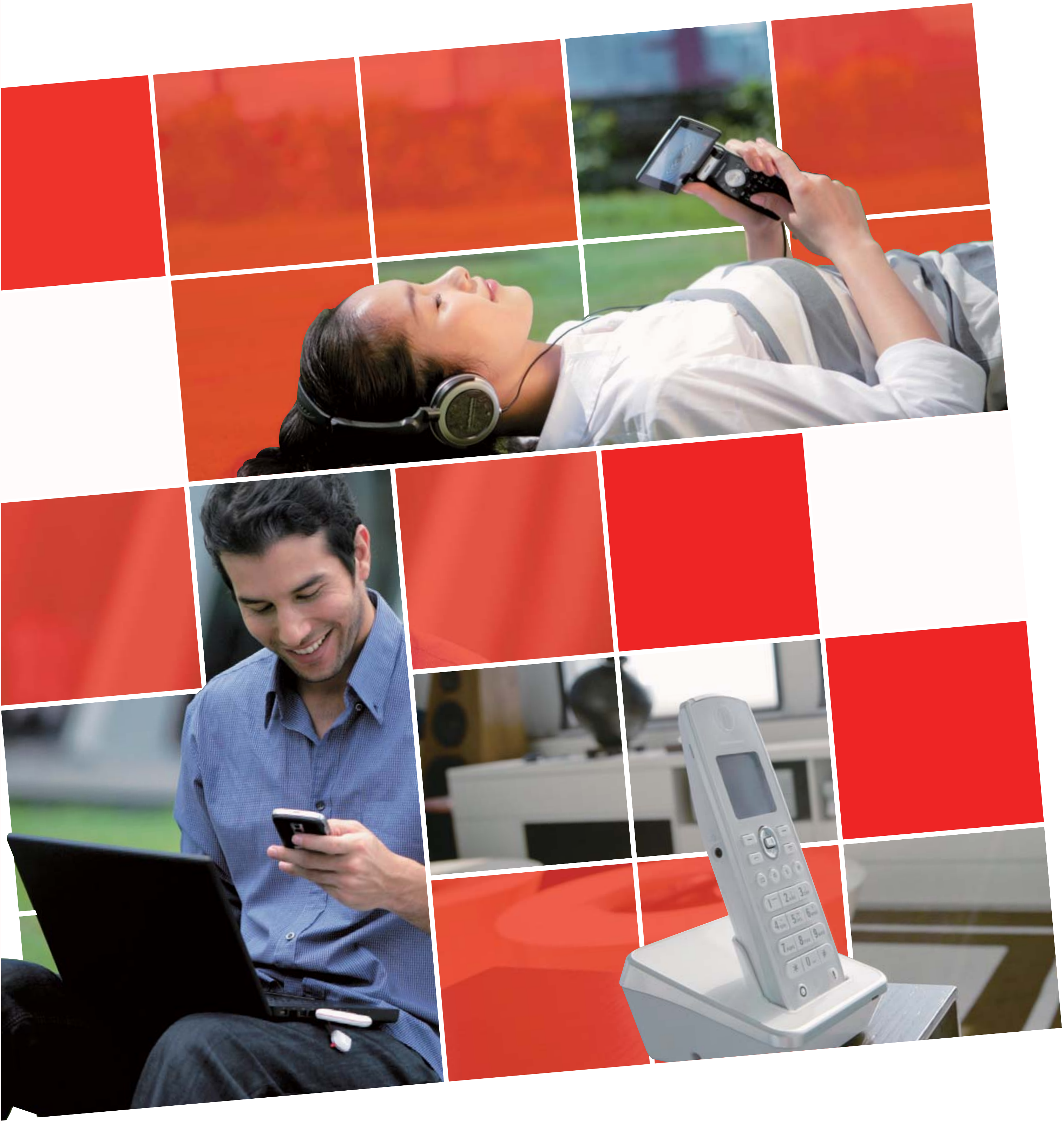

Annual Report | 2007/2008

SmarTone Telecommunications Holdings Limited

(Stock Code: 315)

CONTENTS

3 About Us

5 Directors and Corporate Information

7 Financial Highlights

9 Chairman's Statement

12 Management Discussion and Analysis

15 Report of the Directors

26 Corporate Governance Report

33 Directors and Management Executives Profile

38 Group Financial Summary

39 Independent Auditor's Report

41 Consolidated Profit and Loss Account

42 Consolidated Balance Sheet

43 Balance Sheet

44 Consolidated Cash Flow Statement

46 Consolidated Statement of Changes in Equity

48 Statement of Changes in Equity

49 Notes to the Consolidated Financial Statements

About Us

SmarTone Telecommunications Holdings Limited is a premium quality provider of total communications services in Hong Kong and Macau. Its goal is to better enrich customers' lives by getting them closer to the things that matter to them.

The company is leading the way in mobile, fixed-line and broadband markets, leveraging its best-in-class service pillars – segmented services and products, superior network performance and unbeatable customer experience.

The company's main subsidiary in Hong Kong operates as SmarTone-Vodafone, a Partner Network of Vodafone Group Plc, the world's leading mobile telecommunications company.

SmarTone Telecommunications Holdings Limited was established in 1992 and has been listed in Hong Kong since 1996. It is a subsidiary of Sun Hung Kai Properties Limited, one of the largest property companies in Hong Kong.

Directors and Corporate Information

Board of Directors

* Mr. Raymond Ping-luen ***Kwok***
Chairman
Mr. Douglas ***Li***
Chief Executive Officer
Mr. Patrick Kai-lung ***Chan***
* Mr. Michael Yick-kam ***Wong***
* Mr. Wing-yui ***Cheung***
* Mr. David Norman ***Prince***
* Mr. Wing-chung ***Yung***
* Mr. Thomas Hon-wah ***Siu***
** Dr. Eric Ka-cheung ***Li***, *JP*
** Mr. Leung-sing ***Ng***, *JP*
** Mr. Xiang-dong ***Yang***
** Mr. Eric Fock-kin ***Gan***
** Mr. Peter David ***Sullivan***

* *Non-Executive Director*
** *Independent Non-Executive Director*

Company Secretary

Mr. Alvin Yau-hing ***Mak***

Authorised Representatives

Mr. Douglas ***Li***
Mr. Alvin Yau-hing ***Mak***

Registered Office

Clarendon House, 2 Church Street,
Hamilton HM 11, Bermuda

Head Office and Principal Place of Business

31st Floor, Millennium City 2,
378 Kwun Tong Road, Kwun Tong,
Kowloon, Hong Kong

Auditors

PricewaterhouseCoopers
Certified Public Accountants
22nd Floor, Prince's Building, 10 Chater Road,
Hong Kong

Hong Kong Share Registrar

Computershare Hong Kong Investor Services Limited
Rooms 1712-1716, 17th Floor, Hopewell Centre,
183 Queen's Road East, Hong Kong

Principal Share Registrar

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre, 11 Bermudiana Road,
Pembroke HM08, Bermuda

Principal Bankers

Standard Chartered Bank
The Hongkong and Shanghai Banking Corporation Limited

Legal Advisors to the Company

As to Hong Kong law
Slaughter and May

As to Bermuda law
Conyers, Dill & Pearman

Bermuda Resident Representative

Mr. John Charles Ross ***Collis***
Mr. Anthony Devon ***Whaley*** (Deputy)

Financial Highlights

(Expressed in Hong Kong dollars in millions except per share amounts)

	Year ended or as at 30 June	
	2008	2007
Consolidated profit and loss account		
Revenues	**4,073**	4,039
Profit attributable to equity holders of the Company	**276**	158
Earnings per share ($)	**0.48**	0.27
Dividends per share		
Total for the year ($)	**0.48**	0.27
Special cash dividend ($)	**Nil**	0.85
Consolidated balance sheet		
Total assets	**4,843**	5,440
Current liabilities	**(1,070)**	(1,075)
Total assets less current liabilities	**3,773**	4,365
Non-current liabilities	**(813)**	(827)
Minority interests	**(28)**	(27)
Net assets	**2,932**	3,511
Share capital	**57**	58
Reserves	**2,875**	3,453
Total equity attributable to equity holders of the Company	**2,932**	3,511
Consolidated cashflow		
Net cash generated from operating activities	**1,012**	941
Interest received	**79**	97
Purchase of fixed assets	**(534)**	(392)
Additions of handet subsidies	**(280)**	(193)
Payment of repurchase of shares	**(64)**	(22)
Dividends paid (include minority interests)	**(839)**	(76)
Other	**(45)**	(58)
Net (decrease) / increase in cash and bank balances, and held-to-maturity debt securities	**(671)**	297

Chairman's Statement

I am pleased to report the results of the Group for the year ended 30 June 2008.

Financial Highlights

Revenues increased modestly to $4,073 million, with the 9% growth in mobile service revenue offset by the decline in handset revenue. Earnings before interest, tax, depreciation and amortisation ("EBITDA") increased by 16% to $1,088 million. Profit attributable to equity holders grew by 75% to $276 million. Earnings per share amounted to 47.8 cents.

Dividend

Your Board proposes a final dividend of 20 cents per share. Together with the interim dividend of 28 cents per share, total dividend for the year will be 48 cents per share, representing a payout ratio of 100%.

Business Review

Hong Kong

SmarTone-Vodafone focuses on stimulating mobile revenue growth by delivering unrivalled experience at exceptional value to target customer segments. We continue to innovate vigorously to provide new compelling and differentiated multimedia services. In the year, we have also expanded beyond mobile to provide innovative new services in the fixed-line and broadband markets.

The year under review saw continued increase in mobile service revenue, driven mainly by improving ARPU and customer profile. Data revenue showed encouraging growth and its contribution to mobile service revenue was 23.2%, a significant increase compared to 18.5% for the previous year. This growth was predominantly driven by the increasing adoption of multimedia services, which accounted for two-thirds of total data revenue.

Blended ARPU registered a 5% growth to $237 and postpaid ARPU increased by 9% to $284. Postpaid churn rate reduced from 2.3% in June 2007 to 1.7% in June 2008. Total mobile customer number remained broadly stable at 1,118,000 as of 30 June 2008. Our 3G customer base is expanding and currently represents 47% of postpaid customers.

During the year, SmarTone-Vodafone continued to introduce new best-in-class multimedia services, including MusicXS – the world's first subscription based unlimited music download service for both mobile and PC; Market Watch – a real-time digest of Hong Kong stock market action in a TV-like format; as well as FoneTV – a personal mobile TV service offering a rich variety of re-broadcast live TV channels, as well as made-for-mobile programming. Our commitment to deliver superior customer experience has been taken to another level with the opening of our first Experience Store in Central. Built on SmarTone-Vodafone's leadership in retail design and service, the new store showcases our numerous services, and demonstrates how easy they are to use and how useful they are in customers' everyday lives. The Experience Store offers customers a comfortable and engaging environment to explore and experience our services through direct hands-on trial, services workshop and even personal coaching.

Chairman's Statement

With the emergence of new technologies and the convergence of mobile and Internet, traditional boundaries in the telecommunications market are breaking down. Customers' needs are changing all the time and they increasingly demand communications services that span mobile, fixed-line and broadband. Recently, SmarTone-Vodafone has taken a step forward by introducing HomePhone+, a wireless fixed-line service for both residential and business customers. With an innovative and rich service set, it offers a fixed-line experience unprecedented in Hong Kong with its remarkable ease of use. In mobile broadband, we have led the market by introducing new tiered price plans for different speeds. This brings our price points close to that of fixed broadband, allowing us to address a much wider market.

We further enhanced our HSPA network during the year to improve coverage, quality and capacity. Anticipating the vastly increased bandwidth requirements brought on by new services, we are well on the way in our migration to an all-IP network infrastructure. Upgrade of billing and customer management systems have also been completed in order to enhance operational efficiency. These initiatives will result in a short-term increase in operating expense and capital expenditure, but an improved cost structure going forward.

Macau

Mobile business in Macau continued to grow, with service revenue and profits registering an encouraging increase. With the slowing Macau economy, there will be increasing pressure on the business for the year ending 30 June 2009.

Prospects

Looking ahead, with intensifying price competition, growth in service revenue is expected to slow down. Costs will increase further, driven mainly by the provision of increased bandwidth, increasing handset subsidies, as well as general cost inflation. Together with lower interest income as a result of the decrease in net cash balance and lower interest rates, profits for the year ending 30 June 2009 are expected to come under pressure.

With a solid foundation in mobile, we are establishing SmarTone-Vodafone as the premium quality provider of total communications services in Hong Kong, leveraging our best-in-class service pillars – segmented services and products, superior network performance and unbeatable customer experience. This strategy should enable your Company to compete more effectively in the market and be better positioned in the increasingly integrated communications industry over the long term.

Appreciation

During the year, Mr. Andrew Sing-tak So resigned as Non-Executive Director of your Company and Mr. Peter David Sullivan have joined the Board as Independent Non-Executive Director. In July 2008, Mr. Thomas Hon-wah Siu was appointed Non-Executive Director of your Company. I would like to thank Mr. So for his contributions and advice, and welcome Mr. Sullivan and Mr. Siu to the Board. I would also like to take this opportunity to express my gratitude to our customers and shareholders for their continuing support, my fellow directors for their guidance as well as our staff for their dedication and hardwork.

Raymond Ping-luen Kwok
Chairman

Hong Kong, 28 August 2008

Management Discussion and Analysis

Review of financial results

Sharp SX862

Revenues grew slightly by 1% to $4,073 million (2006/07: $4,039 million), consisting of a 9% increase in mobile service revenue, partly offset by a 28% decline in mobile telephone and accessory sales. Driven by the increase in ARPU and customer base, mobile service revenue rose by 9%, outweighing increases in cost of services provided and operating expenses of 7% and 6% respectively. Mobile telephone and accessory sales declined by 28%, which was matched by a 29% fall in cost of inventories sold. As a result, earnings before interest, tax, depreciation and amortisation ("EBITDA") increased by 16% to $1,088 million (2006/07: $940 million). After a 2% decrease in depreciation, amortisation and loss on disposal, operating profit surged by 88% to $344 million (2006/07: $183 million). Finance income fell by 23%. Finance costs, comprising mainly of accretion expenses in relation to mobile licence fees, rose by 7%. Profit attributable to equity holders of the Company reported an encouraging 75% growth to $276 million (2006/07: $158 million).

Revenues grew by 1% to $4,073 million (2006/07: $4,039 million).

- Mobile service revenue grew by $287 million or 9% to $3,433 million (2006/07: $3,146 million) driven by higher ARPU and a slightly larger customer base. Growth in revenue from data, roaming and prepaid services offset the impact of lower local voice revenue, reflecting the competitive pressure on basic tariffs in the market.

  Hong Kong blended ARPU rose by 5% to $237 (2006/07: $225), reflecting continued improvement in the quality of the Group's customer base.

  Hong Kong postpaid ARPU reported an encouraging 9% growth to $284 (2006/07: $261) despite sustained downward pricing pressures.

  Data service revenue is increasingly important to the Group's revenue growth. Data service revenue achieved a strong 36% increase, attesting to increasing penetration of 3G and HSPA devices, and growing adoption of multimedia services.

- Mobile telephone and accessory sales fell by $252 million or 28% to $640 million (2006/07: $893 million) largely due to lower average unit handset price, as a result of severe market competition.

BlackBerry® Bold™ from Vodafone

Cost of inventories sold and services provided decreased by 14% to $1,324 million (2006/07: $1,533 million). Cost of inventories sold fell by 29% to $624 million (2006/07: $881 million) in line with the decline in mobile telephone and accessory sales. Cost of services provided grew by 7% to $700 million (2006/07: $652 million) driven by increased usage, resulted in higher interconnect charges, data service costs and roaming partner charges.

Operating expenses, excluding depreciation, amortisation and loss on disposal, rose by 6% to $1,662 million (2006/07: $1,566 million). Network operating costs increased by 9% as a result of the Group's continuing enhancement of network capacity, quality and coverage. Sales and marketing expenses decreased by 4% primarily due to lower advertising spending. Staff costs, rental and utilities, and other operating expenses increased by 8% collectively, largely driven by upward cost pressure in the labour and property markets.

Depreciation and loss on disposal of fixed assets fell by 5% to $460 million (2006/07: $482 million) as certain network equipment became fully depreciated during the year.

Handset subsidy amortisation rose by 3% to $219 million (2006/07: $212 million). With the addition of handset subsidy capitalised of $280 million (2006/07: $193 million), unamortised handset subsidy increased by $61 million to $211 million at 30 June 2008 (30 June 2007: $150 million).

Vodafone Mobile Connect
USB Stick

Mobile licence fee amortisation increased by 2% to $64 million (2006/07: $63 million), attributable to the full year impact of amortisation relating to the PCS licence renewed in September 2006.

Finance income decreased by 23% to $77 million (2006/07: $100 million) attributable to lower average balance of bank deposits and debt securities, and reduced average returns thereon as a result of significantly lower interest rates. Finance costs, comprised mainly of accretion expenses for mobile licence fee liabilities, rose by 7% to $84 million (2006/07: $78 million).

Macau operations continued to grow and delivered satisfactory results for the year ended 30 June 2008. Revenues grew by 30% to $281 million (2006/07: $216 million). This revenue growth exceeded the 15% increase in cost of inventories sold and services provided, operating expenses, depreciation and amortisation collectively. As a result, operating profit grew by 58% to $121 million (2006/07: $76 million).

Capital structure, liquidity and financial resources

There had been no major changes to the Group's capital structure during the year ended 30 June 2008. The Group was financed by share capital and internally generated funds during the year under review. The cash resources of the Group remain strong with cash and bank balances, and investments in held-to-maturity debt securities of $1,677 million at 30 June 2008 (30 June 2007: $2,348 million).

During the year ended 30 June 2008, the Group's net cash generated from operating activities and interest received amounted to $1,089 million and $79 million respectively. The Group's major outflows of funds during the year under review were dividends paid to the Company's equity holders and payments for purchase of fixed assets, additions of handset subsidies, mobile licence fees and repurchase of shares.

The directors are of the opinion that the Group can fund its capital expenditures and working capital requirements for the financial year ending 30 June 2009 with internal cash resources.

Treasury policy

The Group invests its surplus funds in accordance with a treasury policy approved from time to time by the board of directors. Surplus funds are placed as bank deposits or invested in investment grade debt securities. Bank deposits are principally maintained in Hong Kong dollar or United States dollar. Investments in debt securities are denominated in either Hong Kong dollar or United States dollar, and having a maximum maturity of three years. The Group's policy is to hold its investments in debt securities until maturity.

As at 30 June 2008 and 2007, the Group's total available banking facilities amounted to $100 million and no amount of the facilities was utilised.

The Group is required to arrange for banks to issue performance bonds and letters of credit on its behalf. In certain circumstances, the Group will partially or fully collateralise such instruments by cash deposits to lower the issuance costs. As at 30 June 2008, the total amount of pledged deposits was $333 million (30 June 2007: $324 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 dollar. 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.

Vodafone 720

Management Discussion and Analysis

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 30 June 2008 under these performance bonds was $454 million (30 June 2007: $404 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 1,790 full-time employees as at 30 June 2008 (30 June 2007: 1,692), with the majority of them based in Hong Kong. Total staff costs were $430 million for the year ended 30 June 2008 (2006/07: $395 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. During the year ended 30 June 2008, no share options were granted, 979,000 options were exercised to subscribe for 979,000 shares in the Company, and 388,000 share options were cancelled or lapsed. At 30 June 2008, 9,286,500 share options (30 June 2007: 10,653,500) were outstanding.

Vodafone 810

Report of the Directors

(Financial figures are expressed in Hong Kong dollars)

The Directors submit their report together with the audited financial statements for the year ended 30 June 2008.

Principal activities

The principal activity of the Company is investment holding. The activities of its principal subsidiaries are shown in note 18 to the financial statements.

Results

The results of the Group for the year ended 30 June 2008 are set out in the consolidated profit and loss account on page 41.

Dividend

The directors recommended the payment of a final dividend for the year ended 30 June 2008 of $0.20 per share (2006/07: $0.27 per share). The proposed final dividend, together with the interim dividend of $0.28 per share paid by the Company during the year (2006/07: nil), makes a total dividend for the year of $0.48 per share (2006/07: $0.27 per share).

Five year financial summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is shown on page 38.

Reserves

Movements in the reserves of the Group and the Company during the year are set out on pages 47 and 48 respectively.

Distributable reserves

The reserves available for distribution to the shareholders of the Company amounted to $3,405,944,000 at 30 June 2008 (30 June 2007: $3,668,997,000).

Donations

During the year, charitable and other donations made by the Group amounted to $149,000 (2006/07: $432,000).

Fixed assets

Details of the movements in fixed assets are shown in note 17 to the financial statements.

Share capital

Details of the movements in share capital of the Company are shown in note 28 to the financial statements.

Report of the Directors

(Financial figures are expressed in Hong Kong dollars)

Directors

The Directors of the Company during the year and up to the date of this report were:

* Mr. Raymond Ping-luen ***Kwok***
Chairman

Mr. Douglas ***Li***
Chief Executive Officer

Mr. Patrick Kai-lung ***Chan***

* Mr. Michael Yick-kam ***Wong***

* Mr. Andrew Sing-tak ***So***
(Resigned on 13 June 2008)

* Mr. Wing-yui ***Cheung***

* Mr. David Norman ***Prince***

* Mr. Wing-chung ***Yung***

* Mr. Thomas Hon-wah ***Siu***
(Appointed on 15 July 2008)

** Dr. Eric Ka-cheung ***Li***, *JP*

** Mr. Leung-sing ***Ng***, *JP*

** Mr. Xiang-dong ***Yang***

** Mr. Eric Fock-kin ***Gan***

** Mr. Peter David ***Sullivan***
(Appointed on 17 April 2008)

* *Non-Executive Director*
** *Independent Non-Executive Director*

In accordance with Bye-law No. 110(A) of the Company's Bye-laws, Messrs. Raymond Ping-luen Kwok, Michael Yick-kam Wong, Wing-yui Cheung, David Norman Prince and Xiang-dong Yang retire by rotation at the forthcoming annual general meeting. In accordance with Bye-law No. 101, Messrs. Thomas Hon-wah Siu and Peter David Sullivan also retire at the forthcoming annual general meeting. All retiring Directors, being eligible, offer themselves for re-election. All remaining Directors shall continue in office.

The term of office of the Non-Executive Directors shall be governed by the provisions of Bye-laws No. 110 and No. 111 of the Company.

The Board has received from each Independent Non-Executive Director a written annual confirmation of their independence and is satisfied with their independence in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Directors' service contracts

Under an employment contract between the Company and Mr. Douglas Li dated 31 May 2001, Mr. Douglas Li has been appointed to act as Executive Director and Chief Executive Officer of the Group with effect from 17 July 2001. The contract can be terminated by the Company by not less than 6 calendar months' notice (or payment in lieu of notice).

Under an employment contract between the Company and Mr. Patrick Kai-lung Chan dated 1 May 2002, Mr. Patrick Kai-lung Chan has been appointed to act as Executive Director of the Group with effect from 15 May 2002. The contract can be terminated by the Company by not less than 6 calendar months' notice (or payment in lieu of notice).

Apart from the above, none of the Directors has a service contract with the Company with a term of more than 3 years and which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Directors' emoluments

The emoluments payable to the Directors of the Company are based on terms of the respective service contracts, if any. The director's fee payable is subject to annual assessment, approval and authorisation by shareholders at annual general meetings. Details of the emoluments paid and payable to the Directors of the Company for the financial year ended 30 June 2008 are shown in note 11 to the financial statements.

Directors' interests in contracts of significance

Apart from the connected transactions referred to in this report, no other contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Biographical details of Directors and senior management

Brief biographical details of the Directors and senior management are set out on pages 33 to 37.

Directors' and chief executive's interests

As at 30 June 2008, the interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under section 352 of the SFO, or which were required, pursuant to the required standard of dealings by Directors as referred to in the "Model Code for Securities Transactions by Directors of Listed Issuers" of the Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

1. Long positions in shares and underlying shares of the Company

	Number of shares held							
Name of Director	Personal interests (held as beneficial owner)	Family interests (interests of spouse or child under 18)	Corporate interests (interests of controlled corporation)	Other interests	Total	Number of underlying shares held under equity derivatives	Total	% of shares in issue
Raymond Ping-luen Kwok	—	—	—	2,237,767 [1]	2,237,767	—	2,237,767	0.39
Douglas Li	—	—	—	—	—	3,000,000 [2]	3,000,000	0.52
Patrick Kai-lung Chan	—	—	—	—	—	1,103,500 [2]	1,103,500	0.19

Notes:

1. Mr. Raymond Ping-luen Kwok was deemed to be interested in these shares by virtue of being a beneficiary of a certain discretionary trust for the purposes of the SFO.

2. These represented the interests in the underlying shares of the Company in respect of the share options (being regarded for the time being as unlisted physically settled equity derivatives) granted by the Company, the details of which are set out in the section entitled "Share Option Scheme".

Report of the Directors

(Financial figures are expressed in Hong Kong dollars)

2. Long positions in shares and underlying shares of the associated corporations of the Company

(a) Sun Hung Kai Properties Limited ("SHKP")

	Number of shares held							
Name of Director	**Personal interests (held as beneficial owner)**	**Family interests (interests of spouse or child under 18)**	**Corporate interests (interests of controlled corporation)**	**Other interests**	**Total**	**Number of underlying shares held under equity derivatives**	**Total**	**% of shares in issue**
Raymond Ping-luen Kwok	75,000	—	—	1,089,794,895[1]	1,089,869,895	—	1,089,869,895	42.50
Michael Yick-kam Wong	145,904	—	—	—	145,904	—	145,904	0
Eric Ka-cheung Li	—	—	18,000	—	18,000	—	18,000	0

Note:

1. Of these shares in SHKP, Madam Siu-hing Kwong, Mr. Walter Ping-sheung Kwok, Mr. Thomas Ping-kwong Kwok and Mr. Raymond Ping-luen Kwok were deemed to be interested in 1,066,617,347 shares by virtue of being beneficiaries of certain discretionary trusts, which represented the same interests and were therefore duplicated amongst these four individuals for the purpose of the SFO.

(b) SUNeVision Holdings Ltd. ("SUNeVision")

	Number of shares held							
Name of Director	**Personal interests (held as beneficial owner)**	**Family interests (interests of spouse or child under 18)**	**Corporate interests (interests of controlled corporation)**	**Other interests**	**Total**	**Number of underlying shares held under equity derivatives**	**Total**	**% of shares in issue**
Raymond Ping-luen Kwok	—	—	—	1,742,500[1]	1,742,500	—	1,742,500	0.08
Michael Yick-kam Wong	100,000	—	—	—	100,000	—	100,000	0

Note:

1. Of these shares in SUNeVision, Madam Siu-hing Kwong, Mr. Walter Ping-sheung Kwok, Mr. Thomas Ping-kwong Kwok and Mr. Raymond Ping-luen Kwok were deemed to be interested in 1,070,000 shares by virtue of being founder or beneficiaries of a certain discretionary trust, which represented the same interests and were therefore duplicated amongst these four individuals for the purpose of the SFO.

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

Name of associated corporation	Attributable holding through corporation	Attributable % of shares in issue through corporation	Actual holding through corporation	Actual % interests in issued shares
Splendid Kai Limited	2,500	25	1,500[1]	15
Hung Carom Company Limited	25	25	15[1]	15
Tinyau Company Limited	1	50	1[1]	50
Open Step Limited	8	80	4[1]	40

Note:

1. Madam Siu-hing Kwong, Mr. Walter Ping-sheung Kwok, Mr. Thomas Ping-kwong Kwok and Mr. Raymond Ping-luen Kwok were deemed to be interested in these shares which represented the same interests and were therefore duplicated amongst these four individuals for the purpose of the SFO. These shares were held by corporations under a certain discretionary trust, in which Madam Siu-hing Kwong, Mr. Walter Ping-sheung Kwok, Mr. Thomas Ping-kwong Kwok and Mr. Raymond Ping-luen Kwok were deemed to be interested by virtue of being founder or beneficiaries for the purpose of the SFO.

Save as disclosed above, at 30 June 2008, 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 pursuant to Part XV of the SFO or pursuant to the "Model Code for Securities Transactions by Directors of Listed Issuers" of the Listing Rules.

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.

1. Principal terms of Share Option Scheme

A summary of the principal terms of the Share Option Scheme is set out below pursuant to the requirements as contained in Chapter 17 of the Listing Rules:

(a) Purpose

The purpose of the Share Option Scheme is to reward participants who have made a valuable contribution to the growth of the Group and to enable the Group to recruit and/or to retain employees who are regarded as valuable to the Group or are expected to be able to contribute to the business development of the Group.

(b) Participants

Any employee, agent, consultant or representative of the Company or any of the subsidiaries, including any director of the Company or any of the subsidiaries who has made valuable contribution to the growth of the Group based on his work experience, industry knowledge, performance, business connections or other relevant factors, will be eligible to participate in the Scheme at the invitation of the Directors.

(c) Maximum number of shares available for issue

The Company can issue options so that the total number of shares that may be issued upon exercise of all options to be granted under all the share option schemes does not in aggregate exceed 10% of the shares in issue on the date of adoption of the Share Option Scheme. The Company may renew this limit at any time, subject to shareholders' approval and the issue of a circular and in accordance with the Listing Rules provided that the number of shares to be issued upon exercise of all outstanding options granted and yet to be exercised under all the share option schemes does not exceed 30% of the shares in issue from time to time. At 28 August 2008, the number of shares available for issue in respect thereof is 55,179,134 shares which represents approximately 9.63% of the issued ordinary shares of the Company.

(d) Maximum entitlement of each participant

The maximum entitlement for any participant is that the total number of shares issued and to be issued upon exercise of options granted and to be granted in any 12-month period up to the date of the latest grant does not exceed 1% of the relevant class of shares in issue.

(e) Time of exercise of option

No option may be exercised later than 10 years after it has been granted and no option may be granted more than 10 years after the date on which the Scheme is adopted by the Company in general meeting.

The Scheme does not specify any minimum holding period before the option can be exercised but the Board has the authority to determine the minimum holding period when the options are granted.

(f) Payment on acceptance of option

Acceptance of offer to grant an option shall be sent in writing together with a remittance in favour of the Company of $1.00 by way of consideration for the grant must be received by the Secretary of the Company within 28 days from the date of the making of such offer.

(g) Basis of determining the exercise price

The option price per share payable upon the exercise of any option will be determined by the Directors upon the grant of such option. It will be at least the higher of (i) the average closing price of a share as stated in the daily quotations sheets issued by the Stock Exchange for the 5 business days immediately preceding the day of offer of such option; (ii) the closing price of a share as stated in the Stock Exchange's daily quotations sheet on the day of offer of such option, which must be a business day; and (iii) the nominal value of a share.

(h) Remaining life of the Scheme

The Share Option Scheme shall be valid and effective for a period of 10 years commencing from the adoption of the Scheme on 15 November 2002.

2. Movements of share options

Movements of the share options granted to the participants pursuant to the Share Option Scheme during the year ended 30 June 2008 are as follows:

Grantee	Date of grant	Exercise price $	Exercise period	Outstanding at 1 July 2007	Granted during the year	Exercised during the year	Cancelled/ Lapsed during the year	Outstanding at 30 June 2008
Directors								
Douglas Li	10 February 2003	9.29	10 February 2003 to 16 July 2011	3,000,000[1]	—	—	—	3,000,000
Patrick Kai-lung Chan	10 February 2003	9.20	2 May 2003 to 1 May 2012	133,500[2]	—	—	—	133,500
	5 February 2004	9.00	5 February 2005 to 4 February 2014	970,000[3]	—	—	—	970,000
Employees	5 February 2004	9.00	5 February 2005 to 4 February 2014	6,357,000	—	(979,000)	(388,000)	4,990,000
	1 March 2005	9.05	1 March 2006 to 28 February 2015	193,000	—	—	—	193,000

Notes:

1. 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, 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 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.

Other than the share options stated above, no share options had been granted by the Company to other participants pursuant to the Share Option Scheme. Save as disclosed above, no other share options were granted, exercised, cancelled or lapsed during the year.

(Financial figures are expressed in Hong Kong dollars)

3. Valuation of share options

No share options was granted for the financial years ended 30 June 2007 and 2008, however, in assessing the value of the share options granted in prior years, the Black-Scholes option pricing model adjusted for dividends (the "Black-Scholes Model") was used. The Black-Scholes Model is one of the generally accepted methodologies used to calculate the value of options and is one of the recommended option pricing models set out in Chapter 17 of the Listing Rules. The variables and assumptions adopted in assessing the value of the share options granted in prior years under the Black-Scholes Model are as follows:

(a) Expected life of the options

The expected life of the options used in the calculation represents the weighted average expected life of the options as measured from the date of grant (the "Measurement Date").

(b) Risk free interest rate

The risk free interest rate used in the calculation represents the weighted average yield of the relevant Hong Kong Exchange Fund Notes corresponding to the expected life of the options as at the Measurement Date.

(c) Expected volatility

The expected volatility used in the calculation represents the annualised volatility of the closing price of the Company for the last 12 months from the Measurement Date.

(d) Expected dividend yield

The expected dividend yield used in the calculation represents the average dividend yield for the two financial years ended 30 June 2003 and 2004.

No adjustment has been made for possible future forfeiture of the options. The change in accounting policy following the adoption of the HKFRS 2 resulted in the recognition of the fair value of options granted as staff cost with a corresponding increase in a capital reserve within equity. The equity amount is recognised in the capital reserve until either the options are exercised (when it is transferred to the share premium account) or the options expire/lapse (when it is released directly to retained profits).

It should be noted that the value of options calculated using the Black-Scholes Model is based on various assumptions and is only an estimate of the value of share options granted. It is possible that the financial benefit accruing to the grantee of an option will be considerably different from the value determined under the Black-Scholes Model.

Discloseable interests and short positions of shareholders under the SFO

As at 30 June 2008, the long positions of persons, other than Directors or chief executive of the Company, being 5% or more in the interest in shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO, were as follows:

Name	Total number of shares	% of shares in issue
Cellular 8 Holdings Limited ("Cellular 8") [1]	318,038,972	55.49%
Sun Hung Kai Properties Limited ("SHKP") [1&2]	332,206,897	57.96%
HSBC International Trustee Limited ("HSBC") [3]	332,806,708	58.06%
Marathon Asset Management	58,313,896	10.17%
Brandes Investment Partners, L.P.	34,255,963	5.97%

Notes:

1. Cellular 8 is a wholly-owned subsidiary of SHKP. By virtue of the SFO, SHKP was deemed to be interested in the 318,038,972 shares in the Company held by Cellular 8.

2. 14,167,925 shares in the Company were held by TFS Development Company Limited, a wholly-owned subsidiary of Fourseas Investments Limited which in turn is a wholly-owned subsidiary of SHKP. By virtue of the SFO, SHKP was therefore also deemed to be interested in such shares in the Company.

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) was also attributed to HSBC by reference to the interests in shares which HSBC held (or was deemed to hold) in SHKP. The number of shares noted above against the name of HSBC therefore duplicated the interest of SHKP.

Save as disclosed above, as at 30 June 2008, 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.

Arrangement to purchase shares or debentures

Other than the share options as mentioned above, at no time during the year was the Company or any of its subsidiaries or the Company's holding company or any subsidiaries of the holding company a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or of any other body corporate.

Directors' interests in competing business

None of the Directors of the Company has interest in any business which may compete with the business of the Group.

Sufficiency of public float

Based on the information that is publicly available to the Company and within the knowledge of its Directors, it is confirmed that there is sufficient public float of the Company's shares in the market at the date of this report.

Purchase, sale or redemption of shares

During the year ended 30 June 2008, the Company repurchased 8,042,000 shares on the Stock Exchange of Hong Kong. These repurchased shares were cancelled. Please refer to note 28 of the notes to the financial statements for details of the repurchases.

The aggregate price of the repurchased shares (before expenses) in the amount of $64,249,000 has been charged against the retained profits and contributed surplus accounts. A sum equivalent to the nominal value of the repurchased shares amounting to $804,000 has been transferred from retained profits to capital redemption reserve.

Save as disclosed above, at no time during the year ended 30 June 2008 was there any purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's shares.

Pre-emptive rights

There is no provision for pre-emptive rights under either the Company's Bye-laws or the laws in Bermuda.

Management contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Report of the Directors

(Financial figures are expressed in Hong Kong dollars)

Major customers and suppliers

The percentages of the Group's purchases attributable to major suppliers are as follows:

Percentage of purchases attributable to the Group's largest supplier	11%
Percentage of purchases attributable to the Group's five largest suppliers	40%

None of the Directors and their associates had an interest in the major suppliers noted above.

During the year, the Group sold less than 30% of its total goods and services to its five largest customers.

Connected transactions

1. Certain related party transactions as disclosed in note 31 to the financial statements also constituted connected transactions. The following transactions between certain connected persons (as defined in the Listing Rules) and the Group have been entered into and/or are continuing for which relevant announcements, if necessary, had been made by the Company in accordance with the requirements of the Listing Rules.

   (a) Certain subsidiaries and associated companies of Sun Hung Kai Properties Limited ("SHKP"), the controlling shareholder of the Company, 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 2008, rental and licence fees paid and payable to subsidiaries and associated companies of SHKP totalled $71,507,000.

   (b) Sun Hung Kai Properties Insurance Limited, a wholly-owned subsidiary of SHKP, provided general insurance services to the Group. For the year ended 30 June 2008, insurance premiums paid and payable were $3,681,000.

   The above transactions have been reviewed by the Company's Independent Non-Executive Directors. The Independent Non-Executive Directors confirmed that these continuing connected transactions were entered into by the Group in the ordinary and usual course of business and on normal commercial terms or on terms no less favourable than terms available from independent third parties.

   The Independent Non-Executive Directors also confirmed that the transactions were entered into in accordance with the agreements governing such transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

   The auditors of the Company further confirmed that the continuing connected transactions (i) have received the approval of the Company's Board of Directors; (ii) have been entered into in accordance with the relevant agreements governing the transactions; and (iii) have not exceeded the cap for each category disclosed in previous announcement.

2. At 30 June 2008, 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.

The above disclosure of the continuing connected transactions of the Group has complied with the disclosure requirements in accordance with the Listing Rules.

Auditors

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment. As recommended by the Audit Committee, a resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming Annual General Meeting.

On behalf of the Board
Raymond Ping-luen Kwok
Chairman

Hong Kong, 28 August 2008

Corporate Governance Report

Corporate Governance

The Company is committed to building and maintaining high standards of corporate governance. Throughout the financial year ended 30 June 2008, 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") with the only deviation from code provision A.4.1 in respect of the service term of non-executive directors. Non-Executive Directors of the Company are not appointed with specific term but they are required to retire from office by rotation and are subject to re-election by shareholders at annual general meeting at least once in every three years.

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

The Board

Roles of Directors

The Board assumes responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company. The principle roles of the Board are:

- to lay down the Group's objectives, strategies and policies;
- to monitor operating and financial performance; and
- to set appropriate policies to manage risks in pursuit of the Group's strategic objectives.

The Board has delegated the day-to-day operation responsibility to the management under the supervision of the Chief Executive Officer and various Board committees.

Composition

The Board of Directors is responsible for supervising the management of the Group.

During the financial year ended 30 June 2008, Mr. Peter David Sullivan was appointed as Independent Non-Executive Director with effect from 17 April 2008 and Mr. Andrew Sing-tak So resigned as Non-Executive Director with effect from 13 June 2008.

As at 30 June 2008, the Board comprises 2 Executive Directors, 5 Non-Executive Directors and 5 Independent Non-Executive Directors. The presence of 10 Non-Executive Directors, of whom 5 are independent, is considered by the Board to be a reasonable balance between Executive and Non-Executive Directors.

The Non-Executive Directors who offer diversified expertise and experience, contribute significantly to the important function of advising management on strategy and policy development. They also serve to ensure that the Board maintains high standards of financial and other mandatory reporting as well as to provide adequate checks and balances for safeguarding the interests of the Company and the shareholders as a whole.

Except for those relationships disclosed in the biographical details of the Directors set out on pages 33 to 37 of the Annual Report, the Directors have no other financial, business, family or other material/relevant relationships with each other.

The Board has received from each Independent Non-Executive Director a written annual confirmation of their independence and is satisfied with their independence in accordance with the Listing Rules.

The Company maintains appropriate liability insurance to indemnify its Directors for their liabilities arising out of corporate activities. The insurance coverage is reviewed on an annual basis.

Appointment and re-election of Directors

All Directors, including the Chairman and the Chief Executive Officer, are required to retire from office by rotation and are subject to re-election by shareholders at annual general meeting once every 3 years.

Under the Company's Bye-laws, one-third of the Directors, who have served longest on the Board, must retire and be eligible for re-election at each annual general meeting. As such, no director has a term of appointment longer than 3 years. To further enhance accountability, any further re-appointment of an Independent Non-Executive Director who has served the Company's Board for more than 9 years will be subject to separate resolution to be approved by shareholders.

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

Directors' duties

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

Chairman and Chief Executive Officer

In order to reinforce their respective independence, accountability and responsibility, and to avoid power being concentrated in any one individual, the role of the Chairman is separate from that of the Chief Executive Officer. The Chairman of the Group is Mr. Raymond Ping-luen Kwok and the Chief Executive Officer of the Group is Mr. Douglas Li. Their respective responsibilities are clearly established and defined by the Board in writing. The Chairman is responsible for ensuring that the Board is functioning properly, with good corporate governance practices and procedures, whilst the Chief Executive Officer, supported by the executive Director and senior management, is responsible for managing the Group's businesses, including the implementation of major strategies and initiatives adopted by the Board.

Board process

The Board of Directors meets regularly at least 4 times every year. The Directors participated in person or through electronic means of communication. At least 14 days notice of all board meetings were given to all Directors, who were given an opportunity to include matters in the agenda for discussion. The finalised agenda and accompanying board papers were sent to all Directors at least 3 days prior to the meeting.

During regular meetings of the Board, the Directors discuss the overall strategy as well as the operation and financial performance of the Group. The Board has reserved for its decision or consideration matters covering overall Group strategy, major acquisitions and disposals, annual budgets, annual and interim results, approval of major capital transactions and other significant operational and financial matters. Board meetings are scheduled one year in advance to facilitate maximum attendance of Directors. All Directors are kept informed on a timely basis of major changes that may affect the Group's businesses, including relevant rules and regulations. Directors can also seek independent professional advice in performing their duties at the Company's expense, if necessary.

The Company Secretary records the proceedings of each board meeting in detail by keeping detailed minutes, including all decisions by the Board together with concerns raised and dissenting views expressed (if any). All minutes are open for inspection at any reasonable time on request by any Director.

Corporate Governance Report

The Board held 4 regular meetings during the financial year ended 30 June 2008. Attendance of the individual Director at Board meetings held during the year is as follows:

Directors	Number of Board meetings attended
Executive Directors	
Mr. Douglas Li *(Chief Executive Officer)*	4/4
Mr. Patrick Kai-lung Chan	4/4
Non-executive Directors	
Mr. Raymond Ping-luen Kwok *(Chairman)*	4/4
Mr. Michael Yick-kam Wong	3/4
Mr. Andrew Sing-tak So	4/4
Mr. Wing-yui Cheung	3/4
Mr. David Norman Prince	4/4
Mr. Wing-chung Yung	4/4
Independent non-executive Directors	
Dr. Eric Ka-cheung Li [1]	0/4
Mr. Leung-sing Ng	2/4
Mr. Xiang-dong Yang	2/4
Mr. Eric Fock-kin Gan	2/4
Mr. Peter David Sullivan [2]	1/1

Notes:

1. *Dr. Eric Li did not attend any of the Board meetings held during the year due to conflicts with his overseas business travelling schedules. However, Dr. Li attended and chaired all Audit Committee meetings held during the year (as shown in the section entitled "Audited Committee").*
2. *Appointed as Director on 17 April 2008.*

Board Committees

The Board has established the following committees with defined terms of reference, which are of no less exacting terms than those set out in the CG Code.

Board Supervisory Committee (the"BSC")

The Board has delegated the duties of overseeing management performance, monitoring execution of business plans and initiatives, and ensuring adherence to corporate objectives to the BSC. Members of the BSC are made up of the Chairman of the Board, the Chief Executive Officer, the Executive Director and senior executives of the Company. Non-Executive Directors are welcomed to join the BSC at their discretion.

The BSC meets regularly throughout the year on a monthly basis to review and monitor the overall strategy implementation as well as the business operation and financial performance of the Group and to properly inform the Board of the status of such operations and performance. BSC meetings are scheduled in advance to facilitate maximum attendance of Directors/members.

Remuneration Committee

The chairman of the Committee is Dr. Eric Ka-cheung Li, an Independent Non-Executive Director of the Company and other members are Mr. Leung-sing Ng and Mr. Andrew Sing-tak So (resigned on 13 June 2008). Mr. Wing-chung Yung was appointed a member of the Remuneration Committee with effect from 15 July 2008. The majority of the members of the Remuneration Committee are Independent Non-Executive Directors of the Company.

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

No physical meeting of the Remuneration Committee was held during the year ended 30 June 2008. A written resolution was passed and signed by all members of the Remuneration Committee during the year for approving the annual bonus to senior management.

Remuneration policy for Directors

The primary goal of the remuneration policy for executive directors and senior management is to enable the Company to retain and motivate executive directors and senior management by linking their compensation with performance as measured against corporate objectives.

The principal elements of the Company's remuneration package for executive directors and senior management include basic salary, discretionary bonus and share option. In determining guidelines for each compensation element, the Company will make reference to market remuneration surveys on companies operating in similar businesses.

The remuneration of non-executive directors, mainly comprising directors' fees, is subject to annual assessment with reference to the market standard. Reimbursement is allowed for out-of-pocket expenses incurred in connection with the performance of their duties including attendance at Company meetings.

Nomination Committee

The chairman of the Committee is Mr. Eric Fock-kin Gan, an Independent Non-Executive Director of the Company and other members are Mr. Leung-sing Ng and Mr. David Norman Prince, the majority being Independent Non-Executive Directors of the Company.

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

No physical meeting of the Nomination Committee was held during the year ended 30 June 2008. Two written resolutions were passed and signed by all members of the Nomination Committee during the year for recommending new appointment and re-appointment of Directors.

The Nomination Committee has reviewed and recommended the re-appointment of the retiring Directors for shareholders' approval at the forthcoming Annual General Meeting.

Audit Committee

The Audit Committee is accountable to the Board and assists the Board in meeting its responsibilities for ensuring compliance with the financial reporting obligations and corporate governance requirements as well as reviewing the effectiveness of the Company's system of internal control.

The Audit Committee, established in 1999, is currently chaired by Dr. Eric Ka-cheung Li, an Independent Non-Executive Director with professional accounting expertise, and the other members are Mr. Leung-sing Ng, Mr. Eric Fock-kin Gan and Mr. Michael Yick-kam Wong, 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's primary duties include ensuring the Group's financial statements, annual and interim reports, and the auditors' report present a true and balanced assessment of the Group's financial position; reviewing the Group's financial control, internal control and risk management systems; reviewing the Group's financial and accounting policies and practices; and recommending the appointment and remuneration of external auditors. Other duties of the Audit Committee are set out in its specific terms of reference, which is available on request and also accessible on the Company's website. The Audit Committee is provided with sufficient resources enabling it to discharge its duties.

The Audit Committee met 2 times during the financial year ended 30 June 2008 to review with senior management and the Company's internal and external auditors the Group's significant internal controls and financial matters as set out in the Committee's terms of reference. The Committee's review covers the audit plans and findings of internal and external auditors, external auditor's independence, the Group's accounting principles and practices, listing rules and statutory compliance, internal controls, risk management and financial reporting matters (including the interim and annual accounts for the Board's approval).

Attendance of the individual Director at Audit Committee meetings held during the year is as follows:

Directors	**Number of meetings attended**
Dr. Eric Ka-cheung Li *(Chairman)*	2/2
Mr. Leung-sing Ng	2/2
Mr. Eric Fock-kin Gan	2/2
Mr. Michael Yick-kam Wong	2/2

The Audit Committee also held a meeting on 14 August 2008 and reviewed the relevant financial statements as well as the internal audit reports of the Group for the year ended 30 June 2008. The Committee was satisfied that the accounting policies and methods of computation adopted by the Group are in accordance with the current best practices 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.

External auditors' independence

In order to further enhance independent reporting by external auditors, part of the aforementioned meetings was attended only by the Committee members and external auditors in the absence of the management.

The nature and ratio of annual fees to external auditors for non-audit services and for audit services are subject to scrutiny by the Audit Committee. The provision of non-audit services by the external auditors requires prior approval of Audit Committee so as to ensure that the independence and objectivity of the external auditors will not be impaired. Details of the fees paid or payable to the auditors for the financial year ended 30 June 2008 are as follows:

	HK$
Total audit fee – interim review and final audit	1,852,000
Other services	588,000
Total fees	2,440,000

The Committee received written confirmation from PricewaterhouseCoopers on their independence and objectivity as required under Section 290.30 of the Hong Kong Institute of Certified Public Accountants Code of Ethics for Professional Accountants before commencement of the annual audit of the Group's financial statements for the year ended 30 June 2008.

The Committee is satisfied with the findings of their review of the audit fees, process and effectiveness, independence and objectivity of PricewaterhouseCoopers and has recommended the Board to propose a resolution of their re-appointment as the Company's external auditors at the forthcoming Annual General Meeting.

Directors' and auditors' responsibilities for the accounts

The Board is responsible for presenting a balanced, clear and comprehensible assessment of the Group's performance and prospects. The Directors are responsible for the preparation of accounts which give a true and fair view of the state of affairs and of the results and cash flows of the Group on a going concern basis. The Company's accounts are prepared in accordance with all relevant statutory requirements and applicable accounting standards. The Directors are responsible for ensuring that appropriate accounting policies are selected and applied consistently and that judgments and estimates made are prudent and reasonable. The Directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group.

The responsibilities of the auditors for the accounts are set out in the Auditors' Report on pages 39 to 40 of this Annual Report.

Internal control

The Directors are responsible for the internal control of the Group and for reviewing its effectiveness.

The internal control system of the Group comprises a comprehensive organisational structure and delegation of authorities, with responsibilities of each business and operational units clearly defined and authorities assigned to individuals based on experience and business need.

Control procedures have been designed to safeguard assets against unauthorised use and disposition; ensure compliance with relevant laws, rules and regulations; ensure proper maintenance of accounting records for provision of reliable financial information used within the business or for publication; and to provide reasonable assurance against material misstatement, loss or fraud.

A Risk Management Committee is set up in early 2007 and is responsible for the overall risk management functions of the Group. Risk Management Framework is in place to provide a consistent approach on the risk management processes in identification, assessment, treatment and reporting of all risks identified affecting key business processes.

Internal audit plays an important role in the internal control framework. The Group has an internal audit team, staffed with 7 qualified professionals, which is an independent function reports directly to the Audit Committee and the Chief Executive Officer. The work of internal audit includes financial and operations reviews, recurring and surprise audits, fraud investigations and productivity efficiency and effectiveness reviews. Internal audit derives its annual audit plan using a risk assessment methodology and taking into account the business nature of the Group. The plan is reviewed and approved by the Audit Committee, who ensures that adequate resources are deployed and the plan objectives are adequate to cover major risks affecting the Group. In addition, there is regular dialogue with the Group's external auditors so that both are aware of the significant factors which may affect their respective scope of work.

A review of the effectiveness of the Group's system of internal control covering all material controls, including financial, operational and compliance controls and risk management functions, is conducted annually. The Directors have conducted the review of the effectiveness of the Group's internal control system for the year ended 30 June 2008 based on a framework which assesses the Group's internal control system against control environment, risk management, information and communication, and control and monitoring activities on all major business and operational processes. The examination consisted of enquiry, discussion and validation through observation and inspection. Areas of improvement have been identified and appropriate measures have been put in place to manage the risks.

With respect to procedures and internal controls for handling and dissemination of price-sensitive information, a strict prohibition on unauthorised use of confidential or insider information is included in the code of conduct of the Group. Employees who are privy or have access to unpublished price-sensitive information of the Group has also been notified on the adoption of the "Model Code for Securities Transactions by Senior Management and relevant Employees" by the Company in 2006 and on observing the restrictions pursuant to Parts XIII and XIV of the Securities and Futures Ordinance.

Compliance with Model Code for Securities Transactions

The Group adopted the Model Code for Securities Transactions by Directors of Listed Issuers (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 has also been adopted for relevant employees, who may be in possession of unpublished price-sensitive information, in dealing with the Company's securities. Upon specific enquiry, each Director had confirmed that during the year ended 30 June 2008, 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.

Investor relations

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

Directors and Management Executives Profile

Directors

Raymond Ping-luen KWOK, *Chairman & Non-Executive Director*

Mr. Raymond Kwok (aged 55), was appointed as Director of the Group in April 1992. He holds a Master of Arts degree in Law from Cambridge University, a Master degree in Business Administration from Harvard University, an Honorary Doctorate degree in Business Administration from The Open University of Hong Kong and an Honorary Doctorate degree in Laws from The Chinese University of Hong Kong. He is Vice-Chairman and Managing Director of Sun Hung Kai Properties Limited ("SHKP"), the controlling shareholder of the Company, Chairman of SUNeVision Holdings Ltd. (a subsidiary of SHKP), a Non-Executive Director of Transport International Holdings Limited (an associate of SHKP) and USI Holdings Limited, and an Independent Non-Executive Director of Standard Chartered Bank (Hong Kong) Limited.

In civic activities, Mr. Kwok is a Director of The Real Estate Developers Association of Hong Kong, a Member of the General Committee of The Hong Kong General Chamber of Commerce, a Member of the Hong Kong Port Development Council and Vice-Chairman of the Council of The Chinese University of Hong Kong.

Douglas LI, *Executive Director & Chief Executive Officer*

Mr. Douglas Li (aged 54), is Chief Executive Officer of the Group, which he helped founded in 1992. He spent the early part of his career as a Chartered Accountant with KPMG in both London and Hong Kong. He became a corporate finance investment banker with Morgan Grenfell, following which he joined Sun Hung Kai Properties to expand its telecom and other businesses. He left the Group in 1996 to join the Asia private equity business of the Suez Group as Managing Director. Mr. Li rejoined the Group in 2001.

Patrick Kai-lung CHAN, *Executive Director*

Mr. Patrick Chan (aged 48), was appointed Director of the Group in October 1996. Mr. Chan was the manager of the Strategic Development Department of SHKP before his appointment as Executive Director of the Company in March 2002. Prior to joining SHKP in 1990, he held various positions in the areas of research and investment at leading international banking groups. From December 1994 to May 1996, he was seconded as a full-time member to the Central Policy Unit of the Hong Kong Government. Mr. Chan has over 20 years' experience in finance, investment, planning and investor relations. Mr. Chan holds a Bachelor of Economics (Hon.) degree from the University of Sydney, Australia and a Master of Economics degree from the Australian National University.

Michael Yick-kam WONG, *Non-Executive Director*

Mr. Michael Wong (aged 56), was appointed Director of the Company in October 2001. He obtained his Bachelor of Business Administration and Master of Business Administration degrees from The Chinese University of Hong Kong.

Mr. Wong has been an Executive Director of SHKP since 1996 and is currently responsible for SHKP's strategic planning, corporate development, infrastructure projects, financial investments and investor relations. Mr. Wong is Deputy Chairman of RoadShow Holdings Limited, an Executive Director of SUNeVision Holdings Ltd. and a Non-Executive Director of USI Holdings Limited.

In community service, Mr. Wong is Chairman of the Hong Kong Youth Hostels Association. He is a member of the Steering Committee on Promotion of Volunteer Service and a member of the Steering Committee on Child Development Fund of the Hong Kong Government. He is also a member of the Board of Trustees of New Asia College, The Chinese University of Hong Kong, and a member of the Council of The Open University of Hong Kong.

Directors and Management Executives Profile

Wing-yui CHEUNG, *Non-Executive Director*

Mr. Wing-yui Cheung (aged 58), was appointed Director of the Company in March 2003. Mr. Cheung is a director of a number of other publicly listed companies, namely being non-executive director of Tai Sang Land Development Limited, SUNeVision Holdings Ltd., Tianjin Development Holdings Limited and Shanghai Real Estate Limited, and being independent non-executive director of Hop Hing Holdings Limited, Agile Property Holding Limited, Ping An Insurance (Group) Company of China, Limited.

Mr. Cheung was the Vice-Chairman of the Mainland Legal Affairs Committee of the Law Society of Hong Kong until January 2006 and was a director of Po Leung Kuk. He is currently a member of the Board of Review (Inland Revenue), co-chairman of The Community Chest Corporate Challenge Organising Committee, a director of the Community Chest, Vice-Chairman of The Open University of Hong Kong and a fellow member of the Institute of Directors. Mr. Cheung received a Bachelor of Commerce degree in accountancy from the University of New South Wales, Australia and is a member of the Australian Society of CPAs. Mr. Cheung has been a practising solicitor in Hong Kong since 1979 and is a consultant of the law firm Woo, Kwan, Lee & Lo. He was admitted as a solicitor in the United Kingdom and as an advocate and solicitor in Singapore.

David Norman PRINCE, *Non-Executive Director*

Mr. David Prince (aged 57), was appointed Director of the Company in July 2005. Mr. Prince has over 15 years' experience of operating at board level in an international environment.

He was Group Finance Director of Cable and Wireless plc. until December 2003 and prior to this, spent some 12 years working in the telecommunications industry in Hong Kong, Mainland China and Asia. From 1994 to 2000 he was Finance Director and latterly Deputy Chief Executive Officer of Hong Kong Telecommunications Limited and played a key role in developing this business leading to the sale of the company to PCCW Limited in 2000. He went on to join PCCW Limited as Group Chief Financial Officer primarily focused on the integration of the companies following the acquisition, and arranging for refinancing of the group. In 2002, he left PCCW to join Cable and Wireless as Group Finance Director.

Mr. Prince is currently a non-executive director and chairman of the audit committee for Ark Therapeutics plc. – a UK based specialist healthcare group and a non-executive director and member of the audit committee of Adecco SA which is the global leader in human resources services.

Wing-chung YUNG, *Non-Executive Director*

Mr. Wing-chung Yung (aged 61), was appointed Director of the Company in April 2007. Mr. Yung is the Corporate Advisor of SHKP. He is also a director of River Trade Terminal Co. Ltd., Hung Kai Finance Company Limited, YATA Limited, Hong Kong Business Aviation Centre Limited, Airport Freight Forwarding Centre Company Limited and an alternate director to Mr. Raymond Ping-luen Kwok of Transport International Holdings Limited. Prior to his joining SHKP in 1995, Mr. Yung had many years of working experience with a U.S. Bank in various managerial positions in Hong Kong and the United States.

Thomas Hon-wah SIU, *Non-Executive Director*

Mr. Thomas Siu (aged 55), was appointed Director of the Company in July 2008. Mr. Siu is the Managing Director of Wilson Group which is a major transport infrastructure services provider in Hong Kong. Wilson Group is a wholly-owned subsidiary of SHKP. Prior to joining Wilson Group, Mr. Siu had more than 25 years experience in telecommunications and IT sectors. His experience covers finance, business operations and development. Mr. Siu holds a MPhil degree from University of Cambridge and a PhD degree in Information Systems. He is a Certified Public Accountant and is a member of the British Computer Society.

Eric Ka-cheung LI, *JP, Independent Non-Executive Director*

Dr. Eric Li (aged 55), GBS, OBE, J.P., LLD, DSocSc., B.A., FCPA (Practising), FCA, FCPA (Aust.), FCIS, was appointed Director of the Company in October 1996. Dr. Li is the senior partner of Li, Tang, Chen & Co., Certified Public Accountants, an independent non-executive director of Transport International Holdings Limited, Wong's International (Holdings) Limited, Hang Seng Bank Limited, China Resources Enterprise Limited, Roadshow Holdings Limited, Bank of Communications Co., Ltd. and Meadville Holdings Limited and a non-executive director of SHKP. Dr. Li is a member of The 11th National Committee of Chinese People's Political Consultative Conference, an advisor to Ministry of Finance on international accounting standards, a convenor cum member of the Financial Reporting Review Panel, a member of the Commission on Strategic Development, a former member of the Legislative Council of Hong Kong and Chairman of its Public Accounts Committee. He was also a past president of the Hong Kong Institute of Certified Public Accountants (formerly Hong Kong Society of Accountants).

Leung-sing NG, *JP, Independent Non-Executive Director*

Mr. Leung-sing Ng (aged 59), was appointed Director of the Company in June 1997. Mr. Ng is a member of the board of MTR Corporation Limited, Hong Kong and the Vice Chairman of The Chiyu Banking Corporation Limited.

Mr. Ng had been appointed as the Chinese Representative of the Sino-British Land Commission and the trustee of Hong Kong Government Land Fund from 1988 to 1997. He was the executive director and general manager of The China and South Sea Bank Limited, Hong Kong from 1990 to 1998. Mr. Ng is a member of the Corporate Contribution Programme Organisation Committee of the Hong Kong Community Chest since 1992. Moreover, Mr. Ng has been appointed as a member of the Hong Kong Housing Authority since 1996. Mr. Ng was a member of the Legislative Council of Hong Kong from 1996 to 2004.

Mr. Ng has been a director of Bank of China Group Charitable Foundation Limited since 1996, a member of Mandatory Provident Fund Schemes Advisory Committee since 1998, and a member of Admission of Talents Scheme Selection Committee since 1999. In the same year, Mr. Ng was a committee member of Hong Kong Council of Social Services, and a member of The Council & The Court of The Lingnan University. Mr. Ng is also a member of Fisheries Development Loan Fund Advisory Committee since 2001. He was also appointed as the Justice of the Peace in 2001. In 2004, Mr. Ng was awarded the Silver Bauhinia Star by the HKSAR government.

Xiang-dong YANG, *Independent Non-Executive Director*

Mr. Xiang-dong Yang (aged 43), was appointed Director of the Company in December 2003.

Mr. Yang has been Managing Director and Co-Head of Carlyle Asia Partners of The Carlyle Group since 2001. Prior to joining Carlyle, Mr. Yang spent 9 years at Goldman Sachs, where he was a Managing Director, Co-Head of Goldman's private equity investment arm for Asia ex-Japan and a member of its Asia Management Committee.

Mr. Yang serves on the board of China Pacific Insurance (Group) Company Limited and a number of companies in which The Carlyle Group has investments.

Mr. Yang received his B.A. in economics from Harvard University and M.B.A. from Harvard Business School.

Directors and Management Executives Profile

Eric Fock-kin GAN, *Independent Non-Executive Director*

Mr. Eric Gan (aged 45), was appointed Director of the Company in December 2005. Mr. Gan is the President and Chief Operating Officer of EMOBILE Limited, the fourth 3G mobile operator in Japan. During the start-up stage of EMOBILE in 2005, Mr. Gan was the Representative Director and Chief Financial Officer of EMOBILE when he was responsible for the equity and debt financing of 390 billion yen for EMOBILE after the fourth 3G license was granted in November 2005. Following the completion of the financing project, EMOBILE has successfully launched the 3G mobile data services on March 2007.

Mr. Gan is also a co-founder of eAccess Ltd with Dr. Sachio Semmoto (CEO of eAccess and EMOBILE). During the first 3 years after the establishment of eAccess, Mr. Gan served as the Representative Director and Chief Operating Officer from 1999 to 2003. Prior to the IPO of eAccess, Mr. Gan took up the position of Representative Director and Chief Financial Officer from 2003 to 2007. eAccess has achieved the listing of the Tokyo Stock Exchange First Section (TSE1) in 2004, the fastest listing on the TSE1 ever in history. Mr. Gan was also involved in several successful M&A transactions including the acquisitions of Japan Telecom's ADSL (JDSL) business and the American On-line (AOL) business in Japan. Today, Mr. Gan still serves as a Director of the Board of eAccess.

Prior to the establishment of eAccess, Mr. Gan worked as a telecom analyst & Managing Director for Goldman Sachs Japan when he was involved in many telecommunication financing deals in Japan/Asia, including the listing of NTT DoCoMo (one of the world's largest IPOs), NTT equity tranches and many other telecom related IPO and advisory projects.

Mr. Gan was born in Hong Kong and graduated from Imperial College, University of London. Mr. Gan now lives in Japan (since 1990).

Peter David SULLIVAN, *Independent Non-Executive Director*

Mr. Peter Sullivan (aged 60), was appointed Director of the Company in April 2008. Mr. Sullivan graduated from the University of New South Wales in 1968 with a Bachelor of Science (Physical Education) degree. Mr. Sullivan joined Standard Chartered Bank (Hong Kong) Limited from September 2004 to December 2007 and served as its executive director and chief executive officer prior to his retirement. In addition, Mr. Sullivan held governance responsibility for franchises of the Standard Chartered Group in Japan, Australia, the Philippines and Bohai Bank in Tianjin, China. Mr. Sullivan held a number of other major appointments, including acting as the chairman of the Hong Kong Association of Banks and the British Chamber of Commerce. Mr. Sullivan is currently an independent non-executive director of Techtronic Industries Company Limited.

Members of Operations Committee

Stephen CHAU, *Chief Technology Officer*

Mr. Stephen Chau is a technology veteran in telecommunications with over 20 years' experience. Prior to joining the Group, he was with HK Telecom CSL for more than 6 years, responsible for radio network planning and development. From 1995 to 1996, Mr. Chau was a member of the Radio Spectrum Advisory Committee under the Office of the Telecommunications Authority. He is currently a member of the Advisory Committee on Electronic Engineering of The Chinese University of Hong Kong. He is a member of the Institute of Electrical Engineers, UK and the Institute of Engineers, Australia, as well as a Chartered Engineer of Institute of Electrical Engineers, UK. Mr. Chau holds a Bachelor degree in Electronic Engineering from The Chinese University of Hong Kong.

Rita HUI, *General Manager, Human Resources*

Ms. Rita Hui has more than 20 years' experience in human resources, administration and sales operations, as well as logistics gained from local and multi-national corporations. Ms. Hui is a member of the Education Working Party of the Hong Kong Retail Management Association. Additionally, she has been supporting the Hong Kong Baptist University for their Human Resources Management Mentoring Programme and she is also a member of the Electronics and Telecommunications Training Board of Vocational Training Council. She received her Joint Diploma in Personnel Management from the Hong Kong Polytechnic and the Hong Kong Management Association.

Alex IP, *Chief Executive Officer of SmarTone (Macau)*

Dr. Alex Ip has over 20 years' experience in international telecommunications and has been responsible for SmarTone's business in Macau since 2001. Prior to joining the Group, Dr. Ip was responsible for the development of BT (British Telecom)'s Internet and multimedia businesses and investment strategy in Asia Pacific. Dr. Ip holds a Ph.D. in Data Communications from Loughborough University in the UK and is a Chartered Engineer. He is also a member of the Institution of Engineering and Technology (IET) and the Institute of Electrical and Electronic Engineers (IEEE).

Chris LAU, *Director of Future Services*

Mr. Chris Lau has over 20 years' experience in telecommunications products and services development. Before joining the Group in 1992, he had held various product development positions in both mobile and fixed network operators in North America and Hong Kong. Mr. Lau is a Chartered Engineer and member of the Institute of Electrical Engineers, UK and Association of Professional Engineers of Ontario, Canada. Mr. Lau holds a Bachelor degree in Electrical and Electronics Engineering from the Institute of Science & Technology, University of Manchester, UK and High Diploma of Management Studies from City Polytechnic of Hong Kong.

Eric MALLIA, *Director of Marketing*

Mr. Mallia joined SmarTone-Vodafone in June 2006 and was appointed Director of Marketing in January 2007. Previously he worked for Vodafone as Global Brand Manager. He comes with 20 years strategic and operational marketing experience gained in Asia Pacific, Europe, Middle East and Africa. Prior to his four years at Vodafone, Eric worked at Cable & Wireless Mobile, Mercury Communications, BT and a host of client assignments in his capacity as an independent consultant. Eric holds a Bachelor of Sciences (Hons) from University College, London University.

Group Financial Summary

(Expressed in Hong Kong dollars in millions except per share amounts)

	2008	2007	2006	2005 (Restated)	2004 (Restated)
Consolidated profit and loss account					
Revenues	**4,073**	4,039	3,779	3,619	3,367
Profit attributable to equity holders of the Company	**276**	158	70	327	452
Earnings per share ($)	**0.48**	0.27	0.12	0.56	0.77
Dividends					
Total dividend	**276**	649	70	227	309
Total per share for the year ($)	**0.48**	0.27	0.12	0.39	0.53
Special cash dividend per share ($)	**Nil**	0.85	Nil	Nil	Nil
Consolidated balance sheet					
Non-current assets	**2,780**	2,724	2,848	3,529	3,650
Net current assets	**993**	1,641	1,351	665	484
Total assets less current liabilities	**3,773**	4,365	4,199	4,194	4,134
Non-current liabilities	**(813)**	(827)	(750)	(704)	(676)
Minority interests	**(28)**	(27)	(23)	(23)	(21)
Net assets	**2,932**	3,511	3,426	3,467	3,437
Share capital	**57**	58	58	58	58
Reserves	**2,875**	3,453	3,368	3,409	3,379
Total equity attibutable to equity holders of the Company	**2,932**	3,511	3,426	3,467	3,437

Note: The results for each of the two years ended 30 June 2004 and 2005 and the assets and liabilities as at 30 June 2004 and 2005 have been restated to reflect the effect of the adoption of HKAS 16, HKAS 38 and HKFRS 2 issued by HKICPA.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

To the shareholders of **SmarTone Telecommunications Holdings Limited**
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of SmarTone Telecommunications Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 41 to 90, which comprise the consolidated and Company balance sheets as at 30 June 2008, and the consolidated profit and loss account, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 30 June 2008 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 August 2008

Consolidated Profit and Loss Account

For the year ended 30 June 2008
(Expressed in Hong Kong dollars)

	Note	2008 $000	2007 $000
Mobile services		**3,432,943**	3,146,057
Mobile telephone and accessory sales		**640,479**	892,865
Revenues	6	**4,073,422**	4,038,922
Cost of inventories sold and services provided		**(1,324,071)**	(1,532,749)
Network costs		**(667,841)**	(614,831)
Staff costs		**(429,727)**	(395,119)
Sales and marketing expenses		**(269,010)**	(281,451)
Rental and utilities		**(154,802)**	(143,406)
Other operating expenses		**(140,264)**	(131,007)
Depreciation, amortisation and loss on disposal		**(743,392)**	(757,047)
Operating profit		**344,315**	183,312
Finance income	7	**76,603**	99,570
Finance costs	8	**(83,598)**	(78,293)
Profit before income tax	9	**337,320**	204,589
Income tax expense	10(a)	**(31,342)**	(27,664)
Profit after income tax		**305,978**	176,925
Attributable to:			
Equity holders of the Company		**275,755**	157,563
Minority interests		**30,223**	19,362
		305,978	176,925
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in cents per share)	15		
Basic		**47.8**	27.1
Diluted		**47.8**	27.1
Dividends	16		
Interim dividend paid		**161,115**	—
Final dividend proposed		**114,572**	156,387
Special cash dividend proposed		**—**	492,329
		275,687	648,716

The notes on pages 49 to 90 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

At 30 June 2008
(Expressed in Hong Kong dollars)

	Note	2008 $000	2007 $000
Non-current assets			
Fixed assets	17	**1,846,948**	1,832,045
Interest in an associate	19	**1,812**	1,812
Financial investments	20	**95,823**	58,854
Intangible assets	21	**780,509**	783,925
Deposits and prepayments – non-current portion	22	**55,275**	47,673
		2,780,367	2,724,309
Current assets			
Inventories	23	**68,401**	75,066
Financial investments	20	**—**	31,340
Trade receivables	22	**201,351**	179,418
Deposits and prepayments – current portion	22	**103,317**	82,078
Other receivables	22	**52,708**	31,143
Cash and bank balances	24	**1,636,501**	2,316,455
		2,062,278	2,715,500
Current liabilities			
Trade payables	25	**161,766**	154,984
Other payables and accruals	25	**663,110**	711,787
Current income tax liabilities	10(c)	**64,646**	31,612
Customers' deposits		**26,897**	31,312
Deferred income		**79,788**	79,549
Mobile licence fee liabilities – current portion	27	**73,500**	65,895
		1,069,707	1,075,139
Net current assets		**992,571**	1,640,361
Total assets less current liabilities		**3,772,938**	4,364,670
Non-current liabilities			
Asset retirement obligations		**52,687**	47,587
Mobile licence fee liabilities – non-current portion	27	**656,739**	649,809
Deferred income tax liabilities	26	**103,960**	129,613
Net assets		**2,959,552**	3,537,661
Capital and reserves			
Share capital	28	**57,312**	58,018
Reserves		**2,874,327**	3,452,526
Total equity attributable to equity holders of the Company		**2,931,639**	3,510,544
Minority interests		**27,913**	27,117
Total equity		**2,959,552**	3,537,661

Raymond Kwok Ping-luen	**Douglas Li**
Director	*Director*
28 August 2008	28 August 2008

The notes on pages 49 to 90 are an integral part of these consolidated financial statements.

Balance Sheet

At 30 June 2008
(Expressed in Hong Kong dollars)

	Note	2008 $000	2007 $000
Non-current assets			
Investments in subsidiaries	18(a)	**939,189**	939,189
Current assets			
Amount due from a subsidiary	18(b)	**3,455,962**	2,871,756
Prepayments	22	**214**	161
Other receivables	22	**1,669**	2,312
Cash and bank balances	24	**330,514**	322,917
		3,788,359	3,197,146
Current liabilities			
Amount due to a subsidiary	18(c)	**1,246,769**	403,845
Other payables and accruals	25	**2,853**	2,251
		1,249,622	406,096
Net current assets		**2,538,737**	2,791,050
Net assets		**3,477,926**	3,730,239
Capital and reserves			
Share capital	28	**57,312**	58,018
Reserves		**3,420,614**	3,672,221
Total equity attributable to equity holders of the Company		**3,477,926**	3,730,239

Raymond Kwok Ping-luen
Director
28 August 2008

Douglas Li
Director
28 August 2008

The notes on pages 49 to 90 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 30 June 2008
(Expressed in Hong Kong dollars)

	Note	2008 $000	2007 $000
Cash flows from operating activities			
Profit before income tax		**337,320**	204,589
Adjustments for:			
Depreciation	17	**450,388**	468,728
Amortisation of intangible assets	21	**283,654**	275,515
Loss on disposal of fixed assets (note below)		**9,350**	12,804
Finance income		**(76,603)**	(99,570)
Finance costs		**83,598**	78,293
Recognition of share-based payments		**21**	866
Net exchange loss/(gain)		**1,367**	(4,617)
		1,089,095	936,608
Changes in working capital			
Decrease in inventories		**6,665**	4,506
Increase in trade receivables, deposits, prepayments and other receivables		**(74,789)**	(34,432)
Increase in trade and other payables, accruals, customers' deposits and deferred income		**14,778**	62,192
Cash generated from operations		**1,035,749**	968,874
Interest paid		**(2)**	(2)
Income tax paid		**(23,961)**	(27,464)
Net cash generated from operating activities		**1,011,786**	941,408
Cash flows from investing activities			
Payment for purchase of fixed assets		**(533,857)**	(391,645)
Proceeds from disposal of fixed assets (note below)		**705**	551
Payment for available-for-sale financial assets	20(a)	**—**	(674)
Payment of mobile licence fees		**(65,895)**	(52,407)
Payment for purchase of held-to-maturity debt securities	20(b)	**(40,726)**	—
Distributions from available-for-sale financial assets	20(a)	**12,188**	—
Proceeds from held-to-maturity debt securities upon maturity	20(b)	**31,340**	660,238
Additions of handset subsidies		**(280,238)**	(193,428)
Interest received		**79,025**	96,552
Net cash (used in)/generated from investing activities		**(797,458)**	119,187

	Note	2008 $000	2007 $000
Cash flows from financing activities			
Repayment of loan from a minority interest		**—**	(9,515)
Payment for repurchase of shares		**(64,249)**	(22,082)
Proceeds from shares issued under share option scheme		**8,811**	248
Increase in pledged bank deposits		**(8,764)**	(3,663)
Dividends paid to the Company's equity holders		**(809,408)**	(69,935)
Dividends paid to a minority interest		**(29,427)**	(6,525)
Net cash used in financing activities		**(903,037)**	(111,472)
Net (decrease)/increase in cash and cash equivalents		**(688,709)**	949,123
Cash and cash equivalents at 1 July		**1,992,060**	1,038,530
Effect of foreign exchange rates changes		**(9)**	4,407
Cash and cash equivalents at 30 June	24	**1,303,342**	1,992,060

In the consolidated cash flow statement, proceeds from disposal of fixed assets comprise:

	2008 $000	2007 $000
Net book amount of disposed fixed assets (note 17)	**10,055**	13,355
Loss on disposal of fixed assets	**(9,350)**	(12,804)
Proceeds from disposal of fixed assets	**705**	551

The notes on pages 49 to 90 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2008
(Expressed in Hong Kong dollars)

	Attributable to equity holders of the Company										
	Share capital $000	Share premium $000	Revaluation reserve $000	Capital redemption reserve $000	Contributed surplus $000	Employee share-based compen-sation reserve $000	Exchange reserve $000	Retained profits $000	Total $000	Minority interests $000	Total $000
Group											
At 1 July 2006	58,279	—	—	2,690	2,371,112	14,864	270	978,327	3,425,542	23,795	3,449,337
Revaluation surplus of financial investments	—	—	17,899	—	—	—	—	—	17,899	—	17,899
Currency translation differences	—	—	—	—	—	—	443	—	443	—	443
Net income recognised directly in equity	58,279	—	17,899	2,690	2,371,112	14,864	713	978,327	3,443,884	23,795	3,467,679
Profit for the year	—	—	—	—	—	—	—	157,563	157,563	19,362	176,925
Total recognised income and expense for 2007	58,279	—	17,899	2,690	2,371,112	14,864	713	1,135,890	3,601,447	43,157	3,644,604
Employee share-based compensation	—	—	—	—	—	866	—	—	866	—	866
Repurchase of shares	(264)	—	—	264	(21,818)	—	—	(264)	(22,082)	—	(22,082)
Issue of shares	3	270	—	—	—	(25)	—	—	248	—	248
Repayment of loan	—	—	—	—	—	—	—	—	—	(9,515)	(9,515)
Payment of 2007 interim dividend to a minority interest	—	—	—	—	—	—	—	—	—	(6,525)	(6,525)
Payment of 2006 final dividend	—	—	—	—	—	—	—	(69,935)	(69,935)	—	(69,935)
At 30 June 2007	58,018	270	17,899	2,954	2,349,294	15,705	713	1,065,691	3,510,544	27,117	3,537,661

	Attributable to equity holders of the Company										
	Share capital $000	Share premium $000	Revaluation reserve $000	Capital redemption reserve $000	Contributed surplus $000	Employee share-based compen- sation reserve $000	Exchange reserve $000	Retained profits $000	Total $000	Minority interests $000	Total $000
Group											
At 1 July 2007	58,018	270	17,899	2,954	2,349,294	15,705	713	1,065,691	3,510,544	27,117	3,537,661
Revaluation surplus of financial investments	—	—	8,402	—	—	—	—	—	8,402	—	8,402
Currency translation differences	—	—	—	—	—	—	1,763	—	1,763	—	1,763
Net income recognised directly in equity	58,018	270	26,301	2,954	2,349,294	15,705	2,476	1,065,691	3,520,709	27,117	3,547,826
Profit for the year	—	—	—	—	—	—	—	275,755	275,755	30,223	305,978
Total recognised income and expense for 2008	58,018	270	26,301	2,954	2,349,294	15,705	2,476	1,341,446	3,796,464	57,340	3,853,804
Employee share-based compensation	—	—	—	—	—	21	—	—	21	—	21
Repurchase of shares	(804)	—	—	804	(63,445)	—	—	(804)	(64,249)	—	(64,249)
Issue of shares	98	10,642	—	—	—	(1,929)	—	—	8,811	—	8,811
Payment of 2007 final dividend to a minority interest	—	—	—	—	—	—	—	—	—	(3,113)	(3,113)
Payment of 2008 interim dividend to a minority interest	—	—	—	—	—	—	—	—	—	(26,314)	(26,314)
Payment of 2007 final and special cash dividends	—	—	—	—	—	—	—	(648,366)	(648,366)	—	(648,366)
Payment of 2008 interim dividend	—	—	—	—	—	—	—	(161,042)	(161,042)	—	(161,042)
At 30 June 2008	**57,312**	**10,912**	**26,301**	**3,758**	**2,285,849**	**13,797**	**2,476**	**531,234**	**2,931,639**	**27,913**	**2,959,552**

The notes on pages 49 to 90 are an integral part of these consolidated financial statements.

Statement of Changes in Equity

For the year ended 30 June 2008
(Expressed in Hong Kong dollars)

	Share capital $000	Share premium $000	Capital redemption reserve $000	Contributed surplus $000	Retained profits $000	Total $000
Company						
At 1 July 2006	58,279	—	2,690	3,110,301	596,985	3,768,255
Profit for the year	—	—	—	—	53,753	53,753
Total recognised income and expense for 2007	58,279	—	2,690	3,110,301	650,738	3,822,008
Repurchase of shares	(264)	—	264	(21,818)	(264)	(22,082)
Issue of shares	3	270	—	—	(25)	248
Payment of 2006 final dividend	—	—	—	—	(69,935)	(69,935)
At 30 June 2007	58,018	270	2,954	3,088,483	580,514	3,730,239
At 1 July 2007	58,018	270	2,954	3,088,483	580,514	3,730,239
Profit for the year	—	—	—	—	612,533	612,533
Total recognised income and expense for 2008	58,018	270	2,954	3,088,483	1,193,047	4,342,772
Repurchase of shares	(804)	—	804	(63,445)	(804)	(64,249)
Issue of shares	98	10,642	—	—	(1,929)	8,811
Payment of 2007 final and special cash dividends	—	—	—	—	(648,366)	(648,366)
Payment of 2008 interim dividend	—	—	—	—	(161,042)	(161,042)
At 30 June 2008	**57,312**	**10,912**	**3,758**	**3,025,038**	**380,906**	**3,477,926**

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account is distributable to equity holders.

The notes on pages 49 to 90 are an integral part of these consolidated financial statements.

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 (the "HKSE").

These consolidated financial statements are presented in thousands of units of Hong Kong dollars (HK$000), unless otherwise stated. These consolidated financial statements have been approved for issue by the board of directors on 28 August 2008.

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 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 Group'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 or revised HKFRS

For the year ended 30 June 2008, the Group adopted the new standards, amendments to published standards and interpretations of HKFRS below, which are relevant to its operations.

HKAS 1 (Amendment)	Presentation of Financial Statements – Capital Disclosure
HKFRS 7	Financial Instruments: Disclosure
HK (IFRIC) – INT 10	Interim Financial Reporting and Impairment
HK (IFRIC) – INT 11	HKFRS 2 – Group and Treasury Share Transactions

The adoption of Amendment to HKAS 1, HKFRS 7, and HK (IFRIC) Interpretation 10 and 11 did not have a material impact on the Group's financial statements other than on increase in disclosure. In summary:

- The amendments to HKFRS 7 and complementary amendment to HKAS 1 introduce new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Group's financial instruments, or the disclosures relating to taxation and trade and other payables.

- HK (IFRIC) – INT 10 prohibits the impairment losses recognised in an interim period on goodwill and investment in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This standard does not have any impact on the Group's financial statements.

- HK (IFRIC) – INT 11 provides guidance on whether share-based transactions involving treasury shares or involving Group entities should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. The interpretation does not have any impact on the Group's financial statements.

(Expressed in Hong Kong dollars)

3. Basis of preparation *(Continued)*

a The adoption of new or revised HKFRS *(Continued)*

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 2008 or later periods but which the Group has not early adopted, are as follows:

HKAS 1 (Revised)	Presentation of Financial Statements [1]
HKAS 32 and HKAS 1 Amendments	Puttable Financial Instruments and Obligations Arising on Liquidation [1]
HKAS 23 (Revised)	Borrowing Costs [1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements [2]
HKFRS 2 (Amendment)	Share-based Payment Vesting Conditions and Cancellations [1]
HKFRS 3 (Revised)	Business Combination [2]
HKFRS 8	Operating Segments [1]
HK (IFRIC) – INT 12	Service Concession Arrangements [3]
HK (IFRIC) – INT 13	Customer Loyalty Programmes [4]
HK (IFRIC) – INT 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction [3]

[1] Effective for annual periods beginning on or after 1 January 2009.
[2] Effective for annual periods beginning on or after 1 July 2009.
[3] Effective for annual periods beginning on or after 1 January 2008.
[4] Effective for annual periods beginning on or after 1 July 2008.

Except for the following new standards, amendments and interpretations, these new standards, amendments and interpretations are not relevant to the Group:

HKAS 1 (Revised), "Presentation of Financial Statements"

HKAS 1 (Revised) requires all owner changes in equity to be presented in a statement of changes in equity. All comprehensive income is presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). It requires presenting a statement of financial position as at the beginning of the earliest comparative period in a complete set of financial statements when there are retrospective adjustments or reclassification adjustments. However, it does not change the recognition, measurement or disclosure of specific transactions and other events required by other HKFRSs. The Group will apply HKAS 1 (Revised) from 1 July 2009.

HKAS 23 (Revised), "Borrowing Costs"

The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply HKAS 23 (Revised) from 1 July 2009 but is currently not applicable to the Group as there are no qualifying assets.

HKAS 27 (Revised), "Consolidated and Separate Financial Statements"

The amendment requires non-controlling interests (i.e. minority interests) to be presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent. Total comprehensive income must be attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Changes in a parent's ownership interest in a subsidiary that do not result in the loss of control are accounted for within equity. When control of a subsidiary is lost, the assets and liabilities and related equity components of the former subsidiary are derecognised. Any gain or loss is recognised in profit or loss. Any investment retained in the former subsidiary is measured at its fair value at the date when control is lost. The Group will apply HKAS 27 (Revised) from 1 July 2009.

3. Basis of preparation *(Continued)*

a The adoption of new or revised HKFRS *(Continued)*

HKFRS 2 Amendment, "Share-based Payment Vesting Conditions and Cancellations"

The amendment clarifies the definition of "vesting conditions" and specifies the accounting treatment of "cancellations" by the counterparty to a share-based payment arrangement. Vesting conditions are service conditions (which require a counterparty to complete a specified period of service) and performance conditions (which require a specified period of service and specified performance targets to be met) only. All "non-vesting conditions" and vesting conditions that are market conditions shall be taken into account when estimating the fair value of the equity instruments granted. All cancellations are accounted for as an acceleration of vesting and the amount that would otherwise have been recognised over the remainder of the vesting period is recognised immediately. The Group will apply HKFRS 2 (Amendment) from 1 July 2010 and this standard does not have significant impact on the results of operations of the Group.

HKFRS 8, "Operating Segments"

HKFRS 8 replaces HKAS 14. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply HKFRS 8 from 1 July 2009. The Group has already commenced on assessment of the impact of this new standard, but is not yet in a position to state whether this new standard would have a significant impact on its results of operations and financial position.

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 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.

3. Basis of preparation *(Continued)*

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 long-term 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 assets transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's 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 dividends received and receivable.

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 Hong Kong 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 the consolidated profit and loss account, 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.

3. Basis of preparation *(Continued)*

e Foreign currency translation *(Continued)*

(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.

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 (the "3G Licence"), renewal of the Global System for Mobile communications licence (the "GSM Licence") and Personal Communications Services Licence (the "PCS 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.

3. Basis of preparation *(Continued)*

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 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.

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 amounts. These are included in the consolidated profit and loss account.

3. Basis of preparation *(Continued)*

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 tested at least 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.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2008
(Expressed in Hong Kong dollars)

3. Basis of preparation *(Continued)*

j Financial assets

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.

(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, which 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. Held-to-maturity debt securities are initially recognised at costs on settlement date – the date on which the Group settle the purchase or sale of assets. If the Group were to sell or reclassify other than an insignificant amount of held-to-maturity debt securities, the whole category would be tainted and reclassified as available-for-sale financial assets. Held-to-maturity debt securities 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.

The Group assess 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 debt securities, a significant or prolonged deterioration of credit rating is considered as an indicator that the held-to-maturity debt securities are impaired. If any such evidence exists for held-to-maturity debt securities, the loss (measured as the difference between the amortised cost and the current fair value) is recognised in the consolidated profit and loss account.

(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 way 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.

3. Basis of preparation *(Continued)*

j Financial assets *(Continued)*

(iii) Available-for-sale financial assets *(Continued)*

Changes in the fair value of monetary securities denominated in a foreign currency and classified 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 the consolidated profit and loss account, 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 or 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 as 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).

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".

3. Basis of preparation *(Continued)*

m Cash and cash equivalents

In the consolidated 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 and borrowing costs

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.

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

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

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.

3. Basis of preparation *(Continued)*

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 reliably 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.

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 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.

3. Basis of preparation *(Continued)*

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.

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.

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 Impairment of assets

At each balance sheet date, the Group performs an impairment assessment of 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.

5. Financial risk management

This section presents information about the Group's management and control of financial risks. The major types of financial risk to which the Group was exposed include market risk, credit risk and liquidity risk. The Group's treasury policy, approved from time to time by the board of directors, is designed to minimise the Group's exposure to financial risks. The Group's risk management policy focuses on the unpredictability of financial markets and seeks to mitigate potential adverse effects on the Group's financial performance.

a Financial risks

(i) Market risk

The Group's market risk consists of foreign exchange risk, interest rate risk and price risk. There has been no change to the manner in which the Group manages and measures such risks.

Foreign exchange risk

The Group's functional currency is the Hong Kong dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations, primarily with respect to the US dollar, Euro, Macau Pataca and Renminbi. In addition, the conversion of Renminbi into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the People's Republic of China. Any change in the exchange rates of these currencies to Hong Kong dollar will impact the Group's operating results.

Certain of the assets of the Group are principally denominated in US dollar. Hong Kong dollar is pegged to US dollar, and thus foreign exchange exposure is considered as minimal. The Group currently does not undertake any foreign currency hedging.

At 30 June 2008, the Group had net financial assets denominated in foreign currencies amounting to $961,970,000 (2007: $1,015,389,000), of which the net financial assets denominated in the US dollar accounted for 89% (2007: 97%).

At 30 June 2008, if Hong Kong dollar had weakened or strengthened by 1% against the US dollar with all other variables were held constant, the pre-tax profit of the Group would increase or decrease by $8,539,000 (2007: $9,878,000).

Interest rate risk

The Group's interest rate risk arises primarily from the holding of bank deposits. Held-to-maturity debt securities expose the Group to fair value interest rate risk.

The Group follows a policy which involves close monitoring interest rate movements and entering into new banking facilities when favourable pricing opportunities arise.

At 30 June 2008, if interest rates had increased or decreased by 100 basis points and all other variables were held constant, the pre-tax profit of the Group would increase or decrease by $16,365,000 (2007: $23,165,000) mainly as a result of higher or lower interest income on bank deposits.

The 100 basis point movement represents the management's assessment of a reasonably possible change in interest rate over the period until the next annual reporting date.

5. Financial risk management *(Continued)*

a Financial risks *(Continued)*

(i) Market risk *(Continued)*

Price risk

The Group is exposed to price risk through its holding of available-for-sale financial assets. The available-for-sale financial assets are stated at fair value based on the net asset value per unit of the respective funds as determined by the managers of the relevant funds. The Group manages its exposure by closely monitoring the price movements and the change in market conditions that may affect the value of these investments.

At 30 June 2008, if the fair value of the available-for-sale financial assets had increased or decreased by 10% and all other variables were held constant, the investment revaluation reserve would increase or decrease by $5,506,000 (2007: $5,885,000).

(ii) Credit risk

The Group's holding of cash and bank balances, and held-to-maturity debt securities expose the Group to credit risk of the counterparties. The Group manages its credit risk to non-performance of its counterparties by monitoring their credit rating and setting approved counterparty limits that are regularly reviewed. In accordance with the treasury policy, the Group invests its surplus funds by placing deposits with credit worthy banks and financial institutions or investing in held-to-maturity debt securities of investment grade, with a minimum credit rating of Baa as rated by Moody's or BBB as rated Standard & Poor's.

The Group is also exposed to credit risk from its operating activities. The credit periods granted by the Group to its customers generally range from 15 days to 45 days from the date of invoice. The Group does not have a significant exposure to any individual debtor.

(iii) Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its obligations when they fall due, resulting from amount and maturity mismatches of assets and liabilities.

The Group employs projected cash flow analysis to manage liquidity risk by forecasting the amount of cash required and monitoring the Group's working capital to ensure that all liabilities due and known funding requirements could be met.

The Group maintains a conservative level of liquid assets to ensure the availability of sufficient cash to meet any unexpected and material cash requirements in the normal course of business. In addition, standby credit facilities are established to provide contingent liquidity support.

5. Financial risk management *(Continued)*

a Financial risks *(Continued)*

(iii) Liquidity risk *(Continued)*

The following table details the contractual maturity of the Group's financial liabilities. The table has been drawn up based on the undiscounted cash flow of financial liabilities based on the earliest date on which the Group can be required to pay.

	1 year or less $000	1 year to 2 years $000	2 years to 5 years $000	Over 5 years $000	Total $000
At 30 June 2008					
Trade payables	**161,766**	**—**	**—**	**—**	**161,766**
Other payables and accruals	**663,110**	**—**	**—**	**—**	**663,110**
Mobile licence fee liabilities	**76,020**	**86,144**	**351,890**	**791,887**	**1,305,941**
Total	**900,896**	**86,144**	**351,890**	**791,887**	**2,130,817**
At 30 June 2007					
Trade payables	154,984	—	—	—	154,984
Other payables and accruals	711,787	—	—	—	711,787
Mobile licence fee liabilities	65,895	76,020	298,433	931,488	1,371,836
Total	932,666	76,020	298,433	931,488	2,238,607

b Capital risk management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders.

The Group defines capital as total equity attributable to equity holders of the Company, comprising share capital and reserves. The Group actively and regularly reviews and manages its capital structure to ensure optimal capital and shareholder returns, taking into consideration the future capital requirements of the Group and capital efficiency, projected operating cash flows and projected capital expenditures. The Group adopts a dividend policy, under which the Group distributes each year 100% of its profit attributable to equity holders excluding extraordinary items as dividend.

c Fair value estimation

The fair values of financial instruments that are not traded in active markets are determined based on the latest available financial information existing at each balance sheet date. The carrying amounts of financial assets, trade receivables and trade 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 2008			
	Hong Kong	**Macau**	**Others**	**Consolidated**
	$000	**$000**	**$000**	**$000**
Revenues	**3,826,516**	**280,562**	**(33,656)**	**4,073,422**
Operating profit/Segment result	**223,727**	**120,588**	**—**	**344,315**
Finance income				**76,603**
Finance costs				**(83,598)**
Profit before income tax				**337,320**
Income tax expense				**(31,342)**
Profit after income tax				**305,978**
Segment assets	**4,596,259**	**148,751**	**97,635**	**4,842,645**
Segment liabilities	**(1,682,619)**	**(31,868)**	**(168,606)**	**(1,883,093)**
Additions to fixed assets	**442,333**	**32,613**	**—**	**474,946**
Additions to intangible assets	**278,736**	**1,502**	**—**	**280,238**
Depreciation	**427,764**	**22,624**	**—**	**450,388**
Amortisation	**282,480**	**1,174**	**—**	**283,654**
Loss/(gain) on disposal of fixed assets	**9,571**	**(221)**	**—**	**9,350**
Impairment loss of trade receivables	**10,523**	**534**	**—**	**11,057**
(Reversal of impairment loss)/impairment loss of inventories	**(1,676)**	**9**	**—**	**(1,667)**

6. Segment reporting *(Continued)*

	For the year ended 30 June 2007			
	Hong Kong $000	Macau $000	Others $000	Consolidated $000
Revenues	3,848,779	215,572	(25,429)	4,038,922
Operating profit/Segment result	106,566	76,425	321	183,312
Finance income				99,570
Finance costs				(78,293)
Profit before income tax				204,589
Income tax expense				(27,664)
Profit after income tax				176,925
Segment assets	5,227,723	120,080	92,006	5,439,809
Segment liabilities	(1,713,032)	(27,891)	(161,225)	(1,902,148)
Additions to fixed assets	362,940	26,718	—	389,658
Additions to intangible assets	258,520	961	—	259,481
Depreciation	451,738	16,990	—	468,728
Amortisation	274,679	836	—	275,515
Loss on disposal of fixed assets	12,757	47	—	12,804
Impairment loss of trade receivables	11,251	268	—	11,519
Impairment loss of inventories/ (reversal of impairment loss)	8,174	(2)	—	8,172

Other segment assets consist of interest in an associate and financial investments.

Other segment liabilities consist of current income tax liabilities and deferred income tax liabilities.

7. Finance income

	2008 $000	2007 $000
Interest income from debt securities		
Listed	**143**	1,354
Unlisted	**—**	1,502
	143	2,856
Interest income from deposits with banks and other financial institutions	**73,228**	94,060
Accretion income	**3,232**	2,654
	76,603	99,570

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

8. Finance costs

	2008 $000	2007 $000
Accretion expenses		
Asset retirement obligations	**3,166**	1,457
Mobile licence fee liabilities (note 27)	**80,430**	76,834
Other borrowing costs	**2**	2
	83,598	78,293

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

9. Profit before income tax

Profit before income tax is stated after crediting and charging the following:

	2008	2007
	$000	$000
Cost of inventories sold	**623,913**	880,731
Amortisation		
Handset subsidies	**219,271**	212,231
Mobile licence fees	**64,383**	63,284
Depreciation		
Owned fixed assets	**370,576**	389,338
Leased fixed assets	**79,812**	79,390
Operating lease rentals for land and buildings, transmission sites and leased lines	**611,331**	560,166
Auditors' remuneration	**1,480**	1,480
Loss on disposal of fixed assets	**9,350**	12,804
Net exchange gain	**(1,815)**	(4,445)
Contributions to defined contribution plans included in staff costs* (note 13)	**22,441**	19,412

* *Net of forfeited contributions of $2,292,000 (2007: $3,403,000).*

10. Income tax expense

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 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:

	2008	2007
	$000	$000
Current income tax		
Hong Kong profits tax	**43,138**	21,768
Overseas tax	**14,549**	9,152
(Over)/under provision in prior year tax charge		
Hong Kong profits tax	**(692)**	124
Deferred income tax (note 26)	**(25,653)**	(3,380)
	31,342	27,664

10. Income tax expense *(Continued)*

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

	2008	2007
	$000	$000
Profit before income tax	**337,320**	204,589
Notional tax on profit before income tax, calculated at Hong Kong tax rate of 16.5% (2007: 17.5%)	**55,658**	35,803
Effect on opening deferred tax balances resulting from a decrease in tax rate during the year	**(7,407)**	—
Effect of different tax rates in other countries	**(5,287)**	(3,948)
Expenses not deductible for tax purposes	**493**	72
Income not subject to tax	**(12,465)**	(17,785)
Tax losses for which no deferred income tax asset was recognised	**623**	66
Utilisation of previously unrecognised tax losses	**(31)**	(11,015)
(Over)/under provision in prior year	**(692)**	124
Temporary differences not recognised	**450**	24,347
Income tax expense	**31,342**	27,664

c Current income tax liabilities in the consolidated balance sheet:

	2008	2007
	$000	$000
Hong Kong profits tax	**44,767**	19,235
Overseas tax	**19,879**	12,377
	64,646	31,612

11. Directors' emoluments

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

	2008	2007
	$000	$000
Non-executive directors		
Fees	**1,320**	1,300
Executive directors		
Fees	**160**	160
Salaries and allowances	**12,401**	11,173
Bonuses	**2,226**	1,026
Retirement scheme contributions	**1,025**	895
	15,812	13,254
	17,132	14,554

During the years ended 30 June 2007 and 2008, 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. The details of these benefits in kind are disclosed under the section "Share Option Scheme" in the Report of the Directors and note 29.

The emoluments of the directors are within the following bands:

	2008	2007
	Number of directors	Number of directors
$0 – $1,000,000	**11**	11
$4,000,001 – $4,500,000	**—**	1
$4,500,001 – $5,000,000	**1**	—
$8,500,001 – $9,000,000	**—**	1
$11,000,001 – $11,500,000	**1**	—
	13	13

11. Directors' emoluments *(Continued)*

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

	2008					2007
	Fees $000	**Salaries and allowances $000**	**Bonuses $000**	**Retirement scheme contributions $000**	**Total $000**	Total $000
Executive Directors						
Mr. Douglas Li	**80**	**8,625**	**1,833**	**647**	**11,185**	8,865
Mr. Patrick Chan Kai-lung	**80**	**3,776**	**393**	**378**	**4,627**	4,389
Non-Executive Directors						
Mr. Raymond Kwok Ping-luen	**100**	**—**	**—**	**—**	**100**	100
Mr. Michael Wong Yick-kam	**200**	**—**	**—**	**—**	**200**	200
Mr. Andrew So Sing-tak[(1)]	**80**	**—**	**—**	**—**	**80**	80
Mr. Cheung Wing-yui	**80**	**—**	**—**	**—**	**80**	80
Mr. David Norman Prince	**80**	**—**	**—**	**—**	**80**	80
Mr. Yung Wing-chung [(2)]	**80**	**—**	**—**	**—**	**80**	20
Dr. Eric Li Ka-cheung, JP *	**200**	**—**	**—**	**—**	**200**	200
Mr. Ng Leung-sing, JP *	**200**	**—**	**—**	**—**	**200**	200
Mr. Yang Xiang-dong *	**80**	**—**	**—**	**—**	**80**	80
Mr. Eric Gan Fock-kin *	**200**	**—**	**—**	**—**	**200**	200
Mr. Peter David Sullivan * [(3)]	**20**	**—**	**—**	**—**	**20**	—
Mr. Ernest Lai Ho-kai [(4)]	**—**	**—**	**—**	**—**	**—**	60
	1,480	**12,401**	**2,226**	**1,025**	**17,132**	14,554
2007	1,460	11,173	1,026	895		

* Independent Non-Executive Director

(1) Resigned on 13 June 2008

(2) Appointed on 4 April 2007

(3) Appointed on 17 April 2008

(4) Resigned on 4 April 2007

12. Five highest paid individuals

Of the five highest paid individuals, two (2007: two) are directors whose emoluments are disclosed in note 11. The aggregate of the emoluments in respect of the other three (2007: three) individuals are as follows:

	2008	2007
	$000	$000
Salaries and allowances	**9,108**	7,242
Bonuses	**515**	765
Retirement scheme contributions	**705**	653
	10,328	8,660

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 Scheme" in the Report of the Directors and note 29.

The emoluments of the three (2007: three) highest paid individuals are within the following bands:

	2008	2007
	Number of individuals	Number of individuals
$2,000,001 – $2,500,000	**1**	2
$3,000,001 – $3,500,000	**1**	—
$4,000,001 – $4,500,000	**—**	1
$4,500,001 – $5,000,000	**1**	—
	3	3

13. 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 2007 and 2008, all available forfeited contributions had been utilised by the Group to reduce its contributions payable.

The 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.

14. Profit attributable to equity holders of the Company

The consolidated profit attributable to equity holders of the Company includes a profit of $612,533,000 (2007: $53,753,000) which has been dealt with in the financial statements of the Company.

15. Earnings per share

The calculations of basic and diluted earnings per share are based on the Group's profit attributable to equity holders of $275,755,000 (2007: $157,563,000).

The basic earnings per share is based on the weighted average number of shares in issue during the year of 576,920,845 (2007: 582,016,324). The diluted earnings per share is based on 577,410,448 (2007: 582,063,916) shares which is the weighted average number of shares in issue during the year plus the weighted average number of 489,603 (2007: 47,592) shares deemed to be issued at no consideration if all outstanding options had been exercised.

16. Dividends

	2008	2007
	$000	$000
Interim dividend, paid, of 28 cents (2007: nil) per share	**161,115**	—
Final dividend, proposed, of 20 cents (2007: 27 cents) per share	**114,572**	156,387
Special cash dividend, proposed, of nil (2007: 85 cents) per share	**—**	492,329
	275,687	648,716

At a meeting held on 4 March 2008, the directors declared an interim dividend of 28 cents per share for the year ended 30 June 2008, which was paid on 15 April 2008 and has been reflected as an appropriation of retained profits for the year ended 30 June 2008.

At a meeting held on 28 August 2008, the directors proposed a final dividend of 20 cents 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 2009.

The proposed final dividend is calculated based on the number of shares in issue at the date of approval of these financial statements.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2008
(Expressed in Hong Kong dollars)

17. Fixed assets

	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 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
Year ended 30 June 2007						
Opening net book amount	40,289	1,567,222	90,468	10,435	215,650	1,924,064
Exchange differences	144	—	162	100	—	406
Additions	28,445	14,172	25,425	6,541	315,075	389,658
Reclassifications	—	252,318	—	—	(252,318)	—
Disposals	(457)	(11,860)	(52)	(26)	(960)	(13,355)
Depreciation	(25,470)	(403,502)	(35,942)	(3,814)	—	(468,728)
Closing net book amount	42,951	1,418,350	80,061	13,236	277,447	1,832,045
At 30 June 2007						
Cost	201,985	4,550,531	564,944	60,362	277,447	5,655,269
Accumulated depreciation	(159,034)	(3,132,181)	(484,883)	(47,126)	—	(3,823,224)
Net book amount	42,951	1,418,350	80,061	13,236	277,447	1,832,045
Year ended 30 June 2008						
Opening net book amount	**42,951**	**1,418,350**	**80,061**	**13,236**	**277,447**	**1,832,045**
Exchange differences	**159**	**—**	**120**	**121**	**—**	**400**
Additions	**24,714**	**24,800**	**30,972**	**3,211**	**391,249**	**474,946**
Reclassifications	**86**	**360,458**	**—**	**(7)**	**(360,537)**	**—**
Disposals	**(101)**	**(3,500)**	**(59)**	**(76)**	**(6,319)**	**(10,055)**
Depreciation	**(20,984)**	**(386,880)**	**(38,180)**	**(4,344)**	**—**	**(450,388)**
Closing net book amount	**46,825**	**1,413,228**	**72,914**	**12,141**	**301,840**	**1,846,948**
At 30 June 2008						
Cost	**200,246**	**4,812,989**	**579,568**	**57,896**	**301,840**	**5,952,539**
Accumulated depreciation	**(153,421)**	**(3,399,761)**	**(506,654)**	**(45,755)**	**—**	**(4,105,591)**
Net book amount	**46,825**	**1,413,228**	**72,914**	**12,141**	**301,840**	**1,846,948**

At 30 June 2008, the net book amount of fixed assets held by the Group under finance leases amounted to $124,626,000 (2007: $204,464,000).

18. Investments in subsidiaries

a Investment in subsidiaries

	2008	2007
	$000	$000
Unlisted shares, at cost	**939,189**	939,189

Particulars of the principal subsidiaries at 30 June 2008 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-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.

b Amount due from a subsidiary

	2008	2007
	$000	$000
Amount due from a subsidiary	**3,455,962**	2,871,756

c Amount due to a subsidiary

	2008	2007
	$000	$000
Amount due to a subsidiary	**1,246,769**	403,845

The amounts due from/to subsidiaries are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts approximate fair values.

19. Interest in an associate

	2008 $000	2007 $000
Share of net assets	**—**	—
Amount due from an associate, less provision	**1,812**	1,812
	1,812	1,812

	2008 $000	2007 $000
At 1 July 2006, 30 June 2007 and 30 June 2008	**1,812**	1,812

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

Particulars of the associate at 30 June 2008 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. The carrying amounts approximate their fair values.

20. Financial investments

	2008 $000	2007 $000
Available-for-sale financial assets (a)	**55,068**	58,854
Held-to-maturity debt securities (b)	**40,755**	31,340
	95,823	90,194
Less: Held-to-maturity debt securities maturing within one year of the balance sheet date included under current assets	**—**	(31,340)
Total non-current financial investments	**95,823**	58,854

20. Financial investments *(Continued)*

a Available-for-sale financial assets

	2008	2007
	$000	$000
At 1 July	**58,854**	40,281
Additions	**—**	674
Distributions	**(12,188)**	—
Revaluation surplus	**8,402**	17,899
At 30 June	**55,068**	58,854

The available-for-sale financial assets are denominated in US dollars, unlisted and traded on inactive markets and of private issuers.

The available-for-sale financial assets are stated at fair value based on the net asset value per unit of the respective funds as determined by the managers of the relevant funds.

b Held-to-maturity debt securities

	2008	2007
	$000	$000
At 1 July	**31,340**	692,180
Additions	**40,726**	—
Amortisation	**29**	(806)
Redemption upon maturity	**(31,340)**	(660,238)
Exchange differences	**—**	204
At 30 June	**40,755**	31,340

The held-to-maturity debt securities are denominated in US dollars with credit rating of A- as rated by Standard & Poor's (2007: A-).

The maximum exposure to credit risk at the reporting date is the carrying amount of held-to-maturity debt securities.

The carrying amounts approximate their fair values.

During the years ended 30 June 2007 and 2008, no gain or loss arose on the disposal of held-to-maturity debt securities.

	2008	2007
	$000	$000
Proceeds from maturity of securities	**31,340**	660,238
Carrying value at dates of redemption/maturity	**(31,340)**	(660,238)
Net realised gain on disposal	**—**	—

21. Intangible assets

	Handset subsidies $000	Mobile licence fees $000	Total $000
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
Year ended 30 June 2007			
Opening net book amount	168,462	631,497	799,959
Additions	193,428	66,053	259,481
Amortisation *	(212,231)	(63,284)	(275,515)
Closing net book amount	149,659	634,266	783,925
At 30 June 2007			
Cost	327,482	789,102	1,116,584
Accumulated amortisation	(177,823)	(154,836)	(332,659)
Net book amount	149,659	634,266	783,925
Year ended 30 June 2008			
Opening net book amount	**149,659**	**634,266**	**783,925**
Additions	**280,238**	**—**	**280,238**
Amortisation *	**(219,271)**	**(64,383)**	**(283,654)**
Closing net book amount	**210,626**	**569,883**	**780,509**
At 30 June 2008			
Cost	**387,143**	**789,102**	**1,176,245**
Accumulated amortisation	**(176,517)**	**(219,219)**	**(395,736)**
Net book amount	**210,626**	**569,883**	**780,509**

* *Included handset subsidies written off of $7,898,000 (2007: $4,469,000).*

22. Trade and other receivables

	Group		Company	
	2008	2007	**2008**	2007
	$000	$000	**$000**	$000
Trade receivables	**212,878**	192,423	**—**	—
Less: provision for impairment of trade receivables	**(11,527)**	(13,005)	**—**	—
Trade receivables – net	**201,351**	179,418	**—**	—
Deposits and prepayments	**158,592**	129,751	**214**	161
Other receivables	**52,708**	31,143	**1,669**	2,312
	412,651	340,312	**1,883**	2,473
Less: deposits and prepayments – non-current portion	**(55,275)**	(47,673)	**—**	—
Current portion	**357,376**	292,639	**1,883**	2,473

As at 30 June 2008, deposits of $96,878,000 (2007: $83,960,000) were not due and there is no concentration of credit risk with respect to deposits, as the Group has placed deposits to a large number of debtors.

The maximum exposure to credit risk at the reporting date is the carrying amount of deposits, trade and other receivables.

The credit periods granted by the Group to its customers generally range from 15 days to 45 days from the date of invoice. An ageing analysis of trade receivables, net of provisions, is as follows:

	2008	2007
	$000	$000
Current to 30 days	**171,408**	159,535
31 – 60 days	**21,499**	15,304
61 – 90 days	**5,339**	3,365
Over 90 days	**3,105**	1,214
	201,351	179,418

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 $11,057,000 (2007: $11,519,000) for the impairment of its trade receivables during the year ended 30 June 2008. The loss has been included in other operating expenses in the consolidated profit and loss account.

At 30 June 2008, trade receivables of $42,933,000 (2007: $31,768,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. An ageing analysis of these trade receivables is as follows:

	2008	2007
	$000	$000
Within 30 days	**34,489**	27,189
31 – 60 days	**5,339**	3,365
Over 60 days	**3,105**	1,214
	42,933	31,768

22. Trade and other receivables *(Continued)*

The movements in the provision for impairment of trade receivables are as follows:

	2008	2007
	$000	$000
At 1 July	**13,005**	14,241
Impairment loss recognised in the consolidated profit and loss account	**11,057**	11,519
Amounts written off during the year	**(12,535)**	(12,755)
At 30 June	**11,527**	13,005

As of 30 June 2008, trade receivables of $11,527,000 (2007: $13,005,000) were impaired and fully provided. The individually impaired receivables mainly relate to independent customers, which are in unexpected difficult economic situations.

23. Inventories

	2008	2007
	$000	$000
Mobile telephones and accessories, at cost	**82,215**	90,547
Less: provision for slow-moving and obsolete inventories	**(13,814)**	(15,481)
	68,401	75,066

Inventories represent goods held for resale. At 30 June 2008, inventories carried at cost and inventories carried at net realisable values amounted to $64,594,000 (2007: $67,423,000) and $3,807,000 (2007: $7,643,000) respectively.

The Group reversed $1,667,000 (2007: recognised $8,172,000) of provision for slow moving and obsolete inventories during the year ended 30 June 2008. The amount reversed has been included in cost of inventories sold in the consolidated profit and loss account.

24. Cash and bank balances

	Group		Company	
	2008	2007	**2008**	2007
	$000	$000	**$000**	$000
Short-term pledged bank deposits	**333,159**	324,395	**328,832**	320,068
Cash at bank and in hand	**145,342**	68,070	**1,682**	2,849
Short-term bank deposits	**1,158,000**	1,923,990	**—**	—
Cash and cash equivalents	**1,303,342**	1,992,060	**1,682**	2,849
	1,636,501	2,316,455	**330,514**	322,917
Maximum exposure to credit risk	**1,632,166**	2,310,399	**330,514**	322,917

At 30 June 2008, cash and bank balances amounting to $834,691,000 are denominated in US dollars (2007: $996,364,000).

There is no concentration of credit risk with respect to bank balances, as the Group has placed deposits with a number of financial institutions.

Of the pledged bank deposits, $226,244,000 (2007: $200,933,000) has been pledged as cash collateral for the Group's 3G Licence performance bond as referred to in note 30 – "Commitments and contingent liabilities".

25. Trade and other payables

	Group		Company	
	2008	2007	**2008**	2007
	$000	$000	**$000**	$000
Trade payables	**161,766**	154,984	**—**	—
Other payables and accruals	**663,110**	711,787	**2,853**	2,251
Current portion	**824,876**	866,771	**2,853**	2,251

An ageing analysis of trade payables is as follows:

	2008	2007
	$000	$000
Current to 30 days	**93,400**	75,656
31 – 60 days	**49,912**	40,094
61 – 90 days	**10,855**	9,769
Over 90 days	**7,599**	29,465
	161,766	154,984

26. Deferred income tax

Deferred income tax for the Group's temporary differences arising from operations in Hong Kong and overseas is calculated at 16.5% (2007: 17.5%) and the appropriate current tax rates 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, as shown in the consolidated balance sheet are as follows:

	2008 **$000**	2007 $000
Deferred income tax liabilities	**103,960**	129,613

The movements in the deferred income tax liabilities/(assets) are as follows:

	Deferred income tax liabilities in relation to accelerated tax allowances $000	Deferred income tax assets in relation to tax losses $000	Total $000
At 1 July 2006	138,443	(5,450)	132,993
Recognised in the consolidated profit and loss account (note 10 (a))	(8,830)	5,450	(3,380)
At 30 June 2007	129,613	—	129,613
At 1 July 2007	129,613	—	129,613
Recognised in the consolidated profit and loss account (note 10 (a))	(25,653)	—	(25,653)
At 30 June 2008	**103,960**	**—**	**103,960**

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

The Group has not recognised deferred income tax assets of $10,997,000 (2007: $11,664,000) in respect of tax losses of $66,651,000 (2007: $66,651,000). The tax losses do not expire under current tax legislation.

27. Mobile licence fee liabilities

	2008 $000	2007 $000
At 1 July	**715,704**	625,224
Additions	**—**	66,053
Accretion expenses included in consolidated profit and loss account (note 8)	**80,430**	76,834
Payment	**(65,895)**	(52,407)
At 30 June	**730,239**	715,704
Less: Mobile licence fee liabilities – current portion	**(73,500)**	(65,895)
Non-current portion	**656,739**	649,809

Analysis of the present value of mobile licence fee liabilities:

	2008 $000	2007 $000
Minimum annual fees payable		
Within one year	**76,020**	65,895
After one year but within five years	**438,034**	374,453
After five years	**791,887**	931,488
	1,305,941	1,371,836
Less: Future finance charges	**(575,702)**	(656,132)
Present value of mobile licence fee liabilities	**730,239**	715,704
Comprising:		
Within one year	**73,500**	65,895
After one year but within five years	**314,005**	269,447
After five years	**342,734**	380,362
	730,239	715,704

28. Share capital

	Shares of $0.1 each	$000
Authorised		
At 1 July 2006, 30 June 2007 and 30 June 2008	**1,000,000,000**	**100,000**
Issued and fully paid		
At 1 July 2006	582,791,428	58,279
Issue of new shares upon exercise of share options (a)	28,500	3
Repurchase of shares (b)	(2,641,000)	(264)
At 30 June 2007	**580,178,928**	**58,018**
Issue of new shares upon exercise of share options (c)	**979,000**	**98**
Repurchases of shares (d)	**(8,042,000)**	**(804)**
At 30 June 2008	**573,115,928**	**57,312**

a During the year ended 30 June 2007, options were exercised to subscribe for 28,500 shares in the Company at a consideration of $248,000, of which $3,000 was credited to share capital and the balance of $245,000 was credited to the share premium account. In respect of the options exercised, an amount of $25,000 was reversed from the employee share-based compensation reserve and credited to the share premium account.

b During the year ended 30 June 2007, the Company repurchased 2,641,000 shares on the HKSE. These repurchased shares were cancelled prior to 30 June 2007. The total amount paid to acquire these shares of $22,082,000 was deducted from shareholders' equity.

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
March 2007	139,500	$7.78	$7.50	1,069
May 2007	1,305,000	$9.12	$8.88	11,776
June 2007	283,000	$9.00	$8.76	2,518
	2,641,000			22,082

c During the year ended 30 June 2008, options were exercised to subscribe for 979,000 shares in the Company at a consideration of $8,811,000, of which $98,000 was credited to share capital and the balance of $8,713,000 was credited to the share premium account. In respect of the options exercised, an amount of $1,929,000 was reversed from the employee share-based compensation reserve and credited to the share premium account.

28. Share capital *(Continued)*

d During the year ended 30 June 2008, the Company repurchased 8,042,000 shares on the HKSE. Of these repurchased shares, 7,722,000 were cancelled prior to 30 June 2008. The total amount paid to acquire these shares of $64,249,000 was deducted from shareholders' equity.

Month of repurchase	Number of shares repurchased	Price per share Highest	Price per share Lowest	Aggregate price paid $000
July 2007	968,500	$9.20	$8.85	8,702
October 2007	1,090,000	$9.48	$9.06	10,091
November 2007	1,916,000	$9.34	$7.24	14,898
December 2007	202,000	$7.29	$7.29	1,473
January 2008	1,570,000	$7.22	$6.95	11,130
March 2008	260,000	$7.38	$7.37	1,917
May 2008	629,000	$8.00	$7.88	4,977
June 2008	1,406,500	$7.91	$7.82	11,061
	8,042,000			64,249

29. Share option scheme

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. The details of the terms of the share option scheme are disclosed under the section "Share Option Scheme" in the Report of the Directors. Below is a summary of the share options issued.

a Movements in share options

	2008	2007
Number of share options		
At 1 July	**10,653,500**	11,834,500
Exercised	**(979,000)**	(28,500)
Cancelled or lapsed	**(388,000)**	(1,152,500)
At 30 June	**9,286,500**	10,653,500
Share options vested at 30 June	**9,286,500**	10,589,167

The weighted average exercise price of cancelled or lapsed share options during the year was $9.00 (2007: $8.79).

29. Share option scheme *(Continued)*

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

Date of grant	Exercise period	Exercise price	**2008 Number of share options**	2007 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	**5,960,000**	7,327,000
1 March 2005	1 March 2006 to 28 February 2015	$9.05	**193,000**	193,000
			9,286,500	10,653,500

c No share options were granted during the years ended 30 June 2007 and 2008. The amount of employee share-based payment charged to the consolidated profit and loss account for the year was $21,000 (2007: $866,000).

d Details of share options exercised

For the year ended 30 June 2008:

Exercise date	Number of shares	Exercise price	Market value per share at exercise date	Proceeds received $000
31 August 2007	117,000	$9.00	$9.81	1,053
26 October 2007	97,000	$9.00	$9.60	873
30 October 2007	100,000	$9.00	$9.55	900
31 October 2007	290,000	$9.00	$9.46	2,610
1 November 2007	175,000	$9.00	$9.45	1,575
5 November 2007	200,000	$9.00	$8.10	1,800
	979,000			8,811

The weighted average exercise price during the year was $9.00.

For the year ended 30 June 2007:

Exercise date	Number of shares	Exercise price	Market value per share at exercise date	Proceeds received $000
11 April 2007	28,500	$8.70	$9.30	248

The weighted average exercise price during the year was $8.70.

30. Commitments and contingent liabilities

a Capital commitments

Capital commitments outstanding at 30 June 2008 not provided for in the financial statements were as follows:

	Group	
	2008	2007
	$000	$000
Contracted for		
Fixed assets	**292,933**	53,178
Held-to-maturity debt securities	**41,446**	—
Equity securities	**3,550**	3,557
Authorised but not contracted for	**420,126**	490,333
	758,055	547,068

The Company did not have any capital commitments at 30 June 2008 (2007: 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 2008, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	Group	
	2008	2007
	$000	$000
Land and buildings and transmission sites		
Within one year	**391,131**	363,793
After one year but within five years	**271,697**	245,054
After five years	**20,686**	27,939
	683,514	636,786
Leased lines		
Within one year	**34,505**	29,510
After one year but within five years	**27,014**	19,765
After five years	**1,714**	2,176
	63,233	51,451

The Company did not have any operating lease commitments at 30 June 2008 (2007: Nil).

30. Commitments and contingent liabilities *(Continued)*

c Performance bonds

	Group		Company	
	2008	2007	**2008**	2007
	$000	$000	**$000**	$000
Hong Kong 3G Licence	**452,487**	401,865	**452,487**	401,865
Other	**1,942**	1,942	**—**	—
	454,429	403,807	**452,487**	401,865

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 2007, the sixth anniversary of the issue of the 3G Licence and subsequent to the payment of the sixth year spectrum utilisation fee of $60,124,000, the performance bond was revised. The revised bond was for $452,487,000 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.

31. Related party transactions

The Group is controlled by Cellular 8 Holdings Ltd, which owns 55.49% of the Company's shares. The remaining 44.51% of the shares are widely held. The ultimate holding company of the Group is SHKP, a company incorporated in Hong Kong.

a During the year, the Group had significant transactions with certain fellow subsidiaries and associates of SHKP 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.

	2008	2007
	$000	$000
Operating lease rentals for land and buildings and transmission sites (i)	**71,507**	65,401
Insurance expense (ii)	**3,681**	3,630

(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 2008, rental and licence fees paid and payable to subsidiaries and associated companies of SHKP totalled $71,507,000 (2007: $65,401,000).

(ii) Insurance services

Sun Hung Kai Properties Insurance Limited, a wholly owned subsidiary of SHKP, provide general insurance services to the Group. For the year ended 30 June 2008, insurance premiums paid and payable were $3,681,000 (2007: $3,630,000).

b At 30 June 2008, 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 Key management compensation

	For the year ended 30 June	
	2008	2007
	$000	$000
Salaries and other short-term employee benefits	**26,140**	23,251
Share-based payments	**—**	348
	26,140	23,599

31. Related party transactions *(Continued)*

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:

	2008	2007
	$000	$000
Trade receivables (note 22)	**381**	611
Deposits and prepayments (note 22)	**5,674**	4,407
Trade payables (note 25)	**98**	413
Other payables and accruals (note 25)	**1,875**	1,769

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

32. Ultimate holding company

The directors consider the ultimate holding company at 30 June 2008 to be Sun Hung Kai Properties Limited, a company incorporated in Hong Kong with its shares listed on the main board of HKSE.