

SmarTone Telecommunications Holdings Limited

(Stock Code: 315)



Annual Report
2008/2009

Love the difference

SmarTone-Vodafone adopted a new brand expression for its communications in May 2009. "Love the difference" encapsulates our commitment to create and deliver unbeatable experiences to targeted customer segments through relevant, easy-to-use and innovative products and services.

This new brand expression also illustrates to our staff and business partners what we stand for and how we operate:

- We make lives richer through **innovation** – we're passionate in pursuing technology to develop compelling and differentiated services
- We make lives happier through **quality** – we're driven in our quest for continuous improvement
- We make lives easier through **service** – we're attentive to the smallest details and go the extra mile in providing a service level that is second to none

With our combination of innovation, quality and service, we are able to deliver outstanding value to customers.

This is the SmarTone-Vodafone difference.

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About Us

SmarTone Telecommunications Holdings Limited is a leader in total communications in Hong Kong, providing voice, multimedia and broadband services in the mobile and fixed markets through its ubiquitous GSM/3G/HSPA+ network.

The company's goal is to create and deliver unbeatable experiences to targeted customer segments through relevant, easy-to-use and innovative products and services.

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 developers in Hong Kong.

Key Events

2008

July

Named the Most Premium Mobile Communications Services in Capital CEO Supreme Brand Awards

August

First Experience Store opened in Central



September

Recognised as the Best Telecommunications Network in Prime Awards for Brand Excellence

November

Title-sponsored SmarTone-Vodafone HK Challenge for the second year and raised HK\$360,000 for the SmarTone-Vodafone AYP International Exchange Programme Fund to support underprivileged youths to participate in international exchange programmes



December

Partnered with Ericsson on world's first MIMO (multiple-input, multiple-output) pilot implementation



Selected as Service Retailer of the Year 2008 (Telecommunications Category) in the Mystery Shoppers Programme of Hong Kong Retail Management Association

Won Capital Weekly PRO Choice Award – Mobile Network

2009

February

Won Sing Tao Daily's Excellent Services Brand Award – Mobile Network Provider

March

Named the Best Mobile Broadband Service Provider in the 9th Capital Outstanding Enterprise Awards

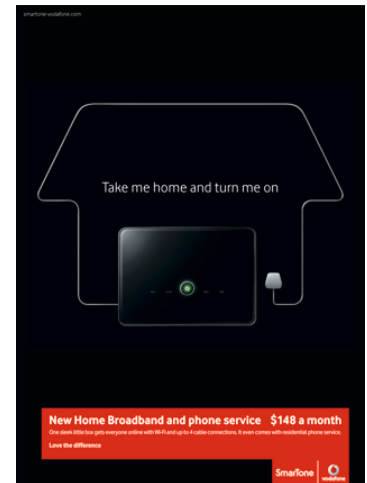
April

Submitted application to bid for a 3G licence in Macau

Awarded Reader's Digest Trusted Brand – Phone Service (Fixed Line/Mobile)

May

Launched Home Broadband and Phone service



Launched HTC Magic, first Android-powered smartphone in Hong Kong

June

Successfully bid for additional 1800 MHz spectrum for implementation of 4G LTE in a more effective and efficient way

Won Next Magazine's Top Service Award – Mobile Service for the seventh consecutive year



Won Yahoo! Emotive Brand Award – Mobile/Internet Service

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 Fulcrum Group (Bermuda) Limited
Rosebank Centre, 11 Bermudiana Road,
Pembroke HM 08, 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	
	2009	2008
Consolidated profit and loss account		
Revenues	3,703	4,073
Profit attributable to equity holders of the Company	42	276
Earnings per share (\$)	0.08	0.48
Total dividends per share (\$)	0.08	0.48
Consolidated balance sheet		
Total assets	4,504	4,843
Current liabilities	(1,016)	(1,070)
Total assets less current liabilities	3,488	3,773
Non-current liabilities	(805)	(813)
Minority interests	(34)	(28)
Net assets	2,649	2,932
Share capital	54	57
Reserves	2,595	2,875
Total equity attributable to equity holders of the Company	2,649	2,932
Consolidated cashflow		
Net cash generated from operating activities	845	1,012
Interest received	37	79
Purchase of fixed assets	(496)	(534)
Additions of handet subsidies	(245)	(280)
Payment of repurchase of shares	(196)	(64)
Dividends paid (include minority interests)	(125)	(839)
Other	(86)	(45)
Net decrease in pledged bank deposits, cash and cash equivalents, and held-to-maturity debt securities	(266)	(671)

Chairman's Statement

I am pleased to report the results of the Group for the year ended 30 June 2009.

Financial Highlights

Total revenue declined by 9% to \$3,703 million mainly due to downward pressure on local tariffs and a substantial drop in roaming revenue amidst the global economic downturn. Earnings before interest, tax, depreciation and amortisation ("EBITDA") dropped by 18% to \$891 million. Higher handset subsidy amortisation and a drop in interest income reduced profitability further. Profit attributable to equity holders decreased by 85% to \$42 million. Earnings per share amounted to 7.6 cents.

Dividend

In line with the Group's dividend policy of full distribution of profit attributable to equity holders excluding extraordinary items, your Board proposes a final dividend of 8 cents per share.

Business Review

Hong Kong

Service revenue for the year under review dropped by 5%, with majority of the decline registered in the second half of the financial year. Data revenue continued to grow, at 16% over the previous year, but that was unable to offset the continuing decline in local tariffs and the lower roaming revenue. Handset revenue, net of subsidies, dropped by 30% as both average selling price and the number of handsets sold fell.

Customer numbers increased by 4% to 1,164,000 as of 30 June 2009, of which postpaid customers accounted for 70% of the total. Blended ARPU declined 7% to \$220. Postpaid churn rate averaged 2.0% in the year under review.

Leveraging on the speed and capacity of its 3G/HSPA/HSPA+ radio network, and using its existing distribution and retail channels, SmarTone-Vodafone has made encouraging inroads in the fixed-line market by offering a wireless fixed broadband and telephone service as a substitute to the traditional fixed-line service. This wireless fixed service sets new standards in fixed-line service, providing unrivalled ease of set-up, convenience and flexibility to customers, while its coverage provides wider availability than those of many fixed-line providers.

Taking the lead in touchscreen smartphones, SmarTone-Vodafone introduced the HTC Magic to the Hong Kong market. Based on the powerful Android™ operating system developed by Google, the HTC Magic leads the market in ease of use as a phone and messaging device, as well as providing a fast and intuitive Internet experience that is second to none. It uniquely offers user customisation to further enhance usability and flexibility. Optimised access to Google Internet services adds to its appeal; and its support of widgets allows SmarTone-Vodafone to develop many Internet-assisted applications that can better cater to Hong Kong customers' needs. Many Android-powered smartphones, from a range of leading brands, are being brought to market and this presents an opportunity for SmarTone-Vodafone to further differentiate its services, and to show its strengths in network performance to the full.

Further extending its mobile broadband proposition, SmarTone-Vodafone launched the Vodafone Netbook Vitesse, with built-in mobile broadband. Weighing less than a kilo and sporting a slim, sleek and attractive design, it has proved popular with customers who value the portability, convenience and style.

The Group declined to bid up prices in the auction for 2500/2600 MHz spectrum for LTE, as the Group considers implementation of LTE on the 1800 MHz band more cost effective as it requires fewer base stations for any given coverage requirement. There are now growing indications that many operators around the world are considering the same low frequency-band approach, given the compelling coverage and cost advantages.

In June, the Group acquired an additional 2 x 1.6 MHz of spectrum in the 1800 MHz frequency band. This will enable a more efficient implementation of LTE on the 1800 MHz band, as well as providing substantial cost savings in managing existing customer traffic during LTE roll-out.

With the advent of wireless broadband, widening proliferation of Internet applications, and the increasing customer demand for more powerful devices like smartphones, the need for a reliable network, providing ever faster speed and high capacity, has never been greater. To further extend its leadership in network performance, your Company has continued to invest here. Its upgrade to a full all-IP infrastructure is ahead of schedule and is anticipated to be completed in 2009. This would enable future speed and capacity upgrades, well into the LTE era.

Various cost cutting measures put in place since the economic slowdown has contained operating costs in the second half of the financial year, notwithstanding a widened scope of business, together with substantial technology upgrade and network expansion.

Macau

The Macau economy slowed significantly during the year under review because of reduced number of visitors to Macau, particularly from the Mainland. Local service revenue and inbound roaming revenue were adversely affected, resulted in lower profitability. To increase our revenue market share, new price plans were launched in January 2009, targeting wider segments of the mass market.

The Group bid for a 3G licence in Macau and will look to provide service in 2010 if a licence is granted.

Prospects

While general economic sentiments have improved recently, the business environment remains very challenging. On-going competition in the local market is expected to result in lower tariff and higher handset subsidies. Roaming revenue has stabilised recently but remains substantially below last year's level.

With the increasing popularity of smartphones and mobile broadband, the Company will continue to develop new multimedia services and Internet-assisted applications to capture additional revenue, and to upgrade its network for higher speed and capacity.

Broadening its source of revenue, and to achieve greater utilisation of its network and service infrastructure resource, the Company now serves both the mobile and fixed-line markets with voice, broadband and multimedia services. New service propositions and integrated solutions are becoming increasingly available to better serve customers' needs.

In the light of the difficult economy and continuing intense competition, profitability will remain under pressure and improvement is uncertain. The Group continues to seek costs reduction while not compromising on the level of service that is consistent with our brand.

Together with a strong balance sheet, your Company is well positioned to meet the short term challenges and capture opportunities in the long term.

Appreciation

During the year, Mr. Thomas Hon-wah Siu was appointed Non-Executive Director of your Company. I would like to welcome 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, 2 September 2009

Management Discussion and Analysis

Review of financial results

Revenues dropped by 9% to \$3,703 million (2007/08: \$4,073 million), comprising a 5% decline in service revenue and a 30% fall in handset and accessory sales. Corresponding to the drop in revenues, cost of inventories sold and services provided decreased by 18% to \$1,085 million (2007/08: \$1,324 million). Operating expenses rose by 4%. As a result, earnings before interest, tax, depreciation and amortisation decreased by 18% to \$891 million (2007/08: \$1,088 million). After a 4% rise in depreciation, amortisation and loss on disposal, operating profit decreased by 66% to \$116 million (2007/08: \$344 million). Finance income decreased by 53%. Finance costs, comprising mainly of accretion expenses in relation to mobile licence fees, remained stable. Profit attributable to equity holders of the Company decreased by 85% to \$42 million (2007/08: \$276 million).



Home Broadband and Phone Service

Revenues dropped by \$370 million or 9% to \$3,703 million (2007/08: \$4,073 million).

- Service revenue declined by \$178 million or 5% to \$3,255 million (2007/08: \$3,433 million) attributable to lower local voice, prepaid and roaming revenue, offsetting the growth in data service revenue. Local voice and prepaid revenue decreased as a result of lower tariffs driven by market competition. The reduction in business travel since late 2008 amidst the global economic downturn had a significant negative impact on roaming revenue.

Hong Kong blended ARPU declined by 7% to \$220 (2007/08: \$237), reflecting continued downward pressure on local tariffs and lower roaming revenue.

Data service revenue achieved a strong 16% growth driven by growing adoption of multimedia services, but the growth in corporate email services was affected by the economic slowdown.

- Handset and accessory sales fell by \$192 million or 30% to \$448 million (2007/08: \$640 million) as both the number of handsets sold and average unit handset price (after handset subsidy) were lower.

Cost of inventories sold and services provided decreased by 18% to \$1,085 million (2007/08: \$1,324 million). Cost of inventories sold fell by 30% to \$435 million (2007/08: \$624 million) in line with the decline in handset and accessory sales. Cost of services provided dropped by 7% to \$650 million (2007/08: \$700 million) driven by lower roaming partner and interconnection charges.



Vodafone Netbook Vitesse

Operating expenses, excluding depreciation, amortisation and loss on disposal, rose by 4% to \$1,727 million (2007/08: \$1,662 million). Network operating costs increased by 9% as the Group continued to enhance its network capacity, quality and coverage. The upgrade to a full all-IP infrastructure resulted in cost increases during the transition period but an improved cost structure going forward. Sales and marketing expenses decreased by 9% as a result of lower spending in advertising campaigns. Staff costs, rental and utilities, and other operating expenses increased by 4% collectively.

Depreciation and loss on disposal of fixed assets fell by 2% to \$452 million (2007/08: \$460 million). Handset subsidy amortisation rose by 18% to \$259 million (2007/08: \$219 million), reflecting heavy handset subsidies offered to customers during the past 24 months. With handset subsidy capitalised during the year of \$245 million (2007/08: \$280 million), unamortised handset subsidy remained high at \$196 million as at 30 June 2009 (30 June 2008: \$211 million). Mobile licence fee amortisation remained stable at \$64 million (2007/08: \$64 million).

Finance income decreased by 53% to \$36 million (2007/08: \$77 million) attributable to lower average balance of bank deposits and debt securities, and reduced average returns thereon as a result of lower interest rates. Finance costs, comprising mainly of accretion expenses for mobile licence fee liabilities, remained stable at \$84 million (2007/08: \$84 million).

The global economic downturn had a negative impact on the results of Macau operations. Revenues declined by 13% to \$243 million (2007/08: \$281 million). Cost of inventories sold and services provided decreased by 8%. Operating expenses, depreciation and amortisation increased by 8% collectively. As a result, operating profit fell by 36% to \$77 million (2007/08: \$121 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 2009. The Group was financed by share capital and internally generated funds during the year. The cash resources of the Group remained strong with cash and bank balances (including pledged bank deposits) and investments in held-to-maturity debt securities of \$1,411 million at 30 June 2009 (30 June 2008: \$1,677 million). As at 30 June 2009, the Group had no bank or other borrowings.

During the year ended 30 June 2009, the Group's net cash generated from operating activities and interest received amounted to \$845 million and \$37 million respectively. The Group's major outflows of funds during the year under review were payments for the purchase of fixed assets, handset subsidies, mobile licence fees, share repurchases and 2007/08 final dividend.

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 2010 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 and United States dollars. 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.

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. Pledged bank deposits amounted to \$389 million as at 30 June 2009 (30 June 2008: \$333 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.



HTC Hero™



HTC Magic™

Management Discussion and Analysis

Contingent assets and liabilities

Fixed-mobile interconnection charge

As at 30 June 2009, the Group had contingent assets and liabilities in respect of fixed-mobile interconnection charge of up to \$24 million (30 June 2008: nil) and \$16 million (30 June 2008: nil) respectively as disclosed in note 32 to the consolidated financial statements.

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 2009 under these performance bonds was \$505 million (30 June 2008: \$454 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 1,861 full-time employees as at 30 June 2009 (30 June 2008: 1,790), with the majority of them based in Hong Kong. Total staff costs were \$449 million for the year ended 30 June 2009 (2007/08: \$430 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 2009, no share options were granted or exercised; and 440,000 share options were cancelled or lapsed. At 30 June 2009, 8,846,500 share options (30 June 2008: 9,286,500) were outstanding.



BlackBerry® Storm™

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 2009.

Principal activities

The principal activity of the Company is investment holding. The activities of its principal subsidiaries are shown in note 20 to the consolidated financial statements.

Results

The results of the Group for the year ended 30 June 2009 are set out in the consolidated profit and loss account on page 39.

Dividend

The Directors recommended the payment of a final dividend for the year ended 30 June 2009 of \$0.08 per share (2007/08: \$0.20 per share). As no interim dividend was paid during the year (2007/08: \$0.28 per share), the proposed final dividend makes a total dividend for the year of \$0.08 per share (2007/08: \$0.48 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 36.

Reserves

Movements in the reserves of the Group and the Company during the year are set out on pages 45 and 46 respectively.

Distributable reserves

The reserves available for distribution to the shareholders of the Company amounted to \$3,103,284,000 at 30 June 2009 (30 June 2008: \$3,405,944,000).

Donations

During the year, charitable and other donations made by the Group amounted to \$89,000 (2007/08: \$149,000).

Fixed assets

Details of the movements in fixed assets are shown in note 19 to the consolidated financial statements.

Share capital

Details of the movements in share capital of the Company are shown in note 30 to the consolidated 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
<i>Chairman</i> | ** Dr. Eric Ka-cheung Li, JP |
| Mr. Douglas Li
<i>Chief Executive Officer</i> | ** Mr. Leung-sing Ng, JP |
| Mr. Patrick Kai-lung Chan | ** Mr. Xiang-dong Yang |
| * Mr. Michael Yick-kam Wong | ** Mr. Eric Fock-kin Gan |
| * Mr. Wing-yui Cheung | ** Mr. Peter David Sullivan |
| * Mr. David Norman Prince | |
| * Mr. Wing-chung Yung | |
| * Mr. Thomas Hon-wah Siu
<i>(Appointed on 15 July 2008)</i> | |
| * <i>Non-Executive Director</i> | |
| ** <i>Independent Non-Executive Director</i> | |

In accordance with Bye-law No. 110(A) of the Company's Bye-laws, Messrs. Douglas Li, Patrick Kai-lung Chan, Wing-chung Yung, Leung-sing Ng and Eric Fock-kin Gan retire by rotation 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 2009 are shown in note 12 to the consolidated 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 29 to 35.

Directors' and chief executive's interests

As at 30 June 2009, 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 of Hong Kong Limited (the "HKSE") 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 HKSE, were as follows:

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

Name of Director	Number of shares held		Number of underlying shares held under equity derivatives	Total	% of shares in issue
	Other interests	Total			
Raymond Ping-luen Kwok	2,237,767 ¹	2,237,767	—	2,237,767	0.42
Douglas Li	—	—	3,000,000 ²	3,000,000	0.56
Patrick Kai-lung Chan	—	—	1,103,500 ²	1,103,500	0.21

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 purpose of Part XV 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")

Name of Director	Number of shares held			Total	Number of underlying shares held under equity derivatives	Total	% of shares in issue
	Personal interests (held as beneficial owner)	Corporate interests (interests of controlled corporation)	Other interests				
Raymond Ping-luen Kwok	75,000	—	1,100,600,695 ¹	1,100,675,695	—	1,100,675,695	42.92
Michael Yick-kam Wong	165,904	—	—	165,904	—	165,904	0.01
David Norman Prince	1,000	—	—	1,000	—	1,000	0
Thomas Hon-wah Siu	—	—	7,000 ²	7,000	—	7,000	0
Eric Ka-cheung Li	—	18,000 ³	4,000 ⁴	22,000	—	22,000	0

Notes:

- 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 1,077,423,147 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 Part XV of the SFO.
- These shares in SHKP were held jointly by Mr. Thomas Hon-wah Siu and his spouse.
- These shares in SHKP were held by a company in which Dr. Eric Ka-cheung Li is the managing director and owned 12.20% of its issued share capital.
- These shares in SHKP were held by the spouse of Dr. Eric Ka-cheung Li.

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

Name of Director	Number of shares held			Total	Number of underlying shares held under equity derivatives	Total	% of shares in issue
	Personal interests (held as beneficial owner)	Other interests					
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:

- 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 Part XV 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 Part XV of the SFO.

Save as disclosed above, at 30 June 2009, 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 HKSE 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.

Report of the Directors

(Financial figures are expressed in Hong Kong dollars)

(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 2 September 2009, the number of shares available for issue in respect thereof is 55,179,134 shares which represents approximately 10.26% 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 and 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 HKSE 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 HKSE'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 2009 are as follows:

Grantee	Date of grant	Exercise price \$	Exercise period	Outstanding at 1 July 2008	Granted during the year	Exercised during the year	Cancelled/ Lapsed during the year	Outstanding at 30 June 2009
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	4,990,000 ³	—	—	(440,000)	4,550,000
	1 March 2005	9.05	1 March 2006 to 28 February 2015	193,000 ⁴	—	—	—	193,000

Notes:

- 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.
- 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.
- 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.
- The options can be exercised up to one-third from 1 March 2006, up to two-thirds from 1 March 2007 and in whole from 1 March 2008.

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.

Report of the Directors

(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 2008 and 2009, 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 2009, 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	330,638,472	61.48%
Sun Hung Kai Properties Limited ("SHKP") ^{1&2}	344,806,397	64.12%
HSBC Trustee (C.I.) Limited ("HSBC") ³	344,806,397	64.12%
Marathon Asset Management LLP	59,464,349	11.05%
Brandes Investment Partners, L.P.	35,479,430	6.59%

Notes:

- ¹ Cellular 8 is a wholly-owned subsidiary of SHKP. By virtue of Part XV of the SFO, SHKP was deemed to be interested in these 330,638,472 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 Part XV of the SFO, SHKP was therefore also deemed to be interested in such shares in the Company.
- ³ For the purpose of Part XV 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 duplicates the interest of SHKP.

Save as disclosed above, as at 30 June 2009, 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 2009, the Company repurchased 35,378,500 shares on the HKSE. These repurchased shares were cancelled prior to 30 June 2009. Please refer to note 30 of the notes to the consolidated financial statements for details of the repurchases.

Save as disclosed above, at no time during the year ended 30 June 2009 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	9%
Percentage of purchases attributable to the Group's five largest suppliers	33%

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 34 to the consolidated 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 2009, rental and licence fees paid and payable to subsidiaries and associated companies of SHKP totalled \$76,467,000.

(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 2009, insurance premiums paid and payable were \$4,252,000.

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 2009, 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, 2 September 2009

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 2009, 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 every 3 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 by directing and supervising the Company's affairs.

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 2009, Mr. Thomas Hon-wah Siu was appointed as Non-Executive Director with effect from 15 July 2008.

As at 30 June 2009, the Board comprises 2 Executive Directors, 6 Non-Executive Directors and 5 Independent Non-Executive Directors. The presence of 11 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 29 to 34 of this 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 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 2009. Attendance of each Director at Board meetings held during the year is as follows:

Directors	Number of Board meetings attended
Executive Directors	
Mr. Douglas Li (<i>Chief Executive Officer</i>)	4/4
Mr. Patrick Kai-lung Chan	4/4
Non-Executive Directors	
Mr. Raymond Ping-luen Kwok (<i>Chairman</i>)	4/4
Mr. Michael Yick-kam Wong	3/4
Mr. Wing-yui Cheung	3/4
Mr. David Norman Prince	4/4
Mr. Wing-chung Yung	3/4
Mr. Thomas Hon-wah Siu	4/4
Independent Non-Executive Directors	
Dr. Eric Ka-cheung Li	4/4
Mr. Leung-sing Ng	2/4
Mr. Xiang-dong Yang	2/4
Mr. Eric Fock-kin Gan	4/4
Mr. Peter David Sullivan	4/4

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. Wing-chung Yung. Mr. 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 2009. 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 2009. 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.

Corporate Governance Report

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 of the Company with professional accounting expertise, and 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 2009 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 each Committee member at Audit Committee meetings held during the year is as follows:

Directors	Number of meetings attended
Dr. Eric Ka-cheung Li (<i>Chairman</i>)	2/2
Mr. Leung-sing Ng	2/2
Mr. Eric Fock-kin Gan	1/2
Mr. Michael Yick-kam Wong	2/2

The Audit Committee also held a meeting on 21 August 2009 and reviewed the relevant financial statements as well as the internal audit reports of the Group for the year ended 30 June 2009. 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

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 2009 are as follows:

	HK\$
Total audit fee – interim review and final audit	1,826,000
Other services	447,000
Total fees	2,273,000

The Committee received written confirmation from PricewaterhouseCoopers on their independence and objectivity as required under Section 290 of the Code of Ethics for Professional Accountants of the Hong Kong Institute of Certified Public Accountants before commencement of the annual audit of the Group's financial statements for the year ended 30 June 2009.

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 37 to 38 of this Annual Report.

Internal control

The Board is 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.

Corporate Governance Report

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. Internal audit plays an important role in the internal control framework and provides independent assurance to the Board as to the adequacy and effectiveness of internal controls for the Group on an on-going basis. 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.

The relaxation of the Listing Rules on the qualified accountant requirement in a listed company effective from 1 January 2009 did not have any impact to the Group. The Group's accounting and financial reporting function is headed by a general manager, a qualified accountant with over 20 years' professional accounting experience. Training programmes and budget are also available to accounting and financial reporting staff.

The Board conducted a review on the effectiveness of the Group's internal control system and concluded that adequate and effective system of internal control has been maintained to safeguard the shareholders' investment and the Group's assets for the year ended 30 June 2009. The review considered the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget. The review covered all material controls, including financial, operational and compliance controls and risk management functions. It was 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. The Board assessed the effectiveness of internal control by considering reviews performed by the Audit Committee, internal audit and external auditors.

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 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 2009, 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 56) has been with the Group since April 1992 and was appointed Director of the Company in October 1996. 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.

Mr. Kwok is a Vice-Chairman and Managing Director of Sun Hung Kai Properties Limited ("SHKP") and a Member of its Executive Committee. He is also a Director of Cellular 8 Holdings Limited ("Cellular 8"). Both SHKP and Cellular 8 are substantial shareholders of the Company within the meaning of Part XV of the Securities and Futures Ordinance. Mr. Kwok is also 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 and Vice-Chairman of the Council of The Chinese University of Hong Kong. Mr. Kwok was a Member of the Hong Kong Port Development Council.

Mr. Kwok is also the director of certain subsidiaries of the Company.

Douglas LI, *Executive Director & Chief Executive Officer*

Mr. Douglas Li (aged 55) 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.

Mr. Li is also the director of certain subsidiaries of the Company.

Patrick Kai-lung CHAN, *Executive Director*

Mr. Patrick Chan (aged 49) was appointed Director of the Group in October 1996. Mr. Chan was the manager of the Strategic Development Department of Sun Hung Kai Properties Limited ("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.

Mr. Chan is also the director of certain subsidiaries of the Company.

Directors and Management Executives Profile

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

Mr. Michael Wong (aged 57) 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 Sun Hung Kai Properties Limited (“SHKP”) since 1996 and is a member of Executive Committee of SHKP. He will relinquish the position of Executive Director of SHKP with effect from 1 January 2010 and will then become a Non-Executive Director. Mr. Wong is also an Executive Director of SUNeVision Holdings Ltd. and a Non-Executive Director and a member of the Audit Committee of USI Holdings Limited. Mr. Wong resigned as the Deputy Chairman and Non-Executive Director of RoadShow Holdings Limited on 20 November 2008.

Mr. Wong is Chairman of the Hong Kong Youth Hostels Association. He is a member of the Hong Kong Special Administrative Region Government’s Steering Committee on Promotion of Volunteer Service, Steering Committee on Child Development Fund and Steering Committee on Promotion of Electric Vehicles. He is also a member of the Board of Trustees of New Asia College, The Chinese University of Hong Kong, and a member and Treasurer of the Council of The Open University of Hong Kong.

Mr. Wong is also a member of the Audit Committee of the Company.

Wing-yui CHEUNG, *Non-Executive Director*

Mr. Wing-yui Cheung (aged 59) 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 SRE Group Limited (formerly Shanghai Real Estate Limited), and being independent non-executive director of Hop Hing Group Holdings Limited and Agile Property Holdings Limited. Mr. Cheung previously held directorships in Taifook Securities Group Limited (resigned on 1 October 2007), Ching Hing (Holdings) Limited (resigned on 25 July 2007) and Ping An Insurance (Group) Company of China, Limited (resigned on 3 June 2009).

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), a director of the Community Chest, Deputy Chairman of The Open University of Hong Kong and a Deputy Chairman of the Hong Kong 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 58) 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.

Mr. Prince is a member of the Chartered Institute of Management Accountants (UK) and the Chartered Institute of Purchasing and Supply (UK).

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 until it was acquired by PCCW in 2000. He went on to join PCCW plc. as Group Chief Financial Officer primarily focused on the integration of the companies following the acquisition. In 2002, he left PCCW to join Cable and Wireless as Group Finance Director. Prior to his time in Hong Kong he held senior management roles for Cable and Wireless in the USA and Europe. His early career was spent in the Gas, Oil and Electronic industries within Europe and the USA.

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.

Mr. Prince is engaged by Sun Hung Kai Real Estate Agency Ltd. (a company within the Sun Hung Kai Properties Group) as a Consultant under a 12 month contract effective from 18 December 2008.

Mr. Prince is also a member of the Nomination Committee of the Company.

Wing-chung YUNG, *Non-Executive Director*

Mr. Wing-chung Yung (aged 62) was appointed Director of the Company in April 2007. Mr. Yung is the Corporate Advisor of Sun Hung Kai Properties Limited ("SHKP"). He is a director of River Trade Terminal Co. Ltd., Hung Kai Finance Company Limited, YATA Limited, Hong Kong Business Aviation Centre Limited and Airport Freight Forwarding Centre Company Limited. Mr. Yung is also Deputy Chairman and a Non-Executive Director of RoadShow Holdings 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.

Mr. Yung is also a member of the Remuneration Committee of the Company.

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

Mr. Thomas Siu (aged 56) 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 Sun Hung Kai Properties Limited. 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.

Directors and Management Executives Profile

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

Dr. Eric Li (aged 56), 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. Dr. Li was a non-executive director of Sun Hung Kai Properties Limited ("SHKP") and has been re-designated as an independent non-executive director of SHKP with effect from 19 March 2009. Dr. Li previously held directorships in CATIC International Holdings Limited, Sinofert Holdings Limited (formerly Sinochem Hong Kong Holdings Limited) and Strategic Global Investments plc.

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).

Dr. Li is also the chairman of the Remuneration Committee and the Audit Committee of the Company.

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

Mr. Leung-sing Ng (aged 60) was appointed Director of the Company in June 1997. Mr. Ng is a Hong Kong Deputy to the 10th and 11th National People's Congress, P.R.C., and the Vice Chairman of The Chiyu Banking Corporation Limited. Mr. Ng is the Chairman of Bank of China (Hong Kong) Trustees Limited in August 2009, he was the General Manager of Bank-wide Operation Department of Bank of China (Hong Kong) Limited from August 2005 to July 2009. Mr. Ng was appointed a member of the board of MTR Corporation Limited, Hong Kong in December 2007, he was previously a member of the managing board of The Kowloon-Canton Railway Corporation, Hong Kong.

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.

Mr. Ng is also a member of the Remuneration Committee, the Nomination Committee and the Audit Committee of the Company.

Xiang-dong YANG, Independent Non-Executive Director

Mr. Xiang-dong Yang (aged 44) 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.

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

Mr. Eric Gan (aged 46) 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 Limited with Dr. Sachio Semmoto (Founder & Chairman of eAccess Limited, Founder, Chairman & CEO of EMOBILE Limited). 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 SmarTone, 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).

Mr. Gan is also the chairman of the Nomination Committee and a member of the Audit Committee of the Company.

Peter David SULLIVAN, *Independent Non-Executive Director*

Mr. Peter Sullivan (aged 61) 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, JPMorgan Indian Investment Trust plc., Cenkos Securities plc. and AXA Asia Pacific Holdings Limited. Mr. Sullivan was an independent non-executive director of Intercontinental Bank (UK) plc. (resigned on 29 August 2009).

Directors and Management Executives Profile

Notes:

Saved as disclosed in the Directors' respective biographical details under this section, the Directors (1) have not held any directorships in other public listed companies, whether in Hong Kong or overseas, during the last three years; (2) do not hold any other positions in the Company and its subsidiaries; and (3) do not have any other relationship with any Directors, senior management or substantial or controlling shareholders of the Company.

No service contracts have been signed between the Company and the Directors (except Executive Directors) and there is no fixed term of their service with the Company. Their appointments are subject to retirement by rotation and re-election at annual general meetings in accordance with the Bye-laws of the Company and the Listing Rules. They are entitled to directors' fees which are determined by the Board under the authority granted by shareholders at annual general meetings. The fees are subject to annual assessment based on prevailing market rate of directors' fees for companies listed in Hong Kong.

The Company and Mr. Douglas Li, Executive Director, entered into an employment contract dated 31 May 2001 under which Mr. Li has been appointed to act as Executive Director and Chief Executive Officer of the Group with effect from 17 July 2001 with no fixed term of service. He is entitled to a basic salary which is subject to review by the Board from time to time with reference to his responsibility and performance. He is also entitled to an annual bonus, the computation of which is based on the profitability of the Group. Mr. Li's appointment as Executive Director is subject to retirement by rotation and re-election at annual general meetings in accordance with the Bye-laws of the Company and the Listing Rules. Mr. Li is entitled to a director's fee which is determined by the Board under the authority granted by shareholders at annual general meetings. The fee is subject to annual assessment based on prevailing market rate of directors' fees for companies listed in Hong Kong.

The Company and Mr. Patrick Chan, Executive Director, entered into an employment contract dated 1 May 2002 under which Mr. Chan has been appointed to act as Executive Director of the Group with effect from 15 May 2002 with no fixed term of service. He is entitled to a basic salary which is subject to review by the Board from time to time with reference to his responsibility and performance. He is also entitled to discretionary bonus, the computation of which is based on his performance and profitability of the Group. Mr. Chan's appointment as Executive Director is subject to retirement by rotation and re-election at annual general meetings in accordance with the Bye-laws of the Company and the Listing Rules. Mr. Chan is entitled to a director's fee which is determined by the Board under the authority granted by shareholders at annual general meetings. The fee is subject to annual assessment based on prevailing market rate of directors' fees for companies listed in Hong Kong.

The details of the emoluments of the Directors on a named basis for the year ended 30 June 2009 are disclosed in note 12 to the consolidated financial statements.

The Directors' interests in shares of the Company, if any, within the meaning of Part XV of the Securities and Futures Ordinance as at 30 June 2009 are disclosed in "Directors' and chief executive's interests" section of the Report of the Directors on pages 13 to 15 of this Annual Report.

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 21 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.

Group Financial Summary

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

	2009	2008	2007	2006	2005 (Restated)
Consolidated profit and loss account					
Revenues	3,703	4,073	4,039	3,779	3,619
Profit attributable to equity holders of the Company	42	276	158	70	327
Earnings per share (\$)	0.08	0.48	0.27	0.12	0.56
Dividends					
Total dividend	43	276	649	70	227
Total per share for the year (\$)	0.08	0.48	0.27	0.12	0.39
Special cash dividend per share (\$)	Nil	Nil	0.85	Nil	Nil
Consolidated balance sheet					
Non-current assets	3,005	2,780	2,724	2,848	3,529
Net current assets	483	993	1,641	1,351	665
Total assets less current liabilities	3,488	3,773	4,365	4,199	4,194
Non-current liabilities	(805)	(813)	(827)	(750)	(704)
Minority interests	(34)	(28)	(27)	(23)	(23)
Net assets	2,649	2,932	3,511	3,426	3,467
Share capital	54	57	58	58	58
Reserves	2,595	2,875	3,453	3,368	3,409
Total equity attributable to equity holders of the Company	2,649	2,932	3,511	3,426	3,467

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

Independent Auditor's Report



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 39 to 90, which comprise the consolidated and Company balance sheets as at 30 June 2009, 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 2009 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, 2 September 2009

Consolidated Profit and Loss Account

For the year ended 30 June 2009
(Expressed in Hong Kong dollars)

	Note	2009 \$000	2008 \$000
Service revenue		3,255,036	3,432,943
Handset and accessory sales		448,155	640,479
Revenues	6	3,703,191	4,073,422
Cost of inventories sold and services provided		(1,085,420)	(1,324,071)
Other gains	7	1,033	—
Network costs		(725,884)	(667,841)
Staff costs		(449,374)	(429,727)
Sales and marketing expenses		(245,013)	(269,010)
Rental and utilities		(161,404)	(154,802)
Other operating expenses		(145,822)	(140,264)
Depreciation, amortisation and loss on disposal		(775,799)	(743,392)
Operating profit		115,508	344,315
Finance income	8	35,627	76,603
Finance costs	9	(84,290)	(83,598)
Share of results of an associate		4,350	—
Profit before income tax	10	71,195	337,320
Income tax expense	11	(9,549)	(31,342)
Profit after income tax		61,646	305,978
Attributable to:			
Equity holders of the Company		42,456	275,755
Minority interests		19,190	30,223
		61,646	305,978
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in cents per share)	16		
Basic		7.6	47.8
Diluted		7.6	47.8
Dividends	17		
Interim dividend paid		—	161,042
Final dividend proposed		43,019	114,572
		43,019	275,614

The notes on pages 47 to 90 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

At 30 June 2009

(Expressed in Hong Kong dollars)

	Note	2009 \$000	2008 \$000
Non-current assets			
Leasehold land	18	16,362	—
Fixed assets	19	1,844,639	1,846,948
Interest in an associate	21	3	1,812
Financial investments	22	390,507	95,823
Intangible assets	23	701,790	780,509
Deposits and prepayments - non-current portion	24	51,562	55,275
		3,004,863	2,780,367
Current assets			
Inventories	25	75,182	68,401
Trade receivables	24	168,759	201,351
Deposits and prepayments - current portion	24	172,815	103,317
Other receivables	24	25,798	52,708
Pledged bank deposits	26	388,626	333,159
Cash and cash equivalents	26	668,271	1,303,342
		1,499,451	2,062,278
Current liabilities			
Trade payables	27	148,077	161,766
Other payables and accruals	27	627,593	663,110
Current income tax liabilities	11	48,920	64,646
Customers' deposits		26,702	26,897
Deferred income		81,811	79,788
Mobile licence fee liabilities - current portion	29	83,290	73,500
		1,016,393	1,069,707
Net current assets		483,058	992,571
Total assets less current liabilities		3,487,921	3,772,938
Non-current liabilities			
Asset retirement obligations		55,353	52,687
Mobile licence fee liabilities - non-current portion	29	652,260	656,739
Deferred income tax liabilities	28	97,650	103,960
Net assets		2,682,658	2,959,552
Capital and reserves			
Share capital	30	53,774	57,312
Reserves		2,595,374	2,874,327
Total equity attributable to equity holders of the Company		2,649,148	2,931,639
Minority interests		33,510	27,913
Total equity		2,682,658	2,959,552

Raymond Ping-luen Kwok

Director

2 September 2009

Douglas Li

Director

2 September 2009

The notes on pages 47 to 90 are an integral part of these consolidated financial statements.

Balance Sheet

At 30 June 2009
(Expressed in Hong Kong dollars)

	Note	2009 \$000	2008 \$000
Non-current assets			
Investments in subsidiaries	20(a)	939,189	939,189
Current assets			
Amount due from a subsidiary	20(b)	3,455,962	3,455,962
Prepayments	24	156	214
Other receivables	24	218	1,669
Pledged bank deposits	26	336,105	328,832
Cash and cash equivalents	26	1,471	1,682
		3,793,912	3,788,359
Current liabilities			
Amount due to a subsidiary	20(c)	1,555,098	1,246,769
Other payables and accruals	27	2,737	2,853
		1,557,835	1,249,622
Net current assets		2,236,077	2,538,737
Total assets less current liabilities		3,175,266	3,477,926
Capital and reserves			
Share capital	30	53,774	57,312
Reserves		3,121,492	3,420,614
Total equity attributable to equity holders of the Company		3,175,266	3,477,926

Raymond Ping-luen Kwok

Director

2 September 2009

Douglas Li

Director

2 September 2009

The notes on pages 47 to 90 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 30 June 2009
(Expressed in Hong Kong dollars)

	Note	2009 \$000	2008 \$000
Cash flows from operating activities			
Profit before income tax		71,195	337,320
Adjustments for:			
Depreciation of fixed assets	19	448,804	450,388
Amortisation of leasehold land		317	—
Amortisation of intangible assets	23	323,422	283,654
Loss on disposal of fixed assets (note below)		3,256	9,350
Finance income		(35,627)	(76,603)
Finance costs		84,290	83,598
Write back of provision for amount due from an associate and interest in an associate	21	(1,033)	—
Share of results of an associate		(4,350)	—
Recognition of share-based payments		—	21
Net exchange loss		3,792	1,367
		894,066	1,089,095
Changes in working capital			
(Increase)/decrease in inventories		(6,781)	6,665
Increase in trade receivables, deposits, prepayments and other receivables		(9,665)	(74,789)
(Decrease)/increase in trade and other payables, accruals, customers' deposits and deferred income		(997)	14,778
Cash generated from operations		876,623	1,035,749
Interest paid		—	(2)
Income tax paid		(31,585)	(23,961)
Net cash generated from operating activities		845,038	1,011,786
Cash flows from investing activities			
Payment for purchase of fixed assets		(496,420)	(533,857)
Payment for purchase of leasehold land		(16,670)	—
Proceeds from disposal of fixed assets (note below)		583	705
Payment of mobile licence fees	29	(76,020)	(65,895)
Payment for purchase of held-to-maturity debt securities	22(b)	(314,045)	(40,726)
Distributions from available-for-sale financial assets	22(a)	723	12,188
Proceeds from held-to-maturity debt securities upon maturity	22(b)	—	31,340
Additions of handset subsidies	23	(244,703)	(280,238)
Interest received		37,014	79,025
Repayment of amount due from an associate	21	2,842	—
Dividend received from an associate	21	4,350	—
Net cash used in investing activities		(1,102,346)	(797,458)

	Note	2009 \$000	2008 \$000
Cash flows from financing activities			
Payment for repurchase of shares		(195,734)	(64,249)
Proceeds from shares issued under share option scheme		—	8,811
Increase in pledged bank deposits		(57,189)	(8,764)
Dividends paid to the Company's equity holders		(110,985)	(809,408)
Dividends paid to a minority interest		(13,593)	(29,427)
<hr/>			
Net cash used in financing activities		(377,501)	(903,037)
<hr/>			
Net decrease in cash and cash equivalents		(634,809)	(688,709)
Cash and cash equivalents at 1 July		1,303,342	1,992,060
Effect of foreign exchange rates changes		(262)	(9)
<hr/>			
Cash and cash equivalents at 30 June	26	668,271	1,303,342
<hr/>			
In the consolidated cash flow statement, proceeds from disposal of fixed assets comprise:			
		2009 \$000	2008 \$000
Net book amount of disposed fixed assets (note 19)		3,839	10,055
Loss on disposal of fixed assets		(3,256)	(9,350)
<hr/>			
Proceeds from disposal of fixed assets		583	705
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The notes on pages 47 to 90 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2009
(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 compensation 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
Changes in fair value during the year	—	—	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

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 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
Changes in fair value during the year	—	—	(18,119)	—	—	—	—	—	(18,119)	—	(18,119)
Currency translation differences	—	—	—	—	—	—	(109)	—	(109)	—	(109)
Net income recognised directly in equity	57,312	10,912	8,182	3,758	2,285,849	13,797	2,367	531,234	2,913,411	27,913	2,941,324
Profit for the year	—	—	—	—	—	—	—	42,456	42,456	19,190	61,646
Total recognised income and expense for 2009	57,312	10,912	8,182	3,758	2,285,849	13,797	2,367	573,690	2,955,867	47,103	3,002,970
Repurchase of shares	(3,538)	—	—	3,538	(192,196)	—	—	(3,538)	(195,734)	—	(195,734)
Payment of 2009 interim dividend to a minority interest	—	—	—	—	—	—	—	—	—	(13,593)	(13,593)
Payment of 2008 final dividend	—	—	—	—	—	—	—	(110,985)	(110,985)	—	(110,985)
At 30 June 2009	53,774	10,912	8,182	7,296	2,093,653	13,797	2,367	459,167	2,649,148	33,510	2,682,658

The notes on pages 47 to 90 are an integral part of these consolidated financial statements.

Statement of Changes in Equity

For the year ended 30 June 2009
(Expressed in Hong Kong dollars)

Company	Share capital \$000	Share premium \$000	Capital redemption reserve \$000	Contribution surplus \$000	Retained profits \$000	Total \$000
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
At 1 July 2008	57,312	10,912	3,758	3,025,038	380,906	3,477,926
Profit for the year	—	—	—	—	4,059	4,059
Total recognised income and expense for 2009	57,312	10,912	3,758	3,025,038	384,965	3,481,985
Repurchase of shares	(3,538)	—	3,538	(192,196)	(3,538)	(195,734)
Payment of 2008 final dividend	—	—	—	—	(110,985)	(110,985)
At 30 June 2009	53,774	10,912	7,296	2,832,842	270,442	3,175,266

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

The notes on pages 47 to 90 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2009
(Expressed in Hong Kong dollars)

1. General information

SmarTone Telecommunications Holdings Limited (the “Company”) and its subsidiaries (together, the “Group”) is principally engaged in the provision of telecommunications services and the sale of handsets 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 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 2 September 2009.

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 2009, the Group adopted the new standards, amendments to published standards and interpretations of HKFRS below, which are relevant to its operations.

HK (IFRIC) – INT 12	Service Concession Arrangements
HK (IFRIC) – INT 13	Customer Loyalty Programmes
HK (IFRIC) – INT 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of Amendment to HK (IFRIC) Interpretation 12, 13 and 14 did not have a material impact on the Group’s financial statements other than on increase in disclosure. In summary:

- HK(IFRIC) – INT 12 applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services. HK(IFRIC) – INT 12 is not relevant to the Group’s operations because none of the Group’s companies provide for public sector services.
- HK(IFRIC) – INT 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. This interpretation does not have any impact on the Group’s financial statements.
- HK(IFRIC) – INT 14 provides guidance on assessing the limit in HKAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. This interpretation does not have any impact on the Group’s financial statements as the Group operates defined contribution retirement schemes (including Mandatory Provident Funds).

Notes to the Consolidated Financial Statements

For the year ended 30 June 2009
(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 2009 or later periods but which the Group has not early adopted, are as follows:

HKAS 1 (Revised)	Presentation of Financial Statements ²
HKAS 23 (Revised)	Borrowing Costs ²
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ⁴
HKAS 32 and HKAS 1 (Amendments)	HKAS 32 Financial Instruments: Presentation and HKAS ¹ Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation ²
HKAS 39 (Amendment)	Financial Instruments: Recognition and Measurement – Eligible Hedged Item ⁴
HK(IFRIC) – INT 9 and HKAS 39 (Amendments)	HK(IFRIC) – INT 9 Reassessment of Embedded Derivatives and HKAS 39 Financial Instruments, Recognitions and Measurement – Embedded Derivatives ³
HKFRS 1 and HKAS 27 (Amendments)	HKFRS 1 First-time Adoption of HKFRS and HKAS 27 Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate ²
HKFRS 1 (Revised)	First-time Adoption of HKFRS ⁴
HKFRS 2 (Amendment)	Share-based Payment Vesting Conditions and Cancellations ²
HKFRS 3 (Revised)	Business Combinations ⁴
HKFRS 8	Operating Segments ²
HK (IFRIC) – INT 15	Agreements for the Construction of Real Estate ²
HK (IFRIC) – INT 16	Hedges of a Net Investment in a Foreign Operation ¹
HK (IFRIC) – INT 17	Distributions of Non-cash Assets to Owners ⁴
HK (IFRIC) – INT 18	Transfer of Assets from Customers ⁴

Apart from the above, the Hong Kong Institute of Certified Public Accountants has issued Improvements to HKFRS* which sets out amendments to a number of HKFRS primary with a view to removing inconsistencies and clarifying wording. Except for the amendment to HKFRS 5 which is effective for annual periods beginning on or after 1 July 2009, other amendments are effective for annual periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

¹ Effective for annual periods beginning on or after 1 October 2008.

² Effective for annual periods beginning on or after 1 January 2009.

³ Effective for annual periods beginning on or after 1 June 2009.

⁴ Effective for annual periods beginning on or after 1 July 2009.

* Improvements to HKFRS contain amendments to HKFRS 5, HKFRS 7, HKAS 1, HKAS 8, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40 and HKAS 41.

3. Basis of preparation *(Continued)*

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

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.

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.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2009
(Expressed in Hong Kong dollars)

3. Basis of preparation *(Continued)*

(b) Consolidation

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

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

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

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

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

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

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

(c) An associate

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

The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated profit and loss account, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured 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.

3. Basis of preparation *(Continued)*

(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.

(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.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2009
(Expressed in Hong Kong dollars)

3. Basis of preparation *(Continued)*

(f) Intangible assets

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

(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 (p). 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
Building	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 (j)).

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

(h) Leasehold land

Leasehold land and land use rights are stated at cost less accumulated amortisation and impairment losses. Cost represents upfront prepayments made for the rights to use the land on which various plants and buildings are situated for periods varying from 10 to 50 years. Amortisation of leasehold land and land use rights is expensed in the consolidated profit and loss account on a straight-line basis over the period of the lease or when there is impairment, the impairment is expensed in the consolidated profit and loss account.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2009
(Expressed in Hong Kong dollars)

3. Basis of preparation *(Continued)*

(i) 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 (j).

(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.

(j) 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.

3. Basis of preparation *(Continued)*

(k) 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 (m)).

(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 settles the purchase or sale of assets. If the Group was 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 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 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.

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.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2009
(Expressed in Hong Kong dollars)

3. Basis of preparation *(Continued)*

(k) Financial assets *(Continued)*

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

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 (m).

(l) 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 course of business, less applicable variable selling expense.

(m) 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".

(n) 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.

3. Basis of preparation *(Continued)*

(o) 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.

(p) 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.

(q) 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.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2009
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3. Basis of preparation *(Continued)*

(r) 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.

(s) 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)*

(t) 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.

(u) 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 collectability of the related receivables is reasonably assured.

(ii) Services

Revenue from services is measured based on the usage of the Group's telecommunications network and facilities and is recognised when the services are rendered. 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.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2009
(Expressed in Hong Kong dollars)

3. Basis of preparation *(Continued)*

(v) 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.

(w) 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.

4. Critical accounting estimates and judgements *(Continued)*

(d) Contingent assets and liabilities

In determining whether to recognise or disclose a contingent asset or liability in respect of fixed-mobile interconnection charge, the Group identifies the major possible outcomes and makes judgements to assess the probability of each major possible outcome to ascertain whether an inflow or outflow of economic benefits is probable; and whether the amount of asset or obligation can be measured reliably.

Changes in circumstances affecting the probability of one or more major possible outcomes could impact the recognition or disclosure of contingent assets or liabilities.

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 2009, the Group had net financial assets denominated in foreign currencies amounting to \$667,897,000 (2008: \$961,970,000), of which the net financial assets denominated in the US dollar accounted for 94% (2008: 89%).

At 30 June 2009, 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 \$6,263,000 (2008: \$8,539,000).

Notes to the Consolidated Financial Statements

For the year ended 30 June 2009
(Expressed in Hong Kong dollars)

5. Financial risk management *(Continued)*

(a) Financial risks *(Continued)*

(i) Market risk *(Continued)*

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 2009, 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 \$10,569,000 (2008: \$16,365,000) 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.

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 2009, 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 \$3,623,000 (2008: \$5,506,000).

(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 A- as rated by 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.

5. Financial risk management *(Continued)*

(a) Financial risks *(Continued)*

(iii) Liquidity risk *(Continued)*

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.

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 2009					
Trade payables	148,077	—	—	—	148,077
Other payables and accruals	627,593	—	—	—	627,593
Mobile licence fee liabilities	86,144	96,268	405,347	642,162	1,229,921
Total	861,814	96,268	405,347	642,162	2,005,591
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

(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.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2009
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6. Segment reporting

More than 90% of the Group's revenues and operating profit was attributable to its telecommunications 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 2009				Consolidated \$000
	Hong Kong \$000	Macau \$000	Elimination \$000	Unallocated \$000	
Revenues	3,485,805	243,027	(25,641)	—	3,703,191
Operating profit/Segment result	38,283	77,225	—	—	115,508
Finance income					35,627
Finance costs					(84,290)
Share of results of an associate					4,350
Profit before income tax					71,195
Income tax expense					(9,549)
Profit after income tax					61,646
Additions to leasehold land	16,670	—	—	—	16,670
Additions to fixed assets	413,204	37,116	—	—	450,320
Additions to intangible assets	243,102	1,601	—	—	244,703
Depreciation	423,447	25,357	—	—	448,804
Amortisation of leasehold land	317	—	—	—	317
Amortisation of intangible assets	321,711	1,711	—	—	323,422
Loss on disposal of fixed assets	3,093	163	—	—	3,256
Impairment loss of trade receivables	11,739	608	—	—	12,347
(Reversal of impairment loss)/ impairment loss of inventories	(7,359)	77	—	—	(7,282)
Segment assets	3,957,625	156,179	—	390,510	4,504,314
Segment liabilities	(1,648,509)	(26,577)	—	(146,570)	(1,821,656)

6. Segment reporting *(Continued)*

	For the year ended 30 June 2008				Consolidated \$000
	Hong Kong \$000	Macau \$000	Elimination \$000	Unallocated \$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
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 of intangible assets	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)
Segment assets	4,596,259	148,751	—	97,635	4,842,645
Segment liabilities	(1,682,619)	(31,868)	—	(168,606)	(1,883,093)

Unallocated assets consist of interest in an associate and financial investments.

Unallocated liabilities consist of current income tax liabilities and deferred income tax liabilities.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2009
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7. Other gains

	2009	2008
	\$000	\$000
Write back of provision for amount due from and interest in an associate (note 21)	1,033	—

During the year, the Group recognised other gains amounting to \$1,033,000 (2008: nil) in respect of write back of provision for amount due from an associate and provision against interest in an associate which were provided for in prior years.

8. Finance income

	2009	2008
	\$000	\$000
Interest income from listed debt securities	16,683	143
Interest income from deposits with banks and other financial institutions	17,064	73,228
Accretion income	1,880	3,232
	35,627	76,603

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.

9. Finance costs

	2009	2008
	\$000	\$000
Accretion expenses		
Asset retirement obligations	2,959	3,166
Mobile licence fee liabilities (note 29)	81,331	80,430
Other borrowing costs	—	2
	84,290	83,598

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.

10. Profit before income tax

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

	2009	2008
	\$000	\$000
Cost of inventories sold	434,716	623,913
Amortisation		
Handset subsidies	259,039	219,271
Mobile licence fees	64,383	64,383
Leasehold land	317	—
Depreciation		
Owned fixed assets	371,083	370,576
Leased fixed assets	77,721	79,812
Operating lease rentals for land and buildings, transmission sites and leased lines	666,317	611,331
Auditors' remuneration	1,578	1,480
Loss on disposal of fixed assets	3,256	9,350
Net exchange loss/(gain)	4,978	(1,815)
Contributions to defined contribution plans included in staff costs* (note 14)	25,148	22,441

* Net of forfeited contributions of \$1,449,000 (2008: \$2,292,000).

11. Income tax expense

Hong Kong profits tax has been provided at the rate of 16.5% (2008: 16.5%) 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:

	2009	2008
	\$000	\$000
Current income tax		
Hong Kong profits tax	8,088	43,138
Overseas tax	9,294	14,549
Over provision in prior year tax charge		
Hong Kong profits tax	(1,523)	(692)
Deferred income tax (note 28)	(6,310)	(25,653)
	9,549	31,342

Notes to the Consolidated Financial Statements

For the year ended 30 June 2009
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11. Income tax expense (Continued)

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

	2009	2008
	\$000	\$000
Profit before income tax	71,195	337,320
Notional tax on profit before income tax, calculated at Hong Kong tax rate of 16.5% (2008: 16.5%)	11,747	55,658
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	(3,391)	(5,287)
Expenses not deductible for tax purposes	798	493
Income not subject to tax	(6,910)	(12,465)
Tax losses for which no deferred income tax asset was recognised	3,726	623
Utilisation of previously unrecognised tax losses	(6,170)	(31)
Over provision in prior year	(1,523)	(692)
Temporary differences not recognised	11,272	450
Income tax expense	9,549	31,342

(c) Current income tax liabilities in the consolidated balance sheet:

	2009	2008
	\$000	\$000
Hong Kong profits tax	32,030	44,767
Overseas tax	16,890	19,879
	48,920	64,646

12. Directors' emoluments

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

	2009	2008
	\$000	\$000
Non-executive directors		
Fees	1,380	1,320
Executive directors		
Fees	160	160
Salaries and allowances	12,401	12,401
Bonuses	3,757	2,226
Retirement scheme contributions	1,025	1,025
	17,343	15,812
	18,723	17,132

During the years ended 30 June 2008 and 2009, 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 31.

The emoluments of the directors are within the following bands:

	2009	2008
	Number	Number
	of directors	of directors
\$0 – \$1,000,000	11	11
\$4,500,001 – \$5,000,000	1	1
\$11,000,001 – \$11,500,000	—	1
\$12,500,001 – \$13,000,000	1	—
	13	13

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12. Directors' emoluments (Continued)

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

	2009					2008
	Fees \$000	Salaries and allowances \$000	Bonuses \$000	Retirement scheme contributions \$000	Total \$000	Total \$000
Executive Directors						
Mr. Douglas Li	80	8,625	3,443	647	12,795	11,185
Mr. Patrick Chan Kai-lung	80	3,776	314	378	4,548	4,627
Non-Executive Directors						
Mr. Raymond Kwok Ping-luen	100	—	—	—	100	100
Mr. Michael Wong Yick-kam	200	—	—	—	200	200
Mr. Cheung Wing-yui	80	—	—	—	80	80
Mr. David Norman Prince	80	—	—	—	80	80
Mr. Yung Wing-chung	80	—	—	—	80	80
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 * ⁽¹⁾	80	—	—	—	80	20
Mr. Thomas Siu Hon-wah ⁽²⁾	80	—	—	—	80	—
Mr. Andrew So Sing-tak ⁽³⁾	—	—	—	—	—	80
	1,540	12,401	3,757	1,025	18,723	17,132
2008	1,480	12,401	2,226	1,025		

* Independent Non-Executive Director

⁽¹⁾ Appointed on 17 April 2008

⁽²⁾ Appointed on 15 July 2008

⁽³⁾ Resigned on 13 June 2008

13. Five highest paid individuals

Of the five highest paid individuals, two (2008: two) are directors whose emoluments are disclosed in note 12. The aggregate of the emoluments in respect of the other three (2008: three) individuals are as follows:

	2009	2008
	\$000	\$000
Salaries and allowances	8,924	9,108
Bonuses	683	515
Retirement scheme contributions	711	705
	10,318	10,328

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 31.

The emoluments of the three (2008: three) highest paid individuals are within the following bands:

	2009	2008
	Number of individuals	Number of individuals
\$2,000,001 – \$2,500,000	—	1
\$2,500,001 – \$3,000,000	2	—
\$3,000,001 – \$3,500,000	—	1
\$4,000,001 – \$4,500,000	1	—
\$4,500,001 – \$5,000,000	—	1
	3	3

14. Employee retirement benefits

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

Contributions to the ORSO scheme by the Group and the employees are calculated as specified percentages of each employee's basic salary. Where employees leave the scheme prior to the full vesting of the employer's contributions, the amount of forfeited contributions is used to reduce the contributions payable by the Group. At 30 June 2008 and 2009, 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.

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15. Profit attributable to equity holders of the Company

The consolidated profit attributable to equity holders of the Company includes a profit of \$4,059,000 (2008: \$612,533,000) which has been dealt with in the financial statements of the Company.

16. Earnings per share

The calculations of basic and diluted earnings per share are based on the Group's profit attributable to equity holders of \$42,456,000 (2008: \$275,755,000).

The basic earnings per share is based on the weighted average number of shares in issue during the year of 557,247,118 (2008: 576,920,845). The diluted earnings per share is based on 557,247,118 (2008: 577,410,448) shares which is the weighted average number of shares in issue during the year plus the weighted average number of nil (2008: 489,603) shares deemed to be issued at no consideration if all outstanding options had been exercised.

17. Dividends

	2009	2008
	\$000	\$000
Interim dividend, paid, of nil (2008: 28 cents) per share	—	161,042
Final dividend, proposed, of 8 cents (2008: 20 cents) per share	43,019	114,572
	43,019	275,614

At a meeting held on 2 September 2009, the directors proposed a final dividend of 8 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 2010.

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

18. Leasehold land

The Group's interests in leasehold land represent prepaid operating lease payments and their net book value are outside Hong Kong and held on leases between 10 to 50 years.

19. Fixed assets

	Leasehold improvements \$000	Building \$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 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
Year ended 30 June 2009							
Opening net book amount	46,825	—	1,413,228	72,914	12,141	301,840	1,846,948
Exchange differences	6	4	—	3	1	—	14
Additions	18,791	7,253	23,019	39,055	17,933	344,269	450,320
Reclassifications	—	—	462,130	—	—	(462,130)	—
Disposals	(138)	—	(3,409)	(17)	(147)	(128)	(3,839)
Depreciation	(22,133)	(138)	(383,523)	(37,955)	(5,055)	—	(448,804)
Closing net book amount	43,351	7,119	1,511,445	74,000	24,873	183,851	1,844,639
At 30 June 2009							
Cost	201,286	7,257	5,203,818	612,842	73,954	183,851	6,283,008
Accumulated depreciation	(157,935)	(138)	(3,692,373)	(538,842)	(49,081)	—	(4,438,369)
Net book amount	43,351	7,119	1,511,445	74,000	24,873	183,851	1,844,639

At 30 June 2009, the net book amount of fixed assets held by the Group under finance leases amounted to \$46,735,000 (2008: \$124,626,000).

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20. Investments in subsidiaries

(a) Investment in subsidiaries

	2009	2008
	\$000	\$000
Unlisted shares, at cost	939,189	939,189

Particulars of the principal subsidiaries at 30 June 2009 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 Communications Limited	Hong Kong	Provision of wireless fixed-line 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

	2009	2008
	\$000	\$000
Amount due from a subsidiary	3,455,962	3,455,962

(c) Amount due to a subsidiary

	2009	2008
	\$000	\$000
Amount due to a subsidiary	1,555,098	1,246,769

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

21. Interest in an associate

	2009	2008
	\$000	\$000
Share of net assets	3	—
Amount due from an associate, less provision	—	1,812
	3	1,812
	2009	2008
	\$000	\$000
At 1 July	1,812	1,812
Write back of provision for amount due from and interest in an associate	1,033	—
Share of results of an associate	4,350	—
Repayment of amount due from an associate	(2,842)	—
Dividend received from an associate	(4,350)	—
At 30 June	3	1,812

The amount due from an associate is unsecured and interest free. The amount has been fully repaid as at 30 June 2009.

Particulars of the associate at 30 June 2009 are as follows:

Name	Place of incorporation and operation	Principal activities	Particulars of issued share 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 profits and unrecognised profits of the associate as the amounts are immaterial to the Group. The carrying amounts approximate their fair values.

22. Financial investments

	2009	2008
	\$000	\$000
Available-for-sale financial assets (a)	36,226	55,068
Held-to-maturity debt securities (b)	354,281	40,755
	390,507	95,823
Less: Held-to-maturity debt securities maturing within 1 year of the balance sheet date included under current assets	—	—
Total non-current financial investments	390,507	95,823

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22. Financial investments (Continued)

(a) Available-for-sale financial assets

	2009	2008
	\$000	\$000
At 1 July	55,068	58,854
Distributions	(723)	(12,188)
Changes in fair value during the year	(18,119)	8,402
At 30 June	36,226	55,068

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

	2009	2008
	\$000	\$000
At 1 July	40,755	31,340
Additions	314,045	40,726
Amortisation	1,832	29
Redemption upon maturity	—	(31,340)
Exchange differences	(2,351)	—
At 30 June	354,281	40,755

The held-to-maturity debt securities are denominated in US dollars with a minimum credit rating of A- as rated by Standard & Poor's (2008: 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 2008 and 2009, no gain or loss arose on the disposal of held-to-maturity debt securities.

	2009	2008
	\$000	\$000
Proceeds from maturity of securities	—	31,340
Carrying value at dates of redemption/maturity	—	(31,340)
Net realised gain on disposal	—	—

23. Intangible assets

	Handset subsidies \$000	Mobile licence fees \$000	Total \$000
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
Year ended 30 June 2009			
Opening net book amount	210,626	569,883	780,509
Additions	244,703	—	244,703
Amortisation *	(259,039)	(64,383)	(323,422)
Closing net book amount	196,290	505,500	701,790
At 30 June 2009			
Cost	440,554	789,102	1,229,656
Accumulated amortisation	(244,264)	(283,602)	(527,866)
Net book amount	196,290	505,500	701,790

* Included handset subsidies written off of \$10,166,000 (2008: \$7,898,000).

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24. Trade and other receivables

	Group		Company	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Trade receivables	181,574	212,878	—	—
Less: provision for impairment of trade receivables	(12,815)	(11,527)	—	—
Trade receivables - net	168,759	201,351	—	—
Deposits and prepayments	224,377	158,592	156	214
Other receivables	25,798	52,708	218	1,669
	418,934	412,651	374	1,883
Less: deposits and prepayments - non-current portion	(51,562)	(55,275)	—	—
Current portion	367,372	357,376	374	1,883

As at 30 June 2009, deposits of \$97,428,000 (2008: \$96,878,000) 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:

	Group	
	2009 \$000	2008 \$000
Current to 30 days	146,988	171,408
31 – 60 days	14,075	21,499
61 – 90 days	4,312	5,339
Over 90 days	3,384	3,105
	168,759	201,351

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

The Group has recognised a loss of \$12,347,000 (2008: \$11,057,000) for the impairment of its trade receivables during the year ended 30 June 2009. The loss has been included in other operating expenses in the consolidated profit and loss account.

24. Trade and other receivables *(Continued)*

At 30 June 2009, trade receivables of \$28,653,000 (2008: \$42,933,000) 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:

	2009	2008
	\$000	\$000
Within 30 days	20,957	34,489
31 – 60 days	4,312	5,339
Over 60 days	3,384	3,105
	28,653	42,933

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

	2009	2008
	\$000	\$000
At 1 July	11,527	13,005
Impairment loss recognised in the consolidated profit and loss account	12,347	11,057
Amounts written off during the year	(11,059)	(12,535)
At 30 June	12,815	11,527

As of 30 June 2009, trade receivables of \$12,815,000 (2008: \$11,527,000) were impaired and fully provided. The individually impaired receivables mainly relate to independent customers, which are in unexpected difficult economic situations.

25. Inventories

	2009	2008
	\$000	\$000
Handsets and accessories, at cost	81,714	82,215
Less: provision for slow-moving and obsolete inventories	(6,532)	(13,814)
	75,182	68,401

Inventories represent goods held for resale. At 30 June 2009, inventories carried at cost and inventories carried at net realisable values amounted to \$74,112,000 (2008: \$64,594,000) and \$1,070,000 (2008: \$3,807,000) respectively.

The Group reversed \$7,282,000 (2008: \$1,667,000) of provision for slow-moving and obsolete inventories during the year ended 30 June 2009. The amount reversed has been included in cost of inventories sold in the consolidated profit and loss account.

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26. Pledged bank deposits and cash and cash equivalents

	Group		Company	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Short-term pledged bank deposits	388,626	333,159	336,105	328,832
Cash at bank and in hand	138,624	145,342	1,471	1,682
Short-term bank deposits	529,647	1,158,000	—	—
Cash and cash equivalents	668,271	1,303,342	1,471	1,682
	1,056,897	1,636,501	337,576	330,514
Maximum exposure to credit risk	1,052,148	1,632,166	337,576	330,514

At 30 June 2009, balances of pledged bank deposits and cash and cash equivalents amounting to \$297,363,000 are denominated in US dollars (2008: \$834,691,000).

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, \$251,554,000 (2008: \$226,244,000) has been pledged as cash collateral for the Group's 3G Licence performance bond as referred to in note 33 - "Commitments and contingent liabilities".

27. Trade and other payables

	Group		Company	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Trade payables	148,077	161,766	—	—
Other payables and accruals	627,593	663,110	2,737	2,853
Current portion	775,670	824,876	2,737	2,853

An ageing analysis of trade payables is as follows:

	Group	
	2009 \$000	2008 \$000
Current to 30 days	101,227	93,400
31 – 60 days	30,081	49,912
61 – 90 days	3,103	10,855
Over 90 days	13,666	7,599
	148,077	161,766

28. 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% (2008: 16.5%) 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:

	2009	2008
	\$000	\$000
Deferred income tax liabilities	97,650	103,960

The movements in the deferred income tax liabilities are as follows:

	Deferred income tax liabilities in relation to accelerated tax allowances \$000
At 1 July 2007	129,613
Recognised in the consolidated profit and loss account (note 11 (a))	(25,653)
At 30 June 2008	103,960
At 1 July 2008	103,960
Recognised in the consolidated profit and loss account (note 11 (a))	(6,310)
At 30 June 2009	97,650

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 \$9,437,000 (2008: \$10,997,000) in respect of tax losses of \$57,192,000 (2008: \$66,651,000). The tax losses do not expire under current tax legislation.

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29. Mobile licence fee liabilities

	2009 \$000	2008 \$000
At 1 July	730,239	715,704
Accretion expenses included in consolidated profit and loss account (note 9)	81,331	80,430
Payment	(76,020)	(65,895)
At 30 June	735,550	730,239
Less: Mobile licence fee liabilities - current portion	(83,290)	(73,500)
Non-current portion	652,260	656,739
Analysis of the present value of mobile licence fee liabilities:		
	2009 \$000	2008 \$000
Minimum annual fees payable		
Within 1 year	86,144	76,020
After 1 year but within 5 years	501,615	438,034
After 5 years	642,162	791,887
	1,229,921	1,305,941
Less: Future finance charges	(494,371)	(575,702)
Present value of mobile licence fee liabilities	735,550	730,239
Comprising:		
Within 1 year	83,290	73,500
After 1 year but within 5 years	360,327	314,005
After 5 years	291,933	342,734
	735,550	730,239

30. Share capital

	Shares of \$0.1 each	\$000
Authorised		
At 1 July 2007, 30 June 2008 and 30 June 2009	1,000,000,000	100,000
Issued and fully paid		
At 1 July 2007	580,178,928	58,018
Issue of new shares upon exercise of share options (a)	979,000	98
Repurchase of shares (b)	(8,042,000)	(804)
At 30 June 2008	573,115,928	57,312
Repurchases of shares (c)	(35,378,500)	(3,538)
At 30 June 2009	537,737,428	53,774

- (a) 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.
- (b) 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		Aggregate price paid \$000
		Highest	Lowest	
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

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30. Share capital (Continued)

- (c) During the year ended 30 June 2009, the Company repurchased 35,378,500 shares on the HKSE. These repurchased shares were cancelled prior to 30 June 2009. The total amount paid to acquire these shares of \$195,734,000 was deducted from shareholders' equity.

Month of repurchase	Number of shares repurchased	Price per share		Aggregate price paid \$000
		Highest	Lowest	
July 2008	255,000	\$7.67	\$7.67	1,956
August 2008	80,000	\$7.27	\$7.27	581
September 2008	4,202,000	\$7.00	\$5.25	23,861
October 2008	14,122,000	\$5.36	\$4.65	71,282
November 2008	3,742,500	\$6.27	\$5.70	22,635
December 2008	6,172,500	\$6.20	\$5.62	36,405
January 2009	5,834,500	\$6.05	\$5.68	34,515
March 2009	720,000	\$4.70	\$4.44	3,322
April 2009	250,000	\$4.79	\$4.68	1,177
	35,378,500			195,734

31. 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

	2009	2008
Number of share options		
At 1 July	9,286,500	10,653,500
Exercised	—	(979,000)
Cancelled or lapsed	(440,000)	(388,000)
At 30 June	8,846,500	9,286,500
Share options vested at 30 June	8,846,500	9,286,500

The weighted average exercise price of cancelled or lapsed share options during the year was \$9.00 (2008: \$9.00).

31. Share option scheme (Continued)

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

Date of grant	Exercise period	Exercise price	2009 Number of share options	2008 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	5,520,000	5,960,000
1 March 2005	1 March 2006 to 28 February 2015	\$9.05	193,000	193,000
			8,846,500	9,286,500

- (c) No share options were granted during the years ended 30 June 2008 and 2009. The amount of employee share-based payment charged to the consolidated profit and loss account for the year was nil (2008: \$21,000).

- (d) Details of share options exercised

No share options were exercised during the year ended 30 June 2009.

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.

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32. Other contingent assets and liabilities

The Office of the Telecommunications Authority (“OFTA”) of Hong Kong withdrew the regulatory guidance on fixed-mobile interconnection charge (“FMIC”) on 27 April 2009. Prior to 27 April 2009, FMIC was subject to a regulatory guidance in favour of the Mobile Party’s Network Pay (“MPNP”) model. Under MPNP, interconnection charge is payable by a mobile network operator (“MNO”) to the interconnecting fixed network operator (“FNO”) for telephony traffic irrespective of whether the call is from a fixed line to a mobile phone, or from a mobile phone to a fixed line. The de-regulation on 27 April 2009 removed the asymmetry which was contrary to fair competition as MNOs were effectively subsidising FNOs. From 27 April 2009, interconnection charge for fixed-mobile interconnection was to be settled by commercial agreements between fixed and mobile operators without any *ex ante* regulatory intervention.

Upon the withdrawal of MPNP and termination of the MPNP-based interconnection agreement with all FNOs in Hong Kong on 27 April 2009, the Group adopts the Calling Party’s Network Pay (“CPNP”) principle which is a fair and reasonable FMIC regime, as interconnection charge is payable by the call originating network. CPNP is the commonly accepted international practice in most advanced economies with open and competitive markets. With any-to-any connectivity in place ensuring no disruption to interconnection, the Group is in the process of finalising commercial terms for interconnection with all FNOs in Hong Kong. If the Group fails to agree with any FNO on the commercial terms after a prolonged period of time, either the Group or the FNO may request the Telecommunications Authority to determine the level of FMIC under Section 36A of the Telecommunications Ordinance (Cap 106).

The traffic between the Group’s mobile network and other fixed networks is slightly imbalanced, with higher volume of fixed-to-mobile calls than mobile-to-fixed calls. Moreover, mobile termination rate is either higher than or equal to fixed termination rate in most countries adopting CPNP. In Hong Kong, Long Run Average Incremental Cost (“LRAIC”) is the adopted cost model for the calculation of FMIC. It is therefore likely that, under the CPNP and LRAIC principle, interconnection income from FNOs will exceed interconnection charge payable to FNOs.

For the period from 27 April 2009 to 30 June 2009, the Group issued invoices with a total amount of \$24,151,000 to the interconnecting FNOs for telephony traffic originated from their fixed networks to the Group’s mobile network. The FNOs rejected these invoices in writing on the ground that the commercial terms for interconnection had not been agreed upon.

For the period from 27 April 2009 to 30 June 2009, the Group received invoices with a total amount of \$15,916,000 from some interconnecting FNOs for telephony traffic delivered. The Group rejected these invoices in writing on the ground that the commercial terms for interconnection had not been agreed upon.

No income or charge in respect of fixed-mobile interconnection has been recognised for the period from 27 April 2009 to 30 June 2009 since it is impracticable to estimate the amount or timing of such income and charge. As disclosed above, the Group had contingent assets and liabilities in respect of fixed-mobile interconnection charge of up to \$24,151,000 and \$15,916,000 respectively as at 30 June 2009.

33. Commitments and contingent liabilities

(a) Capital commitments

Capital commitments outstanding at 30 June 2009 not provided for in the financial statements were as follows:

	Group	
	2009	2008
	\$000	\$000
Contracted for		
Fixed assets	94,529	292,933
Held-to-maturity debt securities	—	41,446
Equity securities	1,821	3,550
Authorised but not contracted for	543,867	420,126
	640,217	758,055

The Company did not have any capital commitments at 30 June 2009 (2008: 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 2009, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	Group	
	2009	2008
	\$000	\$000
Land and buildings and transmission sites		
Within 1 year	369,757	391,131
After 1 year but within 5 years	213,564	271,697
After 5 years	14,699	20,686
	598,020	683,514
Leased lines		
Within 1 year	54,123	34,505
After 1 year but within 5 years	99,342	27,014
After 5 years	96,607	1,714
	250,072	63,233

The Company did not have any operating lease commitments at 30 June 2009 (2008: nil).

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33. Commitments and contingent liabilities (Continued)

(c) Performance bonds

	Group		Company	
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
Hong Kong 3G Licence	503,108	452,487	503,108	452,487
Other	2,136	1,942	—	—
	505,244	454,429	503,108	452,487

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 2008, the seventh anniversary of the issue of the 3G Licence and subsequent to the payment of the seventh year spectrum utilisation fee of \$70,249,000, the performance bond was revised. The revised bond was for \$503,108,000 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.

34. Related party transactions

The Group is controlled by Cellular 8 Holdings Limited, which owns 61.48% of the Company's shares as at 30 June 2009. The remaining 38.52% 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.

	2009	2008
	\$000	\$000
Operating lease rentals for land and buildings and transmission sites (i)	76,467	71,507
Insurance expense (ii)	4,252	3,681

- (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 2009, rental and licence fees paid and payable to subsidiaries and associated companies of SHKP totalled \$76,467,000 (2008: \$71,507,000).

- (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 2009, insurance premiums paid and payable were \$4,252,000 (2008: \$3,681,000).

- (b) At 30 June 2009, 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

	2009	2008
	\$000	\$000
Salaries and other short-term employee benefits	27,661	26,140

- (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:

	2009	2008
	\$000	\$000
Trade receivables (note 24)	878	381
Deposits and prepayments (note 24)	5,836	5,674
Trade payables (note 27)	105	98
Other payables and accruals (note 27)	864	1,875

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

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35. Subsequent event

The Group successfully bid two frequency bands in the 1800 MHz band, each with a bandwidth of 0.8MHz x 2, in the auction of radio spectrum, and was assigned the additional spectrum on 3 July 2009. Together with the existing 1800 MHz spectrum, the additional spectrum enables the Group to implement 4G LTE (Long Term Evolution) on 1800 MHz in a more effective and efficient way. The spectrum utilisation fee consists of an upfront fee of \$14,540,000 determined by the auction and annual fee of \$464,000 for the period from 30 September 2009 to 29 September 2011 and \$4,640,000 or 5% of the network turnover in the year concerned (whichever is the higher) for the period from 30 September 2011 to 29 September 2021.

36. Ultimate holding company

The directors consider the ultimate holding company at 30 June 2009 to be Sun Hung Kai Properties Limited, a company incorporated in Hong Kong with its shares listed on the main board of HKSE.