



Annual Report 2010/2011

SmarTone Telecommunications Holdings Limited

(Stock Code : 0315)

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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.

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.

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. Wing-yui Cheung
 - * Mr. David Norman Prince
 - * Mr. Wing-chung Yung
 - * Mr. Thomas Hon-wah Siu
 - * Mr. Alfred Wing-kit Tsim
 - * Mr. John Anthony Miller
 - ** Dr. Eric Ka-cheung Li, *JP*
 - ** Mr. Leung-sing Ng, *JP*
 - ** Mr. Xiang-dong Yang
 - ** Mr. Eric Fock-kin Gan
- * *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

Mizuho Corporate Bank, Limited
Standard Chartered Bank Limited
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	
	2011	2010
Consolidated profit and loss account		
Revenues	6,631	3,957
Profit attributable to equity holders of the Company	754	294
Basic earnings per share (\$)*	0.73	0.28
Total dividends per share (\$)*	0.73	0.26
Consolidated balance sheet		
Total assets	7,237	4,841
Current liabilities	(3,012)	(1,200)
Total assets less current liabilities	4,225	3,641
Non-current liabilities	(1,316)	(879)
Non-controlling interests	(46)	(35)
Net assets	2,863	2,727
Share capital	103	53
Reserves	2,760	2,674
Total equity attributable to equity holders of the Company	2,863	2,727
Consolidated cash flow		
Net cash generated from operating activities	3,187	1,296
Interest received	43	36
Payment for purchase of fixed assets	(680)	(487)
Payment of mobile licence fees	(972)	(101)
Additions of handset subsidies	(1,299)	(506)
Payment for repurchase of shares	(181)	(77)
Dividends paid (include non-controlling interests)	(497)	(132)
Proceeds from bank borrowings (net)	550	–
Other	61	1
Net increase in pledged bank deposits, cash and cash equivalents, and held-to-maturity debt securities	212	30

* As restated on the assumption that the Bonus Issue had been in place in prior years.

CHAIRMAN'S STATEMENT

(Financial figures are expressed in Hong Kong dollars)

I am pleased to report the results of the Group for the year ended 30 June 2011.

Financial Highlights

In the year under review, the Group achieved strong improvements in financial results with substantial growth in service revenue, driven by increase in both customer number and ARPU. Both EBITDA and net profit were significantly higher than last year's.

Total revenue increased by 68% to \$6,631 million. EBITDA grew 80% to \$2,131 million. Profit attributable to equity holders, at \$754 million, was 2.5 times last year's. Earnings per share increased to 73 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 42 cents per share. Together with the interim dividend of 31 cents (adjusted for the bonus issue in April 2011), full year dividend amounts to 73 cents per share.

Business Review

Hong Kong

In the year under review, your Company achieved creditable financial performance, gaining further momentum and scale across all service portfolios. Our long-held focus on delivering superior network performance, innovating for proprietary services and providing unrivalled customer care have been increasingly recognised by our customers and the wider market. This is further boosted by the continuing growth in adoption of data centric smart devices that play to our strengths. The Company continues to make substantial gain in revenue market share, reflected in the increase in customer number and ARPU.

Customer number increased by 17% to 1.54 million, of which 71% were higher value postpaid customers. Average postpaid churn rate further improved to 1.0% in the second half of the financial year. Fully blended ARPU, defined as service revenue divided by number of SIM cards in issue across all service portfolios, increased by 15% to \$249, breaching the highs in recent years.

Service revenue grew 33%. Data service revenue increased by 81%, and represents 49% of service revenue, driven by increasing customer adoption of data services with smartphones, mobile broadband including tablet computers, and wireless fixed broadband.

Our HSPA+ network is now upgraded to 42 Mbps speed everywhere. A network modernisation program to upgrade to a new generation of multi-mode multi-band base stations is well under way. This improves operational efficiency and paves the way for rollout of LTE when we consider that technology and its ecosystem to be mature enough for our customers. The Company will implement LTE in the 1800 MHz band due to its more attractive combination of coverage, capacity and cost when compared to LTE in the higher frequencies like the 2600 MHz band.

In March, the Company successfully bid for spectrum in the 850 MHz band which will soon be put into use in providing HSPA+, much enhancing in-building coverage and capacity. This also anticipates a low-frequency implementation of LTE-Advanced in the future.

CHAIRMAN'S STATEMENT

(Financial figures are expressed in Hong Kong dollars)

The Company continued to innovate in bringing to market proprietary services that are compelling and relevant to targeted audiences, reliable and are easy to use. Leveraging on the wider adoption of smartphones and their application stores, distribution of our cloud based services is now extended to customers of other networks, in Hong Kong and overseas. Our Horse Racing Infocast and Soccer Infocast services are available on iPhone's App Store and Android Markets for subscription by anyone, anywhere. Identifying a compelling need of many of our customers to mitigate the effects of nuisance marketing calls that are getting more prevalent and intrusive every day in Hong Kong, the Company recently launched its Call Guard service. It is another cloud based service that enables our customers to cooperate together in order to drastically reduce the number of nuisance calls and to regain control in their daily lives. Proprietary services enable your Company to meaningfully differentiate from the competition and to broaden its revenue sources.

Your Company continues to improve its customer care across all touch-points, including our stores, website, customer hotlines and social media, which enable us to better serve our customers' needs and further increase their loyalty.

Macau

SmarTone Macau launched 3G/HSPA+ service in July 2010, offering unique and compelling multimedia services that Macau consumers have never seen before. Market response has been encouraging. In the year under review, both revenue and profit increased.

Prospects

Despite increasing global economic uncertainties, the Hong Kong economy is expected to remain relatively resilient.

The Group will continue to focus on creating and delivering unbeatable and more valuable experiences to customers. It looks to increase its competitiveness by offering better real value through superior network performance, proprietary services and unrivalled customer care.

Anticipating future customer demand, your Group will continue to invest in network upgrade and expansion, and to develop services for its targeted customer segments. As smart device penetration continues, the Group is well positioned to capture this growth and gain revenue market share.

Your Group's balance sheet remains strong, with ample cash resources to meet all challenges and capture new opportunities, bringing value to both customers and shareholders.

Appreciation

During the year, Mr. Peter David Sullivan resigned as Independent Non-Executive Director of your Company. The Board would like to take this opportunity to thank Mr. Sullivan for his valuable contributions to the Group over the past years. Mr. John Anthony Miller has been appointed as Non-Executive Director. I would like to welcome Mr. Miller 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 hard work.

Raymond Ping-luen Kwok

Chairman

Hong Kong, 31 August 2011

MANAGEMENT DISCUSSION AND ANALYSIS

(Financial figures are expressed in Hong Kong dollars)

Review of financial results

In the year under review, the Group reported impressive growth in service revenue driven by strong growth in both customer number and ARPU achieved under fierce market conditions. The strong momentum in raising service revenue, EBITDA and net profit continued. The encouraging results demonstrated that the Group's long held proposition of unbeatable and more valuable experiences had gained traction in the market place.

Service revenue grew by 33% to \$4,603 million (2009/10: \$3,452 million). EBITDA increased by 80% to \$2,131 million (2009/10: \$1,182 million). Profit attributable to equity holders of the Company surged by \$460 million or 1.5 times to \$754 million (2009/10: \$294 million).

Revenues rose by \$2,674 million or 68% to \$6,631 million (2009/10: \$3,957 million), with service revenue and device sales increasing by \$1,151 million and \$1,523 million respectively.

- Service revenue rose by \$1,151 million or 33% to \$4,603 million (2009/10: \$3,452 million) driven by strong customer growth and increase in ARPU. This improvement was attributable to increased competitiveness through successful execution of the Group's strategy, supported by superior network performance, compelling proprietary services and unrivaled customer care.

The Group achieved a 17% year-on-year growth in its Hong Kong customer base. Hong Kong fully blended ARPU rose by 15% to \$249 (2009/10: \$216) driven principally by data services, with increasing subscriptions to high price point data bundled plans by both new and existing customers. The growth momentum in customer base and ARPU continued.

- Handset and accessory sales rose by \$1,523 million or 3 times to \$2,028 million (2009/10: \$505 million) attributable to increased sales volume and higher average unit selling price.

Cost of inventories sold and services provided rose by 137% to \$2,500 million (2009/10: \$1,056 million). Cost of inventories sold rose by almost 3 times to \$1,905 million (2009/10: \$495 million) in line with the increase in handset and accessory sales. Cost of services provided rose by 6% to \$595 million (2009/10: \$561 million).

Operating expenses, excluding depreciation, amortisation, impairment loss and loss on disposal, rose by \$281 million or 16% to \$2,000 million (2009/10: \$1,719 million). The increase in operating expenses was scaling less than the growth in service revenue, resulted in improved operating leverage. Network costs rose by 5% as the Group continued to enhance its network capacity, quality and coverage. Staff costs grew by 23% as a result of a higher provision for staff performance bonus, an increase in headcount and general salary inflation. Sales and marketing expenses increased by 28% due to higher



MANAGEMENT DISCUSSION AND ANALYSIS

(Financial figures are expressed in Hong Kong dollars)

marketing costs for a series of marketing campaigns, and higher sales commissions in line with higher customer acquisitions. Other operating expenses, including rental and utilities, rose by 25% driven by cost increases to support the increase in business volume.

Depreciation, impairment loss and loss on disposal fell by \$29 million or 6% to \$474 million (2009/10: \$503 million). Excluding the impact of accelerated depreciation and impairment loss of fixed assets of \$51 million collectively recognised for the Macau operations in 2009/10, depreciation and loss on disposal rose by \$22 million.

Handset subsidy amortisation rose by \$329 million to \$613 million (2009/10: \$284 million) due to substantial increase in customer acquisitions using subsidised handsets. Mobile licence fee amortisation rose by \$10 million to \$77 million (2009/10: \$67 million).

Finance income fell by \$2 million to \$32 million (2009/10: \$34 million) due to lower interest income from debt securities. Finance costs, comprising of interest on bank borrowings and accretion expenses or deemed interest on asset retirement obligations and mobile licence fee liabilities, rose by \$12 million to \$98 million (2009/10: \$86 million).

Income tax expense amounted to \$136 million (2009/10: income tax credit of \$20 million).

Macau operations reported an operating profit of \$44 million (2009/10: \$5 million, after accelerated depreciation and impairment loss of fixed assets of \$51 million in total). Revenues rose by 28% to \$282 million (2009/10: \$221 million) driven by higher revenue from postpaid and inbound roaming services as well as higher handset sales. Cost of inventories sold and services provided rose by 35% whereas operating expenses rose by 51%, reflecting a higher cost structure since the launch of 3G services in July 2010. EBITDA fell slightly to \$80 million (2009/10: \$82 million).



MANAGEMENT DISCUSSION AND ANALYSIS

(Financial figures are expressed in Hong Kong dollars)

Capital structure, liquidity and financial resources

During the year under review, the Group was financed by share capital, internally generated funds and short-term bank borrowings. The Group's cash resources remained robust with cash and bank balances (including pledged bank deposits) and investments in held-to-maturity debt securities of \$1,653 million as at 30 June 2011 (30 June 2010: \$1,441 million). The Group had short-term bank borrowings of \$550 million as at 30 June 2011 (30 June 2010: Nil).

During the year, the Group arranged committed 12-month Hong Kong dollar denominated revolving credit facilities from certain banks totalling \$650 million, of which a sum of \$550 million was utilised as at 30 June 2011.

The Group had net cash generated from operating activities and interest received amounted to \$3,187 million and \$43 million respectively during the year ended 30 June 2011. The Group's major outflows of funds during the year were payments for additions of handset subsidies, new spectrum at the 850MHz frequency band, purchase of fixed assets, dividends and repurchase of shares.

During the year under review, the Company completed a bonus issue of shares on the basis of one bonus share for every existing share in issue on 22 March 2011 (the "Bonus Issue"), with the bonus shares allotted on 6 April 2011. The bonus shares were credited as fully paid by way of capitalisation of an amount equal to the total par value of the bonus shares in the contributed surplus account of the Company. In order to allow the Bonus Issue, the authorised share capital of the Company was increased from \$100 million to \$200 million by creating 1,000 million additional shares.

During the year ended 30 June 2011, the Company repurchased 17,302,500 shares of the Company at an aggregate price of \$179 million on The Stock Exchange of Hong Kong Limited. The highest and lowest prices per share were \$10.68 and \$8.50 respectively. These repurchased shares were repurchased before the Bonus Issue and had been cancelled during the year.



Samsung Galaxy Tab 10.1



BlackBerry® Bold™ 9900

MANAGEMENT DISCUSSION AND ANALYSIS

(Financial figures are expressed in Hong Kong dollars)

The Group's current liabilities exceeded its current assets by \$593 million as at 30 June 2011, with a substantial increase in customer prepayments and deposits included in current liabilities. The significant growth in subscriptions of handset bundled plans resulted in the corresponding increases in handset subsidies included in non-current assets, and non-refundable customer prepayments included in current and non-current liabilities. Both handset subsidy and non-refundable customer prepayment will reduce gradually over the contract term of each subscription. Excluding the non-refundable customer prepayments of \$641 million (30 June 2010: \$181 million) included in current liabilities, the Group would have net current assets of \$48 million as at 30 June 2011 (30 June 2010: \$447 million).

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 2012 with internal cash resources and short-term bank borrowings.

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 in 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 letter of credit on its behalf. The Group may partially or fully collateralise such instruments by cash deposits to lower the issuance costs. Pledged bank deposits amounted to \$411 million as at 30 June 2011 (30 June 2010: \$340 million).

MANAGEMENT DISCUSSION AND ANALYSIS

(Financial figures are expressed in Hong Kong dollars)

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 for 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 gain or loss other than from its United States dollar denominated bank deposits and debt securities. The Group does not currently undertake any foreign exchange hedging.

Contingent assets and liabilities

Fixed-mobile interconnection charge

As at 30 June 2011, the Group had contingent assets and liabilities in respect of fixed-mobile interconnection charge of up to \$285 million (30 June 2010: \$153 million) and \$197 million (30 June 2010: \$105 million) respectively as disclosed in note 33 to these consolidated financial statements.

Performance bonds

Certain banks, on the Group's behalf, had issued performance bonds to the telecommunications authorities of Hong Kong and Macau in respect of obligations under mobile licences issued by those authorities. The total amount outstanding as at 30 June 2011 under these performance bonds was \$658 million (30 June 2010: \$558 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 1,951 full-time employees as at 30 June 2011 (30 June 2010: 1,782), with the majority of them based in Hong Kong. Total staff costs were \$555 million for the year ended 30 June 2011 (2009/10: \$450 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 individual employee's performance. 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 under review, 3,763,500 share options were allotted pursuant to adjustments required for the Bonus Issue; 34,177,500 new share options were granted; 7,354,000 share options were exercised; and no share options were cancelled or lapsed. 39,191,500 (30 June 2010: 8,604,500) share options were outstanding as at 30 June 2011.

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 2011.

Principal activities

The principal activity of the Company is investment holding. The activities of its principal subsidiaries are shown in note 19 to the consolidated financial statements.

Results

The results of the Group for the year ended 30 June 2011 are set out in the consolidated profit and loss account on page 43.

Dividend

The Directors recommended the payment of a final dividend for the year ended 30 June 2011 of \$0.42 per share (2009/10: \$0.175, adjusted for the 1:1 bonus issue in April 2011 (the "Bonus Issue")). The proposed final dividend, together with the interim dividend of \$0.31 per share (adjusted for the Bonus Issue) paid by the Company during the year (2009/10: \$0.085, adjusted for the Bonus Issue), makes a total dividend for the year of \$0.73 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 40.

Reserves

Movements in the reserves of the Group and the Company during the year are set out on pages 50 to 51 and note 32 to the consolidated financial statements respectively.

Distributable reserves

The reserves available for distribution to the shareholders of the Company amounted to \$3,061,441,000 at 30 June 2011 (30 June 2010: \$3,145,375,000).

Donations

During the year, charitable and other donations made by the Group amounted to \$22,000 (2009/10: \$40,000).

Fixed assets

Details of the movements in fixed assets are shown in note 18 to the consolidated financial statements.

REPORT OF THE DIRECTORS

(Financial figures are expressed in Hong Kong dollars)

Share capital

Details of the movements in share capital of the Company are shown in note 30 to the consolidated financial statements.

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, <i>JP</i> |
| Mr. Douglas Li
<i>Chief Executive Officer</i> | ** Mr. Leung-sing Ng, <i>JP</i> |
| Mr. Patrick Kai-lung Chan | ** Mr. Xiang-dong Yang |
| * Mr. Wing-yui Cheung | ** Mr. Eric Fock-kin Gan |
| * Mr. David Norman Prince | ** Mr. Peter David Sullivan
<i>(Resigned on 11 November 2010)</i> |
| * Mr. Wing-chung Yung | |
| * Mr. Thomas Hon-wah Siu | |
| * Mr. Alfred Wing-kit Tsim | |
| * Mr. John Anthony Miller
<i>(Appointed on 11 November 2010)</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 Xiang-dong Yang 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").

REPORT OF THE DIRECTORS

(Financial figures are expressed in Hong Kong dollars)

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 2011 are shown in note 11 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 33 to 39.

REPORT OF THE DIRECTORS

(Financial figures are expressed in Hong Kong dollars)

Directors' and chief executive's interests

As at 30 June 2011, 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
	Personal interests (held as beneficial owner)	Other interests	Total			
Raymond Ping-luen Kwok	–	4,475,534 ¹	4,475,534	–	4,475,534	0.44
Douglas Li	2,400,000	–	2,400,000	10,000,000 ²	12,400,000	1.21
Patrick Kai-lung Chan	–	–	–	4,107,000 ²	4,107,000	0.40

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 and 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			Number of underlying shares held under equity derivatives	Total	% of shares in issue
	Personal interests (held as beneficial owner)	Other interests	Total			
Raymond Ping-luen Kwok	75,000	396,603,978 ¹	396,678,978	100,000 ²	396,778,978	15.44
David Norman Prince	2,000	–	2,000	–	2,000	0
Wing-chung Yung	–	–	–	45,000 ²	45,000	0
Thomas Hon-wah Siu	–	7,000 ³	7,000	–	7,000	0
Eric Ka-cheung Li	–	4,028 ⁴	4,028	–	4,028	0

Notes:

- Mr. Raymond Ping-luen Kwok was deemed to be interested in these shares in SHKP by virtue of being a beneficiary of certain discretionary trusts for the purpose of Part XV of the SFO.
- These represented the interests in the underlying shares of SHKP in respect of the share options (being regarded for the time being as unlisted and physically settled equity derivatives) granted by SHKP under its share option scheme. The outstanding options granted by SHKP to the Directors of the Company under the scheme as at 30 June 2011 were as follows:

Name of Director	Date of grant	Exercise price \$	Exercise period	Outstanding at 1 July 2010	Granted during the year	Exercised during the year	Cancelled/ Lapsed during the year	Outstanding at 30 June 2011
Raymond Ping-luen Kwok	12 July 2010	111.40	12 July 2011 to 11 July 2015	N/A	100,000*	–	–	100,000
Wing-chung Yung	12 July 2010	111.40	12 July 2011 to 11 July 2015	N/A	45,000*	–	–	45,000

* The share options can be exercised up to 30% of the grant during the period from 12 July 2011 to 11 July 2012, up to 60% of the grant during the period from 12 July 2012 to 11 July 2013 and in whole or in part of the grant during the period from 12 July 2013 to 11 July 2015.

- These shares in SHKP were held jointly by Mr. Thomas Hon-wah Siu and his spouse.
- These shares in SHKP were held by the spouse of Dr. Eric Ka-cheung Li.

REPORT OF THE DIRECTORS

(Financial figures are expressed in Hong Kong dollars)

(b) SUNeVision Holdings Ltd. (“SUNeVision”)

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	3,485,000 ¹	3,485,000	–	3,485,000	0.15

Note:

1. Mr. Raymond Ping-luen Kwok was deemed to be interested in these shares in SUNeVision by virtue of being a beneficiary of certain discretionary trusts 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. 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.

Save as disclosed above, at 30 June 2011, 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.

REPORT OF THE DIRECTORS

(Financial figures are expressed in Hong Kong dollars)

Share Option Scheme

Pursuant to the terms of the share option scheme adopted by the Company on 15 November 2002 (the "Share Option Scheme"), the Company may grant options to the participants, including directors and employees of the Group, to subscribe for shares of the Company.

1. Principal terms of Share Option Scheme

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

(a) Purpose

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

(b) Participants

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

(c) Maximum number of shares available for issue

The Company can issue options so that the total number of shares that may be issued upon exercise of all options to be granted under all the share option schemes does not in aggregate exceed 10% of the shares in issue on the date of adoption of the Share Option Scheme. The Company may renew this limit at any time, subject to shareholders' approval and the issue of a circular and in accordance with the Listing Rules provided that the number of shares to be issued upon exercise of all outstanding options granted and yet to be exercised under all the share option schemes does not exceed 30% of the shares in issue from time to time. At 31 August 2011, the number of shares available for issue in respect thereof is 47,785,134 shares which represents approximately 4.65% 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.

REPORT OF THE DIRECTORS

(Financial figures are expressed in Hong Kong dollars)

(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 2011 are as follows:

Before the Bonus Issue¹:

Grantee	Date of grant	Exercise price \$	Exercise period	Outstanding at 1 July 2010	Granted during the period	Exercised during the period ⁷	Cancelled/ Lapsed during the period	Outstanding before Bonus Issue
Directors								
Douglas Li	10 February 2003	9.29	10 February 2003 to 16 July 2011	3,000,000 ²	-	(1,800,000)	-	1,200,000
Patrick Kai-lung Chan	10 February 2003	9.20	2 May 2003 to 1 May 2012	133,500 ³	-	(50,000)	-	83,500
	5 February 2004	9.00	5 February 2005 to 4 February 2014	970,000 ⁴	-	-	-	970,000
Employees								
	5 February 2004	9.00	5 February 2005 to 4 February 2014	4,308,000 ⁴	-	(2,798,000)	-	1,510,000
	1 March 2005	9.05	1 March 2006 to 28 February 2015	193,000 ⁵	-	(193,000)	-	-

REPORT OF THE DIRECTORS

(Financial figures are expressed in Hong Kong dollars)

After the Bonus Issue¹:

Grantee	Date of grant	Adjusted exercise price ² / Exercise price \$	Exercise period	Outstanding before Bonus Issue	Adjusted upon Bonus Issue ¹	Granted during the period	Exercise during the period ³	Cancelled/ Lapsed during the period	Outstanding at 30 June 2011
Directors									
Douglas Li	10 February 2003	4.645	10 February 2003 to 16 July 2011	1,200,000	1,200,000	-	(2,400,000)	-	-
	13 June 2011	12.78	14 June 2012 to 13 June 2016	-	-	10,000,000 ⁶	-	-	10,000,000
Patrick Kai-lung Chan	10 February 2003	4.60	2 May 2003 to 1 May 2012	83,500	83,500	-	-	-	167,000
	5 February 2004	4.50	5 February 2005 to 4 February 2014	970,000	970,000	-	-	-	1,940,000
	13 June 2011	12.78	14 June 2012 to 13 June 2016	-	-	2,000,000 ⁶	-	-	2,000,000
Employees									
	5 February 2004	4.50	5 February 2005 to 4 February 2014	1,510,000	1,510,000	-	(113,000)	-	2,907,000
	13 June 2011	12.78	14 June 2012 to 13 June 2016	-	-	22,177,500 ⁶	-	-	22,177,500

Notes:

- The Company issued bonus shares on 6 April 2011 on the basis of one bonus share for every one existing share held (the "Bonus Issue"). The Bonus Issue gives rise to adjustments to the number of outstanding share options and the exercise price. The exercise price per share of the share options granted on 10 February 2003 to Mr. Douglas Li was adjusted from \$9.29 to \$4.645. The exercise price per share of the share options granted on 10 February 2003 to Mr. Patrick Kai-lung Chan was adjusted from \$9.20 to \$4.60. The exercise price per share of the share options granted on 5 February 2004 was adjusted from \$9.00 to \$4.50.
- 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, in the original number of 9,457,000, 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-third from 1 March 2007 and in whole from 1 March 2008.
- The options can be exercised up to one-third from 14 June 2012, up to two-third from 14 June 2013 and in whole from 14 June 2014. The closing price of the shares of the Company immediately before the date on which the options were granted was \$12.78 per share.

REPORT OF THE DIRECTORS

(Financial figures are expressed in Hong Kong dollars)

7. The weighted average closing price of the shares of the Company immediately before the dates on which the options were exercised was \$18.55 per share.
8. The weighted average closing price of the shares of the Company immediately before the dates on which the options were exercised was \$12.52 per share.

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.

Valuation of share options granted during the year

On 13 June 2011, the Company granted share options to various directors and employees of the Company under the Share Option Scheme to subscribe for up to a total of 34,177,500 shares in the capital of the Company. The value of these share options, as calculated by using the Binominal option pricing model, was \$83,735,000.

The Binominal model is one of the generally accepted methodologies to calculate the value of an option. The significant inputs into the model were:

Annual risk-free interest rate	1.39% ¹
Expected option life	5 years ²
Volatility	34.75% ³
Dividend yield	5.5% ⁴
Exercise price	\$12.78
Share price at date of grant	\$12.58

Notes:

1. This represents the weighted average yield of the relevant Hong Kong Exchange Fund Notes corresponding to the expected life of the options as at the date of grant.
2. This represents the life of the options as measured from the date of grant.
3. This represents the standard deviation of continuously compounded share returns based on statistical analysis of daily share prices over the last 5 years from the date of grant.
4. This represents the yield of expected dividend which is determined by reference to the historical dividend yield of the shares of the Company.

The value of the share options is subject to a number of assumptions and with regard to the limitation of model. Therefore, the value may be subjective and would change should any of the assumptions change.

REPORT OF THE DIRECTORS

(Financial figures are expressed in Hong Kong dollars)

Discloseable interests and short positions of shareholders under the SFO

As at 30 June 2011, 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
Sun Hung Kai Properties Limited ("SHKP") ¹	689,612,794	67.05%
HSBC Trustee (C.I.) Limited ("HSBC") ²	689,612,794	67.05%
Marathon Asset Management LLP	102,404,698	9.95%

Notes:

1. TFS Development Company Limited ("TFS") and Cellular 8 Holdings Limited ("Cellular 8", a wholly-owned subsidiary of TFS) held 28,335,850 shares and 661,276,944 shares in the Company respectively. For the purpose of Part XV of the SFO, TFS was deemed to be interested in 661,276,944 shares in the Company held by Cellular 8. Accordingly, TFS had interests and deemed interests in an aggregate of 689,612,794 shares in the Company.

In addition, TFS is a wholly-owned subsidiary of Fourseas Investments Limited ("Fourseas") which in turn is a wholly-owned subsidiary of SHKP. For the purpose of Part XV of the SFO, SHKP and Fourseas were also deemed to be interested in the above-mentioned 689,612,794 shares in the Company.

2. 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 2011, 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.

REPORT OF THE DIRECTORS

(Financial figures are expressed in Hong Kong dollars)

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 2011, the Company repurchased 17,302,500 shares of the Company on the HKSE. These repurchased shares were cancelled prior to 30 June 2011. Details of the repurchases were as follows:

Month of repurchase	Number of shares repurchased	Price per share		Aggregate price paid \$
		Highest \$	Lowest \$	
September 2010	2,012,000	10.10	8.50	19,128,000
October 2010	12,874,000	10.48	10.18	134,413,000
November 2010	2,416,500	10.68	10.36	25,320,000
	17,302,500			178,861,000

Save as disclosed above, at no time during the year ended 30 June 2011 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.

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	43%
Percentage of purchases attributable to the Group's five largest suppliers	64%

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.

REPORT OF THE DIRECTORS

(Financial figures are expressed in Hong Kong dollars)

Connected transactions

1. Certain related party transactions as disclosed in note 35 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 stores 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 2011, rental and licence fees paid and payable to subsidiaries and associated companies of SHKP totalled \$81,713,000.
 - (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 2011, insurance premiums paid and payable were \$4,788,000.

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 Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules", issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued a report containing the findings and conclusions in respect of the continuing connected transactions disclosed by the Group under this section in accordance with paragraph 14A.38 of the Listing Rules. A copy of the auditor's report has been provided by the Company to the HKSE.

2. At 30 June 2011, 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, 31 August 2011

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 2011, 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 once every 3 years in accordance with the Company's Bye-laws. As such, no director has a term of appointment longer than three years.

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

The Board

Roles of Directors

The Board assumes responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company 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 2011, Mr. Peter David Sullivan resigned as Independent Non-Executive Director and Mr. John Anthony Miller was appointed as Non-Executive Director, both with effect from 11 November 2010.

As at 30 June 2011, the Board comprises 2 Executive Directors, 7 Non-Executive Directors and 4 Independent Non-Executive Directors. The presence of 11 Non-Executive Directors, of whom 4 are independent, is considered by the Board to be a reasonable balance between Executive and Non-Executive Directors.

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

Except for those relationships disclosed in the biographical details of the Directors set out on pages 33 to 39 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.

CORPORATE GOVERNANCE REPORT

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 2011. Attendance of each Director at Board meetings held during the year is as follows:

Directors	Meetings attended/Total
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. Wing-yui Cheung	4/4
Mr. David Norman Prince	4/4
Mr. Wing-chung Yung	4/4
Mr. Thomas Hon-wah Siu	4/4
Mr. Alfred Wing-kit Tsim	3/4
Mr. John Anthony Miller ¹	2/2
Independent Non-Executive Directors	
Dr. Eric Ka-cheung Li	3/4
Mr. Leung-sing Ng	4/4
Mr. Xiang-dong Yang	3/4
Mr. Eric Fock-kin Gan	3/4
Mr. Peter David Sullivan ²	2/2

Notes:

1. Appointed as Director on 11 November 2010
2. Resigned as Director on 11 November 2010

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 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.

CORPORATE GOVERNANCE REPORT

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. 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 2011. Three written resolutions were passed and signed by all members of the Remuneration Committee during the year for approving the emoluments to Directors and 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 2011. 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. Other members are Mr. Leung-sing Ng, Mr. Eric Fock-kin Gan and Mr. Alfred Wing-kit Tsim. The majority of the members of the Audit Committee are 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 2011 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	Meetings attended/Total
Dr. Eric Ka-cheung Li (<i>Chairman</i>)	2/2
Mr. Leung-sing Ng	1/2
Mr. Eric Fock-kin Gan	2/2
Mr. Alfred Wing-kit Tsim	2/2

The Audit Committee also held a meeting on 24 August 2011 and reviewed the relevant financial statements as well as the internal audit reports of the Group for the year ended 30 June 2011. 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.

CORPORATE GOVERNANCE REPORT

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 2011 are as follows:

	HK\$
Total audit fee – interim review and final audit	1,950,000
Other services	939,000
<hr/>	
Total fees	2,889,000

The Committee received written confirmation from PricewaterhouseCoopers on their independence and objectivity as required under Section 290 of IFAC Code of Ethics (as reflected in 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 2011.

The Committee was satisfied with the findings of their review of the audit fees, process and effectiveness, independence and objectivity of PricewaterhouseCoopers and had 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 Directors of the Company are responsible for the preparation and the true and fair presentation of the 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.

The responsibilities of the auditors for the accounts are set out in the Auditors' Report on pages 41 to 42 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.

CORPORATE GOVERNANCE REPORT

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 has been set up 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.

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 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 2011. 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 2011, 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.

CORPORATE GOVERNANCE REPORT

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 58) 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”) and TFS Development Company Limited (“TFS”). SHKP, Cellular 8 and TFS are the 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 Wing Tai Properties 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 is also the director of certain subsidiaries of the Company.

Douglas Li, *Executive Director & Chief Executive Officer*

Mr. Douglas Li (aged 57) 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 51) 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

Wing-yui CHEUNG, *Non-Executive Director*

Mr. Wing-yui Cheung (aged 61) 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, a member of the Board of Review (Inland Revenue) and past Deputy Chairman of the Hong Kong Institute of Directors and he is currently a director of the Community Chest and Deputy Chairman of The Open University of Hong Kong. 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 practicing 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 60) 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 a Consultant of Sun Hung Kai Real Estate Agency Ltd. (a company within the Sun Hung Kai Properties Group).

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

DIRECTORS AND MANAGEMENT EXECUTIVES PROFILE

Wing-chung YUNG, *Non-Executive Director*

Mr. Wing-chung Yung (aged 64) 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. He has been appointed as a Non-Executive Director and an alternate director to Mr. Raymond Ping-luen Kwok of Wing Tai Properties Limited with effect from 24 February 2010. 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 58) 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 (“SHKP”). Prior to joining Wilson Group, Mr. Siu had more than 25 years experience in telecommunications and IT sectors. His experience covers finance, business operations and development. On 7 May 2010, Mr. Siu was appointed a Non-Executive Director of SUNeVision Holdings Ltd. (a subsidiary of SHKP).

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.

Alfred Wing-kit TSIM, *Non-Executive Director*

Mr. Alfred Tsim (aged 48) was appointed Director of the Company in November 2009. Mr. Tsim is an Executive Director and the Chief Executive Officer of SUNeVision Holdings Ltd. (“SUNeVision”), a company listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. SUNeVision is a subsidiary of Sun Hung Kai Properties Limited, the controlling shareholder of the Company. Prior to joining SUNeVision in February 2000, Mr. Tsim worked for international accounting firms, financial institution and major telecommunication operators in Hong Kong. He is a member of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants, United Kingdom, CPA Australia, CMA Canada and The Institute of Chartered Accountants in England and Wales. Mr. Tsim holds a Bachelor of Arts degree from the City University of Hong Kong, a Master of Business Administration degree from The University of Sydney, a Master of Laws degree from the University of Wolverhampton, United Kingdom, and a Diploma in Management Accounting from The Chinese University of Hong Kong.

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

DIRECTORS AND MANAGEMENT EXECUTIVES PROFILE

John Anthony MILLER, *Non-Executive Director*

Mr. John Anthony Miller (aged 61), SBS, OBE, was appointed Director of the Company in November 2010. Mr. Miller has been a Director of Transport International Holdings Limited and The Kowloon Motor Bus Company (1933) Limited since 1 March 2008, and a Director of RoadShow Holdings Limited since 20 March 2008. He is also Chairman of Hong Kong Business Aviation Centre Limited, a partly-owned subsidiary of Sun Hung Kai Properties Limited. Mr. Miller retired from the Civil Service in February 2007 as Permanent Representative of the Hong Kong Special Administrative Region of China to the World Trade Organisation in Geneva. Key positions held over a career spanning 35 years prior to Mr. Miller's retirement include Permanent Secretary for Financial Services and the Treasury (2002-2004), Director of Housing and Chief Executive of the Housing Authority (1996-2002), Director-General of Trade (1993-1996), Director of Marine (1991-1993), Information Coordinator in the Chief Secretary's Office (1989-1991) and Private Secretary to the Governor (1979-1982). Mr. Miller holds an MPA degree from Harvard University and a BA degree from London University.

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

Dr. Eric Li (aged 58), GBS, OBE, JP, 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. Meadville Holdings Limited had withdrawn its listing status with The Stock Exchange of Hong Kong Limited with effect from 19 April 2010. 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 62) 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., the Chairman of Bank of China (Hong Kong) Trustees Limited, the Vice Chairman of The Chiyu Banking Corporation Limited and a director of Bank of China Group Charitable Foundation Limited. Mr. Ng was the General Manager of Bank-wide Operation Department of Bank of China (Hong Kong) Limited from August 2005 to July 2009, the executive director and general manager of The China and South Sea Bank Limited, Hong Kong from 1990 to 1998. Mr. Ng has been appointed a member of the board of Management of the Chinese Permanent Cemeteries since June 2009 and a member of the Board of MTR Corporation Limited, Hong Kong since December 2007, he was previously a member of the managing board of The Kowloon-Canton Railway Corporation, Hong Kong.

DIRECTORS AND MANAGEMENT EXECUTIVES PROFILE

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 a member of the Corporate Contribution Programme Organisation Committee of the Hong Kong Community Chest from 1992 to 1996 and a member of the Hong Kong Housing Authority from 1996 to 2004. Mr. Ng was also a member of the Legislative Council of Hong Kong from 1996 to 2004 and a member of The Court of The Lingnan University since 1999. Mr. Ng was appointed as the Justice of the Peace in 2001, and was awarded the Silver Bauhinia Star by the HKSAR government in 2004.

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 46) 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 and Co-Head of Goldman's private equity investment for Asia ex-Japan.

Mr. Yang serves on the board of China Pacific Insurance (Group) Company Limited.

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 48) 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 (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.

DIRECTORS AND MANAGEMENT EXECUTIVES PROFILE

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.

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 2011 are disclosed in note 11 to the consolidated financial statements.

The Directors' interests in shares of the Company or any of its associated corporations, if any, within the meaning of Part XV of the Securities and Futures Ordinance as at 30 June 2011 are disclosed in "Directors' and chief executive's interests" section of the Report of the Directors on pages 15 to 17 of this Annual Report.

DIRECTORS AND MANAGEMENT EXECUTIVES PROFILE

Members of Operations Committee

Douglas LI, *Executive Director & Chief Executive Officer*

Patrick Kai-lung CHAN, *Executive Director*

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 and a member of the Executive Committee of the Communications Association 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. She received her Joint Diploma in Personnel Management from the Hong Kong Polytechnic and the Hong Kong Management Association.

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)

	2011	2010	2009	2008	2007
Consolidated profit and loss account					
Revenues	6,631	3,957	3,703	4,073	4,039
Profit attributable to equity holders of the Company	754	294	42	276	158
Basic earnings per share (\$)*	0.73	0.28	0.04	0.24	0.14
Dividends					
Total dividend	750	273	43	276	649
Total per share for the year (\$)*	0.73	0.26	0.04	0.24	0.14
Special cash dividend per share (\$)*	Nil	Nil	Nil	Nil	0.43
Consolidated balance sheet					
Total assets	7,237	4,841	4,504	4,843	5,440
Current liabilities	(3,012)	(1,200)	(1,005)	(1,070)	(1,075)
Total assets less current liabilities	4,225	3,641	3,499	3,773	4,365
Non-current liabilities	(1,316)	(879)	(816)	(813)	(827)
Non-controlling interests	(46)	(35)	(34)	(28)	(27)
Net assets	2,863	2,727	2,649	2,932	3,511
Share capital	103	53	54	57	58
Reserves	2,760	2,674	2,595	2,875	3,453
Total equity attributable to equity holders of the Company	2,863	2,727	2,649	2,932	3,511

* As restated on the assumption that the Bonus Issue had been in place in prior years.

INDEPENDENT AUDITOR'S REPORT



羅兵咸永道

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 43 to 108, which comprise the consolidated and company balance sheets as at 30 June 2011, and the consolidated profit and loss account, the consolidated statement of comprehensive income, 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 information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 consolidated 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 2011, 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, 31 August 2011

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 30 June 2011
(Expressed in Hong Kong dollars)

	Note	2011 \$000	2010 \$000
Service revenue		4,603,396	3,451,971
Handset and accessory sales		2,027,701	505,268
Revenues	6	6,631,097	3,957,239
Cost of inventories sold and services provided		(2,499,640)	(1,056,206)
Network costs		(780,743)	(743,585)
Staff costs		(554,978)	(449,569)
Sales and marketing expenses		(310,778)	(241,866)
Rental and utilities		(159,546)	(157,559)
Other operating expenses		(194,446)	(126,333)
Depreciation, amortisation, impairment loss and loss on disposal		(1,164,166)	(854,536)
Operating profit		966,800	327,585
Finance income	7	32,346	33,804
Finance costs	8	(98,029)	(86,352)
Profit before income tax	9	901,117	275,037
Income tax (expense)/credit	10	(136,069)	20,065
Profit after income tax		765,048	295,102
Attributable to			
Equity holders of the Company		754,098	293,754
Non-controlling interests		10,950	1,348
		765,048	295,102
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in cents per share)	15		
Basic		73.0	27.6
Diluted		72.8	27.6
Dividends	16		
Interim dividend paid		318,023	89,386
Final dividend proposed		431,925	183,891
		749,948	273,277

The notes on pages 52 to 108 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2011
(Expressed in Hong Kong dollars)

	2011	2010
	\$000	\$000
Profit for the year	765,048	295,102
Other comprehensive income/(losses)		
Fair value loss on financial investments, net of tax	(828)	(6,954)
Currency translation differences	2,354	391
Other comprehensive income/(losses) for the year, net of tax	1,526	(6,563)
Total comprehensive income for the year	766,574	288,539
Total comprehensive income attributable to		
Equity holders of the Company	755,624	287,191
Non-controlling interests	10,950	1,348
	766,574	288,539

The notes on pages 52 to 108 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

At 30 June 2011
(Expressed in Hong Kong dollars)

	Note	2011 \$000	2010 \$000
Non-current assets			
Leasehold land and land use rights	17	16,007	15,893
Fixed assets	18	2,110,483	1,910,981
Interest in an associate	20	3	3
Financial investments	21	108,068	456,860
Intangible assets	22	2,520,571	892,459
Deposits and prepayments	23	63,164	95,547
Deferred income tax assets	24	–	3,673
		4,818,296	3,375,416
Current assets			
Inventories	25	311,506	47,918
Financial investments	21	341,252	313,535
Trade receivables	23	293,201	204,459
Deposits and prepayments	23	135,538	141,035
Other receivables	23	106,341	58,772
Pledged bank deposits	26	410,977	339,830
Cash and cash equivalents	26	819,781	360,182
		2,418,596	1,465,731
Current liabilities			
Trade payables	27	698,032	184,895
Other payables and accruals	27	718,856	552,533
Current income tax liabilities	10	41,170	53,235
Bank borrowings	28	550,000	–
Customer prepayments and deposits		688,885	212,962
Deferred income		190,874	102,668
Mobile licence fee liabilities	29	123,830	93,535
		3,011,647	1,199,828
Net current (liabilities)/assets	3	(593,051)	265,903
Total assets less current liabilities		4,225,245	3,641,319
Non-current liabilities			
Customer prepayments and deposits		318,571	110,204
Asset retirement and other obligations		58,150	78,444
Mobile licence fee liabilities	29	780,654	660,660
Deferred income tax liabilities	24	159,186	30,154
		1,316,561	879,462
Net assets		2,908,684	2,761,857

CONSOLIDATED BALANCE SHEET

At 30 June 2011
(Expressed in Hong Kong dollars)

	Note	2011 \$000	2010 \$000
Capital and reserves			
Share capital	30	102,839	52,567
Reserves		2,760,037	2,674,432
Total equity attributable to equity holders of the Company		2,862,876	2,726,999
Non-controlling interests		45,808	34,858
Total equity		2,908,684	2,761,857

The financial statements on pages 43 to 108 were approved by the Board of Directors on 31 August 2011 and were signed on its behalf.

Raymond Ping-luen Kwok
Director

Douglas Li
Director

The notes on pages 52 to 108 are an integral part of these consolidated financial statements.

BALANCE SHEET

At 30 June 2011
(Expressed in Hong Kong dollars)

	Note	2011 \$000	2010 \$000
Non-current assets			
Investments in subsidiaries	19(a)	4,647,661	939,189
Current assets			
Amount due from a subsidiary	19(a)	–	3,705,962
Prepayments	23	142	2,308
Other receivables	23	245	276
Pledged bank deposits	26	404,588	333,440
Cash and cash equivalents	26	709	313
		405,684	4,042,299
Current liabilities			
Amount due to a subsidiary	19(b)	1,807,721	1,761,795
Other payables and accruals	27	2,516	2,201
Current income tax liabilities		114	135
		1,810,351	1,764,131
Net current (liabilities)/assets		(1,404,667)	2,278,168
Total assets less current liabilities		3,242,994	3,217,357
Capital and reserves			
Share capital	30	102,839	52,567
Reserves	32	3,140,155	3,164,790
Total equity attributable to equity holders of the Company		3,242,994	3,217,357

The financial statements on pages 43 to 108 were approved by the Board of Directors on 31 August 2011 and were signed on its behalf.

Raymond Ping-luen Kwok
Director

Douglas Li
Director

The notes on pages 52 to 108 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30 June 2011
(Expressed in Hong Kong dollars)

	Note	2011 \$000	2010 \$000
Cash flows from operating activities			
Profit before income tax		901,117	275,037
Adjustments for:			
Depreciation of fixed assets	18	457,650	480,764
Amortisation of leasehold land and land use rights	17	656	635
Amortisation of intangible assets	22	689,809	351,082
Impairment loss of fixed assets		–	10,700
Loss on disposal of fixed assets		16,051	11,355
Finance income		(32,346)	(33,804)
Finance costs		98,029	86,352
Net exchange gain/(loss)		968	(3,627)
Share-based payments		2,510	–
		2,134,444	1,178,494
Changes in working capital			
(Increase)/decrease in inventories		(263,588)	27,264
Increase in trade receivables, deposits, prepayments and other receivables		(37,188)	(80,152)
Increase/(decrease) in trade and other payables, accruals and deferred income		676,612	(6,795)
Increase in customer prepayments and deposits		692,945	223,998
Cash generated from operations		3,203,225	1,342,809
Interest paid		(776)	–
Income tax paid		(15,429)	(46,789)
Net cash generated from operating activities		3,187,020	1,296,020
Cash flows from investing activities			
Payment for purchase of fixed assets		(680,014)	(487,261)
Proceeds from disposal of fixed assets		14,435	325
Proceeds from disposal of held-to-maturity debt securities		308,629	–
Payment of mobile licence fees	29	(971,732)	(100,684)
Payment for purchase of held-to-maturity debt securities	21(b)	–	(386,202)
Distributions from available-for-sale financial assets	21(a)	1,178	–
Additions of handset subsidies	22	(1,299,189)	(506,132)
Interest received		42,805	35,812
Net cash used in investing activities		(2,583,888)	(1,444,142)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30 June 2011
(Expressed in Hong Kong dollars)

	Note	2011 \$000	2010 \$000
Cash flows from financing activities			
Proceeds from shares issued under share option scheme	30(d)	55,767	–
Payment for repurchase of shares		(181,024)	(76,935)
(Increase)/decrease in pledged bank deposits		(71,190)	49,049
Proceeds from bank borrowings		650,000	–
Repayment of bank borrowings		(100,000)	–
Dividends paid to the Company's equity holders		(497,000)	(132,405)
Net cash used in financing activities		(143,447)	(160,291)
Net increase/(decrease) in cash and cash equivalents			
Cash and cash equivalents at 1 July		360,182	668,271
Effect of foreign exchange rates changes		(86)	324
Cash and cash equivalents at 30 June	26	819,781	360,182
In the consolidated cash flow statement, proceeds from disposal of fixed assets comprise:			
		2011 \$000	2010 \$000
Net book amount of disposed fixed assets (note 18)		30,486	11,680
Loss on disposal of fixed assets		(16,051)	(11,355)
Proceeds from disposal of fixed assets		14,435	325

The notes on pages 52 to 108 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2011
(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	Non-controlling interests \$000	Total \$000
At 1 July 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
Comprehensive income											
Profit for the year	-	-	-	-	-	-	-	293,754	293,754	1,348	295,102
Other comprehensive losses											
Fair value loss on financial investments, net of tax	-	-	(6,954)	-	-	-	-	-	(6,954)	-	(6,954)
Currency translation differences	-	-	-	-	-	-	391	-	391	-	391
Total comprehensive income for the year ended 30 June 2010	-	-	(6,954)	-	-	-	391	293,754	287,191	1,348	288,539
Transactions with owners											
Repurchase of shares (note 30(b))	(1,207)	-	-	1,207	(75,728)	-	-	(1,207)	(76,935)	-	(76,935)
Payment of 2009 final dividend	-	-	-	-	-	-	-	(43,019)	(43,019)	-	(43,019)
Payment of 2010 interim dividend	-	-	-	-	-	-	-	(89,386)	(89,386)	-	(89,386)
Total transactions with owners	(1,207)	-	-	1,207	(75,728)	-	-	(133,612)	(209,340)	-	(209,340)
At 30 June 2010	52,567	10,912	1,228	8,503	2,017,925	13,797	2,758	619,309	2,726,999	34,858	2,761,857

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2011
(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	Non-controlling interests \$000	Total \$000
At 1 July 2010	52,567	10,912	1,228	8,503	2,017,925	13,797	2,758	619,309	2,726,999	34,858	2,761,857
Comprehensive income											
Profit for the year	-	-	-	-	-	-	-	754,098	754,098	10,950	765,048
Other comprehensive income/(losses)											
Fair value loss on financial investments, net of tax	-	-	(828)	-	-	-	-	-	(828)	-	(828)
Currency translation differences	-	-	-	-	-	-	2,354	-	2,354	-	2,354
Total comprehensive income for the year ended 30 June 2011	-	-	(828)	-	-	-	2,354	754,098	755,624	10,950	766,574
Transactions with owners											
Share-based payments	-	-	-	-	-	2,510	-	-	2,510	-	2,510
Issue of shares (note 30(d))	735	67,982	-	-	-	(12,950)	-	-	55,767	-	55,767
Bonus Issue of shares (note 30(e))	51,294	-	-	-	(51,294)	-	-	-	-	-	-
Repurchase of shares (note 30(d))	(1,757)	-	-	1,757	(179,267)	-	-	(1,757)	(181,024)	-	(181,024)
Payment of 2010 final dividend	-	-	-	-	-	-	-	(178,977)	(178,977)	-	(178,977)
Payment of 2011 interim dividend	-	-	-	-	-	-	-	(318,023)	(318,023)	-	(318,023)
Total transactions with owners	50,272	67,982	-	1,757	(230,561)	(10,440)	-	(498,757)	(619,747)	-	(619,747)
At 30 June 2011	102,839	78,894	400	10,260	1,787,364	3,357	5,112	874,650	2,862,876	45,808	2,908,684

The notes on pages 52 to 108 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1 General information

SmarTone Telecommunications Holdings Limited (the "Company") and its subsidiaries (together, the "Group") are 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 (\$'000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 31 August 2011.

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, as modified by certain available-for-sale financial assets.

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.

The Group's current liabilities exceeded its current assets by \$593,051,000 as at 30 June 2011, with a substantial increase in customer prepayments and deposits which are included in current liabilities. The significant growth in subscriptions of handset bundled plans resulted in corresponding increases in handset subsidies included in non-current assets, and non-refundable customer prepayments included in current and non-current liabilities. Both handset subsidy and non-refundable customer prepayment will reduce gradually over the contract term of each subscription. Excluding the non-refundable customer prepayments of \$641,376,000 (2010: \$181,126,000) included in current liabilities, the Group would have net current assets of \$48,325,000 as at 30 June 2011 (2010: \$447,029,000). Based on the Group's history of its operating performance and its expected future working capital requirements, there are sufficient financial resources available to the Group to meet its obligations as and when they fall due. Accordingly, these consolidated financial statements have been prepared on a going concern basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

3 Basis of preparation *(continued)*

(a) Amendments to standards adopted by the Group

The following amendments to standards and an interpretation are mandatory and relevant to the Group for the financial year beginning on 1 July 2010.

HKFRS (Amendments)	Improvements to HKFRSs 2009 ¹
HKFRS (Amendments)	Improvements to HKFRSs 2010 ²
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transaction ¹
HK(IFRIC) – Int 5	Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clauses ³

¹ Effective for annual periods beginning on or after 1 January 2010.

² Effective for annual periods beginning on or after 1 July 2010, as appropriate.

³ Effective immediately from 29 November 2010.

The adoption of the above amendments to standards and an interpretation have no significant impact on these financial statements.

(b) New standards, amendments and interpretations have been issued but are not effective and have not been early adopted by the Group

The following new and revised standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting policies beginning on or after 1 July 2011 or later periods but which the Group has not early adopted.

HKFRS (Amendment)	Improvements to HKFRSs 2010 ¹
HKAS 1 (Amendment)	Presentation of Financial Statements ⁵
HKAS 12 (Amendment)	Deferred Tax-Recovery of Underlying Assets ⁴
HKAS 19 (Amendment)	Employee Benefits ⁶
HKAS 24 (Revised)	Related Party Disclosures ²
HKAS 27	Separate Financial Statements ⁶
HKAS 28	Investments in Associates and Joint Ventures ⁶
HKFRS 1 (Amendment)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters ³
HKFRS 7 (Amendment)	Transfers of Financial Assets ³
HKFRS 9	Financial Instruments ⁶
HKFRS 10	Consolidated Financial Statements ⁶
HKFRS 11	Joint Arrangements ⁶
HKFRS 12	Disclosure of Interests in Other Entities ⁶
HKFRS 13	Fair Value Measurements ⁶
HK (IFRIC) – Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement ²

¹ Effective for annual periods beginning on or after 1 January 2011, as appropriate.

² Effective for annual periods beginning on or after 1 January 2011.

³ Effective for annual periods beginning on or after 1 July 2011.

⁴ Effective for annual periods beginning on or after 1 January 2012.

⁵ Effective for annual periods beginning on or after 1 July 2012.

⁶ Effective for annual periods beginning on or after 1 January 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

3 Basis of preparation *(continued)*

(b) New standards, amendments and interpretations have been issued but are not effective and have not been early adopted by the Group *(continued)*

The Group is in the process of assessing the impact of these new and revised standards, amendments and interpretations to existing standards and does not expect there will be a material impact on the consolidated financial statements of the Group.

(c) Consolidation

(i) Subsidiaries

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

Subsidiaries are all entities (including special purpose 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.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated profit and loss account.

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. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

3 Basis of preparation *(continued)*

(c) Consolidation *(continued)*

(i) Subsidiaries *(continued)*

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.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets.

(ii) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

3 Basis of preparation *(continued)*

(d) 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. Investment in an associate is accounted for using the equity method of accounting and is initially recognised at cost.

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

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

(e) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (the "CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Group's senior executive management that makes strategic decision.

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.

(f) 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 and the Group's presentation currency.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

3 Basis of preparation *(continued)*

(f) Foreign currency translation *(continued)*

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. 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 related to changes in amortised cost are recognised in the consolidated profit and loss account, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in other comprehensive income.

(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 balance sheet presented are translated at the closing rate at the date of that balance sheet;
- b. income and expenses for each profit and loss account are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- c. all resulting exchange differences are recognised in other comprehensive income.

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 other comprehensive income. When a foreign operation is partially disposed of or 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

(Expressed in Hong Kong dollars)

3 Basis of preparation *(continued)*

(g) 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(k).

(i) Mobile licence fees

A unified 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 issuance and renewal of relevant mobile licences, the cost thereof, which is the discounted value of the minimum annual fees payable over the licence period as specified in the respective licensing agreement 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(r). 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

3 Basis of preparation *(continued)*

(h) 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. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to 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 their 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 $\frac{1}{3}$ %
Other fixed assets	20% – 33 $\frac{1}{3}$ %

The cost of the network comprises assets and equipment of the telecommunications 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' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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(k)).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amounts and are recognised within "depreciation, amortisation, impairment loss and loss on disposal" in the consolidated profit and loss account.

(i) Leasehold land and land use rights

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

(Expressed in Hong Kong dollars)

3 Basis of preparation *(continued)*

(j) 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(k).

(ii) Operating lease charges

Where the Group has the use of assets under operating leases, payments made under the leases (net of any incentives recorded from the lessor) are charged to the consolidated profit and loss account on a straight-line basis over the period of the lease, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset.

(k) Impairment of non-financial assets

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

3 Basis of preparation *(continued)*

(I) Financial assets

Classification

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 end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "trade and other receivables", "deposits" and "cash and cash equivalents" in the consolidated balance sheet (note 3(n)) and (note 3(o)) respectively. Impairment testing of trade receivables is described in note 3(n).

(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 the investment matures or management intends to dispose of the investment within 12 months of the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

3 Basis of preparation *(continued)*

(l) Financial assets *(continued)*

Recognition and measurement

Regular way purchases and sales of financial assets 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. Financial assets 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 and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

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 as part of other income. 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 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.

(m) Inventories

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

3 Basis of preparation *(continued)*

(n) Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

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".

(o) Cash and cash equivalents

In the consolidated cash flow statement, cash and cash equivalents comprise cash at bank and in hand, deposits held at call with banks and other financial institutions, and other 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 with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the consolidated balance sheet.

(p) 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.

Where any group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

3 Basis of preparation *(continued)*

(q) Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(r) 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.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

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 end of the reporting period.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

3 Basis of preparation *(continued)*

(s) Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated 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 substantively 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 for deferred income tax liability 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.

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 assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(t) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

3 Basis of preparation *(continued)*

(t) Provisions *(continued)*

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.

(u) 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 when they are due.

The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

3 Basis of preparation *(continued)*

(u) Employee benefits *(continued)*

(iv) Share-based payments

The Group operates an equity-settled, share-based compensation plan under which the Group receives services from employees as consideration for equity instruments of the Group. 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, including any market performance conditions (for example, an entity's share price) and the impact of any non-vesting conditions and 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 vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the entity revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. 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.

When the options are exercised, the Company issues new shares. 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.

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings with a corresponding credit to equity.

(v) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

3 Basis of preparation *(continued)*

(v) Contingent assets and liabilities *(continued)*

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.

(w) Revenue recognition

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

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

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

(i) Sales of goods

Revenue from the sales 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) Provision of 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 the 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

(Expressed in Hong Kong dollars)

3 Basis of preparation *(continued)*

(x) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

(y) 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 including key management 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

4 Critical accounting estimates and judgements *(continued)*

(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.

(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.

(e) Determination of fair value of share-based payments

The Group uses the Binomial option pricing model to determine the fair value of share options issued during the year. Under this model, the value of the share options is subject to a number of assumptions such as the risk-free interest rate, the expected life of the options and historical volatility based on annualised volatility of the closing price of the share. Therefore, the value may be subjective and would change should any of the assumptions change.

Where the outcome of the number of options that are exercisable is different, such difference will impact the consolidated profit and loss account in the subsequent remaining vested period of the relevant share options.

(f) Current and deferred income tax

The Group is subject to income taxes. There are transactions and calculations relating to the Group's ordinary business activities for which the ultimate tax determination is uncertain and judgement is required in determining the provision for income taxes. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

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 (including foreign currency risk, cash flow and fair value interest rate risk and price 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 currency 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 Chinese Yuan. In addition, the conversion of Chinese Yuan 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 2011, the Group had net financial assets denominated in foreign currencies amounting to \$255,064,000 (2010: \$865,835,000), of which the net financial assets denominated in the US dollar accounted for 87% (2010: 95%).

At 30 June 2011, if Hong Kong dollar had weakened or strengthened by 1% against the US dollar with all other variables held constant, the pre-tax profit of the Group would increase or decrease by approximately \$2,225,000 (2010: \$8,209,000).

Cash flow and fair value interest rate risk

The Group's interest rate risk arises primarily from the holding of bank deposits and bank borrowings. Bank borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by bank deposits held at variable rates. Held-to-maturity debt securities expose the Group to fair value interest rate risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

5 Financial risk management *(continued)*

(a) Financial risks *(continued)*

(i) Market risk *(continued)*

Cash flow and fair value interest rate risk (continued)

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

At 30 June 2011, 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 approximately \$6,808,000 (2010: \$7,000,000) mainly as a result of higher or lower interest income on bank deposits and interest expenses on bank borrowings.

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 2011, 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 approximately \$2,727,000 (2010: \$2,927,000).

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

5 Financial risk management *(continued)*

(a) Financial risks *(continued)*

(iii) Liquidity risk

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

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

The Group maintains a conservative level of liquid assets to ensure the availability of sufficient cash to meet any unexpected and material cash requirements in the normal course of business.

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 2011					
Trade payables	698,032	-	-	-	698,032
Other payables and accruals	659,081	-	-	-	659,081
Bank borrowings	550,000	-	-	-	550,000
Mobile licence fee liabilities	128,520	173,096	580,034	501,273	1,382,923
Total	2,035,633	173,096	580,034	501,273	3,290,036
	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 2010					
Trade payables	184,895	-	-	-	184,895
Other payables and accruals	552,533	-	-	-	552,533
Mobile licence fee liabilities	96,732	116,485	463,096	514,792	1,191,105
Total	834,160	116,485	463,096	514,792	1,928,533

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

5 Financial risk management *(continued)*

(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 and to maintain an optimal capital structure to reduce the cost of capital.

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.

	2011 \$000	2010 \$000
Total borrowings (note 28)	550,000	–
Less: cash and cash equivalents (note 26)	(819,781)	(360,182)
Less: short-term pledged bank deposits (note 26)	(410,977)	(339,830)
Net debt	(680,758)	(700,012)
Total equity	2,908,684	2,761,857
Total capital	2,227,926	2,061,845
Gearing ratio	N/A	N/A

(c) Fair value estimation

The fair value measurements of financial instruments that are measured in the balance sheet at fair value by level of the fair value measurement hierarchy are disclosed as follows:

- (i) Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- (ii) Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- (iii) Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

5 Financial risk management *(continued)*

(c) Fair value estimation *(continued)*

The following table presents the Group's assets that are measured at fair value at 30 June 2011 and 2010.

	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total \$000
Assets				
Available-for-sale financial assets (note 21(a))				
At 30 June 2011	–	27,266	–	27,266
At 30 June 2010	–	29,272	–	29,272

There were no transfers of financial assets between level 1 and level 2 fair value hierarchy classifications.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

6 Segment reporting

The chief operating decision-maker (the "CODM") has been identified as the Group's senior executive management. The CODM reviews the Group's internal reporting in order to assess performance and allocate resources. The CODM has determined the operating segments based on these reports.

The CODM considers the business from a geographic perspective. The CODM measures the performance of its segments based on earnings before interest, tax, depreciation, amortisation, impairment loss and loss on disposal ("EBITDA") and operating profit.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

6 Segment reporting *(continued)*

An analysis of the Group's segment information by geographical segment is set out as follows:

(a) Segment results

	For the year ended 30 June 2011			
	Hong Kong \$000	Macau \$000	Elimination \$000	Consolidated \$000
Revenues	6,418,263	282,430	(69,596)	6,631,097
EBITDA	2,051,069	79,897	–	2,130,966
Depreciation, amortisation and loss on disposal	(1,128,447)	(35,894)	175	(1,164,166)
Operating profit	922,622	44,003	175	966,800
Finance income				32,346
Finance costs				(98,029)
Profit before income tax				901,117
Other information				
Additions to fixed assets	613,246	73,663	–	686,909
Additions to intangible assets	2,301,856	24,720	–	2,326,576
Depreciation	428,231	29,594	(175)	457,650
Amortisation of leasehold land and land use rights	656	–	–	656
Amortisation of intangible assets	683,723	6,086	–	689,809
Loss on disposal of fixed assets	15,837	214	–	16,051
Impairment loss of trade receivables	18,509	189	–	18,698
Impairment loss/(reversal of impairment loss) of inventories	118	(49)	–	69

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6 Segment reporting *(continued)*

(a) Segment results *(continued)*

	For the year ended 30 June 2010			
	Hong Kong \$000	Macau \$000	Elimination \$000	Consolidated \$000
Revenues	3,761,144	220,892	(24,797)	3,957,239
EBITDA	1,100,047	82,074	–	1,182,121
Depreciation, amortisation, impairment loss and loss on disposal (i)	(774,992)	(77,044)	(2,500)	(854,536)
Operating profit	325,055	5,030	(2,500)	327,585
Finance income				33,804
Finance costs				(86,352)
Profit before income tax				275,037
Other information				
Additions to fixed assets	477,953	91,256	–	569,209
Additions to intangible assets	540,268	1,483	–	541,751
Depreciation	413,765	66,999	–	480,764
Amortisation of leasehold land and land use rights	635	–	–	635
Amortisation of intangible assets	349,793	1,289	–	351,082
Impairment loss of fixed assets	–	10,700	–	10,700
Loss/(gain) on disposal of fixed assets	10,799	(1,944)	2,500	11,355
Impairment loss of trade receivables	10,321	494	–	10,815
Reversal of impairment loss of inventories	(252)	(130)	–	(382)

(i) Included accelerated depreciation of \$40,472,000 and impairment loss of fixed assets of \$10,700,000 for Macau operations recognised as a result of the early retirement of certain 2G mobile network equipment, following the change of sole network solution provider for the launch of 3G mobile network and replacement of 2G mobile network.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

6 Segment reporting *(continued)*

(b) Segment assets/(liabilities)

	At 30 June 2011			Consolidated \$000
	Hong Kong \$000	Macau \$000	Unallocated \$000	
Segment assets	6,512,182	275,387	449,323	7,236,892
Segment liabilities	(4,027,684)	(100,168)	(200,356)	(4,328,208)

	At 30 June 2010			Consolidated \$000
	Hong Kong \$000	Macau \$000	Unallocated \$000	
Segment assets	3,840,656	226,420	774,071	4,841,147
Segment liabilities	(1,889,051)	(106,850)	(83,389)	(2,079,290)

Unallocated assets consist of interest in an associate, financial investments and deferred income tax assets.

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

7 Finance income

	2011 \$000	2010 \$000
Interest income from listed debt securities	25,498	28,506
Interest income from unlisted debt securities	3,947	3,655
Interest income from bank deposits	2,441	1,501
Accretion income	460	142
	32,346	33,804

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

8 Finance costs

	2011 \$000	2010 \$000
Interest expense on bank borrowings	913	–
Accretion expenses (i)		
Mobile licence fee liabilities (note 29)	94,634	83,710
Asset retirement obligations	2,482	2,642
	98,029	86,352

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

9 Profit before income tax

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

	2011 \$000	2010 \$000
Charging:		
Cost of inventories sold	1,905,389	495,333
Operating lease rentals for land and buildings, transmission sites and leased lines	691,408	675,591
Impairment loss of trade receivables (note 23)	18,698	10,815
Amortisation		
Handset subsidies	612,912	283,791
Mobile licence fees	76,897	67,291
Leasehold land and land use rights (note 17)	656	635
Depreciation		
Owned fixed assets	457,650	434,351
Leased fixed assets	–	46,413
Impairment loss of fixed assets	–	10,700
Loss on disposal of fixed assets	16,051	11,355
Auditor's remuneration	1,702	1,555
Contributions to defined contribution plans included in staff costs * (note 13)	29,348	26,018
Share-based payments	2,510	–
Net exchange loss	277	–
Impairment loss of inventories	69	–
Crediting:		
Net exchange gain	–	5,595
Reversal of impairment loss of inventories	–	382

* Net of forfeited contributions of \$574,000 (2010: \$835,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

10 Income tax expense/(credit)

Hong Kong profits tax has been provided at the rate of 16.5% (2010: 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 charged/(credited) to the consolidated profit and loss account represents:

	2011 \$000	2010 \$000
Current income tax		
Hong Kong profits tax	944	46,062
Overseas tax	2,163	4,416
Under-provision in prior year tax charge		
Hong Kong profits tax	257	626
	3,364	51,104
Deferred income tax assets (note 24(a))	3,673	(3,673)
Deferred income tax liabilities (note 24(b))	129,032	(67,496)
Income tax expense/(credit)	136,069	(20,065)

- (b) The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the applicable tax rate of the home countries of the Group entities is as follows:

	2011 \$000	2010 \$000
Profit before income tax	901,117	275,037
Notional tax on profit before income tax, calculated at Hong Kong tax rate of 16.5% (2010: 16.5%)	148,684	45,381
Effect of different tax rates in other countries	(2,031)	(1,578)
Expenses not deductible for tax purposes	1,074	84
Income not subject to tax	(5,652)	(6,839)
Tax losses for which no deferred income tax asset was recognised	–	4,097
Utilisation of previously unrecognised tax losses	(9,108)	(5,004)
Under-provision in prior year	257	626
Recognition of previously unrecognised temporary differences	–	(55,315)
Temporary differences not recognised	2,845	(1,517)
Income tax expense/(credit)	136,069	(20,065)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

10 Income tax expense/(credit) (continued)

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

	2011 \$000	2010 \$000
Hong Kong profits tax	37,633	45,518
Overseas tax	3,537	7,717
	41,170	53,235

11 Directors' emoluments

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

	2011 \$000	2010 \$000
Non-executive directors		
Fees	1,830	1,380
Executive directors		
Fees	240	160
Salaries and allowances	12,680	12,401
Bonuses	3,748	1,155
Share-based payments	881	–
Retirement scheme contributions	1,047	1,025
	18,596	14,741
	20,426	16,121

During the year ended 30 June 2011 and 2010, 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 amounts 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

11 Directors' emoluments (continued)

The emoluments of the directors are within the following bands:

	2011 Number of directors	2010 Number of directors
\$0 – \$1,000,000	12	12
\$4,000,001 – \$4,500,000	–	1
\$4,500,001 – \$5,000,000	1	–
\$10,500,001 – \$11,000,000	–	1
\$13,500,001 – \$14,000,000	1	–
	14	14

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

	2011					Total \$000	2010 Total \$000
	Fees \$000	Salaries and allowances \$000	Bonuses \$000	Share- based payments \$000	Retirement scheme contributions \$000		
Executive Directors							
Mr. Douglas Li	120	8,819	3,276	734	661	13,610	10,507
Mr. Patrick Chan Kai-lung	120	3,861	472	147	386	4,986	4,234
Non-Executive Directors							
Mr. Raymond Kwok Ping-luen	150	–	–	–	–	150	100
Mr. Cheung Wing-yui	120	–	–	–	–	120	80
Mr. David Norman Prince	120	–	–	–	–	120	80
Mr. Yung Wing-chung	120	–	–	–	–	120	80
Mr. Thomas Siu Hon-wah	120	–	–	–	–	120	80
Dr. Eric Li Ka-cheung, JP *	240	–	–	–	–	240	200
Mr. Ng Leung-sing, JP *	240	–	–	–	–	240	200
Mr. Yang Xiang-dong *	120	–	–	–	–	120	80
Mr. Eric Gan Fock-kin *	240	–	–	–	–	240	200
Mr. Alfred Tsim Wing-kit ⁽¹⁾	240	–	–	–	–	240	100
Mr. John Anthony Miller ⁽²⁾	60	–	–	–	–	60	–
Mr. Peter David Sullivan * ⁽³⁾	60	–	–	–	–	60	80
Mr. Michael Wong Yick-kam ⁽⁴⁾	–	–	–	–	–	–	100
	2,070	12,680	3,748	881	1,047	20,426	16,121
2010	1,540	12,401	1,155	–	1,025		

* Independent Non-Executive Director

⁽¹⁾ Appointed on 18 November 2009

⁽²⁾ Appointed on 11 November 2010

⁽³⁾ Resigned on 11 November 2010

⁽⁴⁾ Resigned on 18 November 2009

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

12 Five highest paid individuals

Of the five highest paid individuals, two (2010: two) are directors whose emoluments are disclosed in note 11. The aggregate of the emoluments in respect of the other three (2010: three) individuals are as follows:

	2011 \$000	2010 \$000
Salaries and allowances	7,947	7,883
Bonuses	776	–
Share-based payments	239	–
Retirement scheme contributions	764	708
	9,726	8,591

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 (2010: three) highest paid individuals are within the following bands:

	2011 Number of individuals	2010 Number of individuals
\$1,500,001 – \$2,000,000	1	1
\$2,500,001 – \$3,000,000	1	1
\$4,000,001 – \$4,500,000	–	1
\$4,500,001 – \$5,000,000	1	–
	3	3

13 Employee retirement benefits

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

Contributions to the ORSO scheme by the Group and the employees are calculated as specified percentages of each employee's basic salary. Where employees leave the scheme prior to the full vesting of the employer's contributions, the amount of forfeited contributions is used to reduce the contributions payable by the Group. As at 30 June 2011, all available forfeited contributions had been utilised by the Group to reduce its contributions payable (2010: same).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

13 Employee retirement benefits *(continued)*

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

14 Profit attributable to equity holders of the Company

The consolidated profit attributable to equity holders of the Company includes a profit of \$645,384,000 (2010: \$251,431,000) which has been dealt with in the financial statements of the Company.

15 Earnings per share

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue, after taking into account the effect of the Bonus Issue as referred to in note 30(e).

	2011	2010
Profit attributable to equity holders of the Company (\$'000)	754,098	293,754
Weighted average number of ordinary shares in issue	1,032,919,204	1,062,896,750*
Basic earnings per share (cents per share)	73.0	27.6

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares and adjusting for the Bonus Issue as referred to in note 30(e). For dilutive share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

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(Expressed in Hong Kong dollars)

15 Earnings per share *(continued)*

(b) Diluted *(continued)*

	2011	2010
Profit attributable to equity holders of the Company (\$000)	754,098	293,754
Weighted average number of ordinary shares in issue	1,032,919,204	1,062,896,750*
Adjustment for dilutive share options	3,411,513	–
Weighted average number of ordinary shares for diluted earnings per share	1,036,330,717	1,062,896,750
Diluted earnings per share (cents per share)	72.8	27.6

Diluted earnings per share for the year ended 30 June 2010 were equal to basic earnings per share as none of the shares were deemed to be issued at no consideration if all outstanding options had been exercised.

* As restated on the assumption that the Bonus Issue as referred to in note 30(e) had been in place in prior year.

16 Dividends

	2011 \$000	2010 \$000
Interim dividend, paid, of 31 cents (2010: 8.5 cents, as restated*) per share	318,023	89,386
Final dividend, proposed, of 42 cents (2010: 17.5 cents, as restated*) per share	431,925	183,891
	749,948	273,277

* As restated on the assumption that the Bonus Issue as referred to in note 30(e) had been in place in prior year.

At a meeting held on 31 August 2011, the directors proposed a final dividend of 42 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 2012.

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

The aggregate amounts of the dividends paid and proposed during 2011 and 2010 have been disclosed in the consolidated profit and loss account in accordance with the Hong Kong Companies Ordinance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

17 Leasehold land and land use rights

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

	2011	2010
	\$000	\$000
At 1 July	15,893	16,362
Amortisation of leasehold land and land use rights (note 9)	(656)	(635)
Exchange differences	770	166
At 30 June	16,007	15,893

18 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 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
Year ended 30 June 2010							
Opening net book amount	43,351	7,119	1,511,445	74,000	24,873	183,851	1,844,639
Exchange differences	106	76	-	59	36	-	277
Additions	6,668	-	49,719	42,038	55,923	414,861	569,209
Reclassifications	-	-	349,847	-	-	(349,847)	-
Disposals	-	-	(10,548)	(9)	(2)	(1,121)	(11,680)
Depreciation	(18,250)	(276)	(410,999)	(35,892)	(15,347)	-	(480,764)
Impairment loss	-	-	(10,700)	-	-	-	(10,700)
Closing net book amount	31,875	6,919	1,478,764	80,196	65,483	247,744	1,910,981
At 30 June 2010							
Cost	196,247	7,333	5,412,912	646,480	128,606	247,744	6,639,322
Accumulated depreciation	(164,372)	(414)	(3,934,148)	(566,284)	(63,123)	-	(4,728,341)
Net book amount	31,875	6,919	1,478,764	80,196	65,483	247,744	1,910,981

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

18 Fixed assets (continued)

	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
Year ended 30 June 2011							
Opening net book amount	31,875	6,919	1,478,764	80,196	65,483	247,744	1,910,981
Exchange differences	284	336	-	59	50	-	729
Additions	19,375	-	48,004	49,642	33,351	536,537	686,909
Reclassifications	-	-	509,414	-	-	(509,414)	-
Disposals	-	-	(29,573)	(17)	(176)	(720)	(30,486)
Depreciation	(15,281)	(281)	(383,409)	(36,807)	(21,872)	-	(457,650)
Closing net book amount	36,253	6,974	1,623,200	93,073	76,836	274,147	2,110,483
At 30 June 2011							
Cost	189,456	7,696	4,926,642	678,344	159,066	274,147	6,235,351
Accumulated depreciation	(153,203)	(722)	(3,303,442)	(585,271)	(82,230)	-	(4,124,868)
Net book amount	36,253	6,974	1,623,200	93,073	76,836	274,147	2,110,483

At 30 June 2011 and 2010, the fixed assets held by the Group under finance leases were fully depreciated.

19 Investments in subsidiaries

(a) Investments in subsidiaries

	2011 \$000	2010 \$000
Unlisted shares, at cost	941,699	939,189
Amount due from a subsidiary	3,705,962	3,705,962
	4,647,661	4,645,151

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(Expressed in Hong Kong dollars)

19 Investments in subsidiaries (continued)

(a) Investments in subsidiaries (continued)

Particulars of the principal subsidiaries at 30 June 2011 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 handsets and accessories in Hong Kong	100,000,000 ordinary shares of \$1 each	100%
SmarTone Communications Limited	Hong Kong	Provision of wireless fixed 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 handsets 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 to a subsidiary

	2011	2010
	\$000	\$000
Amount due to a subsidiary	1,807,721	1,761,795

The amount due to a subsidiary is unsecured and interest-free, and is repayable on demand. The carrying amount approximates its fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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20 Interest in an associate

	2011	2010
	\$000	\$000
Share of net assets	3	3

During the year ended 30 June 2011, there is no movement of share of net assets of interest in an associate (2010: same).

Particulars of the associate at 30 June 2011 are as follows:

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued shares held	Interest held
New Top Finance Limited	The British Virgin Islands	Investment holding in BVI	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 amount approximates its fair value.

21 Financial investments

	2011	2010
	\$000	\$000
Available-for-sale financial assets (a)	27,266	29,272
Held-to-maturity debt securities (b)	422,054	741,123
	449,320	770,395
Less: held-to-maturity debt securities maturing within 1 year included under current assets	(341,252)	(313,535)
Total non-current financial investments	108,068	456,860

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

21 Financial investments *(continued)*

(a) Available-for-sale financial assets

	2011	2010
	\$000	\$000
At 1 July	29,272	36,226
Distributions	(1,178)	–
Changes in fair value during the year	(828)	(6,954)
At 30 June	27,266	29,272

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.

None of these financial assets is either past due or impaired.

(b) Held-to-maturity debt securities

	2011	2010
	\$000	\$000
At 1 July	741,123	354,281
Additions	–	386,202
Amortisation	(10,201)	(2,685)
Redemption upon maturity	(308,629)	–
Exchange differences	(239)	3,325
At 30 June	422,054	741,123

The held-to-maturity debt securities are denominated in US dollars with a minimum credit rating of A- as rated by Standard & Poor's (2010: A-).

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

The carrying amounts approximate their fair values.

During the year ended 30 June 2011, no gain or loss arose on the disposal of held-to-maturity debt securities (2010: same).

None of these financial assets is either past due or impaired.

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(Expressed in Hong Kong dollars)

22 Intangible assets

	Handset subsidies \$000	Mobile licence fees \$000	Total \$000
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
Year ended 30 June 2010			
Opening net book amount	196,290	505,500	701,790
Additions	506,132	35,619	541,751
Amortisation*	(283,791)	(67,291)	(351,082)
Closing net book amount	418,631	473,828	892,459
At 30 June 2010			
Cost	696,029	824,721	1,520,750
Accumulated amortisation	(277,398)	(350,893)	(628,291)
Net book amount	418,631	473,828	892,459
Year ended 30 June 2011			
Opening net book amount	418,631	473,828	892,459
Additions (i)	1,299,189	1,027,387	2,326,576
Amortisation*	(612,912)	(76,897)	(689,809)
Disposal	(8,655)	–	(8,655)
Closing net book amount	1,096,253	1,424,318	2,520,571
At 30 June 2011			
Cost	1,811,747	1,852,108	3,663,855
Accumulated amortisation	(715,494)	(427,790)	(1,143,284)
Net book amount	1,096,253	1,424,318	2,520,571

* Included handset subsidies written off of \$11,176,000 (2010: \$10,768,000).

(i) As a result of the acquisition of new radio spectrum and the change in estimate on the usage of radio spectrum, the intangible assets of mobile licence fees has increased by \$875,000,000 and \$152,387,000 respectively and the related mobile licence fee liabilities has increased by \$1,027,387,000 during the year ended 30 June 2011.

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(Expressed in Hong Kong dollars)

23 Trade and other receivables

	Group		Company	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Trade receivables	313,737	216,349	–	–
Less: provision for impairment of trade receivables	(20,536)	(11,890)	–	–
Trade receivables – net	293,201	204,459	–	–
Deposits and prepayments	198,702	236,582	142	2,308
Other receivables	106,341	58,772	245	276
	598,244	499,813	387	2,584
Less: deposits and prepayments included under non-current assets	(63,164)	(95,547)	–	–
Current assets	535,080	404,266	387	2,584

The maximum exposure to credit risk at the reporting date is the carrying amounts 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 provision, based on invoice date is as follows:

	Group	
	2011 \$000	2010 \$000
Current to 30 days	257,348	180,478
31 – 60 days	21,242	16,174
61 – 90 days	5,820	3,997
Over 90 days	8,791	3,810
	293,201	204,459

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 \$18,698,000 (2010: \$10,815,000) for the impairment of its trade receivables during the year ended 30 June 2011. The loss has been included in "other operating expenses" in the consolidated profit and loss account. Amounts charged to the allowance account are, generally written off, when there is no expectation of recovering of receivables.

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(Expressed in Hong Kong dollars)

23 Trade and other receivables *(continued)*

As at 30 June 2011, trade receivables of \$47,216,000 (2010: \$32,526,000) 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:

	2011	2010
	\$000	\$000
Within 30 days	32,605	24,719
31 – 60 days	5,820	3,997
Over 60 days	8,791	3,810
	47,216	32,526

The carrying amounts of the Group's trade and other receivables are mainly denominated in Hong Kong dollars which accounted for 81% (2010: 88%).

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

	2011	2010
	\$000	\$000
At 1 July	11,890	12,815
Impairment loss recognised in the consolidated profit and loss account (note 9)	18,698	10,815
Amounts written off during the year	(10,052)	(11,740)
At 30 June	20,536	11,890

As at 30 June 2011, trade receivables of \$20,536,000 (2010: \$11,890,000) were impaired and fully provided. The individually impaired receivables mainly relate to independent customers that were in financial difficulties. The ageing of these receivables is as follows:

	2011	2010
	\$000	\$000
31 – 60 days	2,487	1,179
61 – 90 days	2,706	1,820
Over 90 days	15,343	8,891
	20,536	11,890

The other classes within trade and other receivables do not contain impaired assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

24 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% (2010: 16.5%) and the appropriate current tax rates ruling in the relevant countries respectively.

The analysis of deferred income tax assets and deferred tax income liabilities is as follows:

	2011	2010
	\$000	\$000
Deferred income tax assets		
To be recovered within 12 months	–	(3,673)
Deferred income tax liabilities		
To be recovered after more than 12 months	175,675	33,295
To be recovered within 12 months	(16,489)	(3,141)
	159,186	30,154
Deferred income tax liabilities, net	159,186	26,481

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

(a) Deferred income tax assets

	Tax losses
	\$000
At 1 July 2009	–
Recognition of deferred income tax assets in respect of fixed assets early retired (i)	(6,141)
Utilisation	2,468
Recognised in the consolidated profit and loss account (note 10(a))	(3,673)
At 30 June 2010	(3,673)
At 1 July 2010	(3,673)
Recognised in the consolidated profit and loss account (note 10(a))	3,673
At 30 June 2011	–

(i) The amount of \$6,141,000 of deferred income tax assets related to tax losses arising from fixed assets as a result of disposal of certain early retired 2G mobile network equipment for Macau operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

24 Deferred income tax *(continued)*

(a) Deferred income tax assets *(continued)*

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.

(b) Deferred income tax liabilities

	Mobile licence fee net assets/ (liabilities) \$000	Accelerated depreciation allowance \$000	Total \$000
At 1 July 2009	(8,933)	106,583	97,650
Recognition of previously unrecognised deferred income tax assets (i)	(29,025)	(26,290)	(55,315)
Others	(8,303)	(3,878)	(12,181)
Recognised in the consolidated profit and loss account (note 10(a))	(37,328)	(30,168)	(67,496)
At 30 June 2010	(46,261)	76,415	30,154
At 1 July 2010	(46,261)	76,415	30,154
Recognised in the consolidated profit and loss account (note 10(a))	132,034	(3,002)	129,032
At 30 June 2011	85,773	73,413	159,186

- (i) The net amount of \$55,315,000 related to certain previously unrecognised deferred income tax assets in respect of temporary differences arising from intangible assets, fixed assets and mobile licence fee liabilities, which were recognised upon the restructuring of business operations in Hong Kong when such deferred tax assets became recognisable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

24 Deferred income tax *(continued)*

The gross movement on the deferred income tax account is as follows:

	2011	2010
	\$000	\$000
At 1 July	26,481	97,650
Recognised in the consolidated profit and loss account	132,705	(71,169)
At 30 June	159,186	26,481

The Group has not recognised deferred income tax assets of \$1,800,000 (2010: \$10,908,000) in respect of tax losses of \$10,909,000 (2010: \$66,110,000). The tax losses do not expire under current tax legislation.

25 Inventories

	2011	2010
	\$000	\$000
Handsets and accessories, at cost	317,725	54,068
Less: provision for slow-moving and obsolete inventories	(6,219)	(6,150)
	311,506	47,918

Inventories represent goods held for resale. As at 30 June 2011, inventories carried at cost and inventories carried at net realisable values amounted to \$307,727,000 (2010: \$43,966,000) and \$3,779,000 (2010: \$3,952,000) respectively.

The Group recognised an impairment provision of \$69,000 (2010: reversal of impairment provision of \$382,000) for slow-moving and obsolete inventories during the year ended 30 June 2011. The amount recognised has been included in "cost of inventories sold" in the consolidated profit and loss account.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

26 Pledged bank deposits and cash and cash equivalents

	Group		Company	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Short-term pledged bank deposits	410,977	339,830	404,588	333,440
Cash at bank and in hand	540,646	222,746	709	313
Short-term bank deposits	279,135	137,436	–	–
Cash and cash equivalents	819,781	360,182	709	313
	1,230,758	700,012	405,297	333,753
Maximum exposure to credit risk	1,224,572	694,822	405,297	333,753

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

Of the short-term pledged bank deposits, \$302,176,000 (2010: \$276,865,000) has been pledged as cash collateral for the Group's mobile licences performance bonds as referred to in note 34(c). The remaining balance is mainly pledged as cash collateral for issuing letter of credit for the Group's lease out, lease back arrangement as referred to in note 34(d).

Pledged bank deposits and cash and cash equivalents are denominated in the following currencies:

	Group		Company	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Hong Kong dollars	784,207	479,070	302,885	277,178
US dollars	300,689	129,140	102,412	56,575
Euro	86,320	77,767	–	–
Chinese Yuan	42,998	2,544	–	–
Others	16,544	11,491	–	–
	1,230,758	700,012	405,297	333,753

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

27 Trade and other payables

	Group		Company	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Trade payables (a)	698,032	184,895	–	–
Other payables and accruals (b)	718,856	552,533	2,516	2,201
	1,416,888	737,428	2,516	2,201

(a) An ageing analysis of trade payables based on invoice date is as follows:

	Group	
	2011 \$000	2010 \$000
Current to 30 days	508,422	161,374
31 – 60 days	162,253	11,038
61 – 90 days	12,564	5,592
Over 90 days	14,793	6,891
	698,032	184,895

(b) An analysis of other payables and accruals is as follows:

	Group		Company	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Accrued expenses	348,344	257,823	2,516	2,201
Payables for fixed assets	280,196	214,287	–	–
Receipt in advance	90,316	80,423	–	–
	718,856	552,533	2,516	2,201

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

28 Bank borrowings

	Group		Company	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Current				
Unsecured bank borrowings	550,000	–	–	–

At 30 June 2011, the Group's bank borrowings are fully repayable within one year and denominated in Hong Kong dollars.

The carrying amounts of the Group's bank borrowings approximate their fair values and the effective interest rate of borrowings at the balance sheet date was 0.71% (2010: nil) per annum.

29 Mobile licence fee liabilities

	2011 \$000	2010 \$000
At 1 July	754,195	735,550
Additions (note 22(i))	1,027,387	35,619
Accretion expenses included in consolidated profit and loss account (note 8)	94,634	83,710
Payment	(971,732)	(100,684)
At 30 June	904,484	754,195
Less: mobile licence fee liabilities included under current liabilities	(123,830)	(93,535)
Non-current liabilities	780,654	660,660

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

29 Mobile licence fee liabilities *(continued)*

Analysis of the present value of mobile licence fee liabilities:

	2011 \$000	2010 \$000
Minimum annual fees payable		
Within 1 year	128,520	96,732
After 1 year but within 5 years	753,130	579,581
After 5 years	501,273	514,792
	1,382,923	1,191,105
Less: future finance charges	(478,439)	(436,910)
Present value of mobile licence fee liabilities	904,484	754,195
Comprising:		
Within 1 year	123,830	93,535
After 1 year but within 5 years	548,115	418,745
After 5 years	232,539	241,915
	904,484	754,195

30 Share capital

	Shares of \$0.1 each	\$000
Authorised		
At 1 July 2009 and 30 June 2010	1,000,000,000	100,000
Increase during the year (a)	1,000,000,000	100,000
At 30 June 2011	2,000,000,000	200,000
Issued and fully paid		
At 1 July 2009	537,737,428	53,774
Repurchases of shares (b)	(12,065,000)	(1,207)
At 30 June 2010	525,672,428	52,567
Repurchases of shares (c)	(17,573,000)	(1,757)
Issue of new shares upon exercise of share options (d)	7,354,000	735
Bonus Issue of shares (e)	512,940,428	51,294
At 30 June 2011	1,028,393,856	102,839

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

30 Share capital *(continued)*

- (a) Pursuant to the resolutions passed at the special general meeting (the "SGM") held on 29 March 2011, the authorised share capital of the Company was increased from \$100,000,000 to \$200,000,000 by the creation of 1,000,000,000 additional shares of \$0.1 each, ranking pari passu in all respects with the existing shares of the Company.
- (b) During the year ended 30 June 2010, the Company repurchased and cancelled 12,065,000 shares on the HKSE. The total amount paid to acquire these shares of \$76,935,000 was deducted from shareholders' equity.

Month of repurchase	Number of shares repurchased and cancelled	Price per share		Aggregate price paid \$'000
		Highest	Lowest	
December 2009	6,651,500	\$6.55	\$5.12	37,898
January 2010	1,473,000	\$7.20	\$6.47	10,209
February 2010	688,000	\$7.21	\$6.67	4,898
March 2010	3,246,000	\$8.01	\$6.69	23,878
April 2010	6,500	\$8.00	\$7.93	52
	12,065,000			76,935

- (c) During the year ended 30 June 2011, the Company repurchased 17,302,500 shares on the HKSE. Of these repurchased shares together with 270,500 shares repurchased in June 2010, 17,573,000 shares were cancelled prior to 30 June 2011. The total amount paid to acquire these cancelled shares of \$181,024,000 was deducted from equity holders' equity.

Month of repurchase	Number of shares repurchased and/or cancelled	Price per share		Aggregate price paid \$'000
		Highest	Lowest	
June 2010	270,500	\$8.00	\$7.96	2,163
September 2010	2,012,000	\$10.10	\$8.50	19,128
October 2010	12,874,000	\$10.48	\$10.18	134,413
November 2010	2,416,500	\$10.68	\$10.36	25,320
	17,573,000			181,024

- (d) During the year ended 30 June 2011, options were exercised to subscribe for 7,354,000 shares in the Company at a consideration of \$55,767,000, of which \$735,000 was credited to share capital and the balance of \$55,032,000 was credited to the share premium account. In respect of the options exercised, an amount of \$12,950,000 was reversed from the employee share-based compensation reserve and credited to the share premium account.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

30 Share capital *(continued)*

- (e) Pursuant to the resolution passed at the SGM held on 29 March 2011, 512,940,428 bonus shares were issued at nil consideration on the basis of one bonus share for every existing share in issue on 22 March 2011 (the "Bonus Issue"). The Bonus Issue was allotted on 6 April 2011. The issued and fully paid capital increased by \$51,294,000 with the creation of an additional 512,940,428 shares of \$0.1 each. The bonus shares were credited as fully paid by way of capitalisation of \$51,294,000 in the contributed surplus account of the Company (note 32).

31 Share option scheme

Pursuant to the terms of the share option scheme adopted by the Company on 15 November 2002, 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

	2011		2010	
	Average exercise price per share	Number of share options	Average exercise price per share	Number of share options
At 1 July	\$9.11	8,604,500	\$9.10	8,846,500
Exercised before Bonus Issue	\$9.11	(4,841,000)	–	–
Bonus Issue of shares	–	3,763,500	–	–
Exercised after Bonus Issue	\$4.64	(2,513,000)	–	–
Granted	\$12.78	34,177,500	–	–
Cancelled or lapsed	–	–	\$9.00	(242,000)
At 30 June	\$11.72	39,191,500	\$9.11	8,604,500
Share options fully vested and exercisable at 30 June	\$4.50*	5,014,000	\$9.11	8,604,500

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

31 Share option scheme (continued)

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

Date of grant	Exercise period	Exercise price per share*	2011 Number of share options*	2010 Number of share options
10 February 2003	10 February 2003 to 16 July 2011	\$4.65	–	3,000,000
10 February 2003	2 May 2003 to 1 May 2012	\$4.60	167,000	133,500
5 February 2004	5 February 2005 to 4 February 2014	\$4.50	4,847,000	5,278,000
1 March 2005	1 March 2006 to 28 February 2015	\$4.53	–	193,000
13 June 2011	14 June 2012 to 13 June 2016	\$12.78	34,177,500	–
			39,191,500	8,604,500

* As a result of the Bonus Issue as referred to in note 30(e), adjustments have been made to the exercise price per share and the outstanding share options of the Company granted previously which remained outstanding as at the date of allotments of the Bonus Issue.

(c) The weighted average fair value of options granted during the year determined using the Bi-nominal option pricing model was \$2.45 per option (2010: nil). The significant inputs into the model were summarised as follows:

Volatility	34.75%
Exercise price	\$12.78
Dividend yield	5.5%
Expected option life	5 years
Annual risk-free interest rate	1.39%
Share price at the grant date	\$12.58

The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices over the last 5 years. The amount of share-based payments charged to the consolidated profit and loss account for the year ended 30 June 2011 was disclosed in note 9.

(d) Details of share options exercised

Share options exercised during the year resulted in 7,354,000 shares (2010: nil) being issued. The related weighted average share price at the time of exercise before and after the Bonus Issue was \$18.79 and \$12.39 per share respectively (2010: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

32 Reserves

	Company					
	Share premium \$000	Capital redemption reserve \$000	Contributed surplus \$000	Employee share-based compensation reserve \$000	Retained profits \$000	Total \$000
At 1 July 2009	10,912	7,296	2,832,842	–	270,442	3,121,492
Profit for the year	–	–	–	–	251,431	251,431
Repurchase of shares (note 30(b))	–	1,207	(75,728)	–	(1,207)	(75,728)
Payment of 2009 final dividend	–	–	–	–	(43,019)	(43,019)
Payment of 2010 interim dividend	–	–	–	–	(89,386)	(89,386)
At 30 June 2010 and 1 July 2010	10,912	8,503	2,757,114	–	388,261	3,164,790
Profit for the year	–	–	–	–	645,384	645,384
Share-based payments	–	–	–	2,510	–	2,510
Repurchase of shares (note 30(c))	–	1,757	(179,267)	–	(1,757)	(179,267)
Issue of shares (note 30(d))	55,032	–	–	–	–	55,032
Bonus Issue of shares (note 30(e))	–	–	(51,294)	–	–	(51,294)
Payment of 2010 final dividend	–	–	–	–	(178,977)	(178,977)
Payment of 2011 interim dividend	–	–	–	–	(318,023)	(318,023)
At 30 June 2011	65,944	10,260	2,526,553	2,510	534,888	3,140,155

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(Expressed in Hong Kong dollars)

33 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. Since then, FMIC was to be settled by commercial agreements between fixed and mobile operators. The Group adopts the Calling Party's Network Pay ("CPNP") principle when negotiating FMIC with the fixed network operators in Hong Kong ("FNOs"). CPNP is a fair and reasonable regime as FMIC is payable by the call originating network.

During the year ended 30 June 2011, the Group issued invoices for FMIC with a total amount of \$131,588,000 (2010: \$129,089,000) to the interconnecting FNOs and received invoices for FMIC with a total amount of \$91,618,000 (2010: \$89,445,000) from some interconnecting FNOs. All these invoices were in dispute since the commercial terms for interconnection had not been agreed upon. 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).

No income or charge in respect of fixed-mobile interconnection has been recognised for the period from 27 April 2009 to 30 June 2011 since it is impracticable to estimate the amount or timing of such income and charge. As at 30 June 2011, the Group had contingent assets and liabilities in respect of fixed-mobile interconnection charge of up to \$284,828,000 (2010: \$153,240,000) and \$196,979,000 (2010: \$105,361,000) respectively.

34 Commitments and contingent liabilities

(a) Capital commitments

	Group	
	2011 \$000	2010 \$000
Contracted for		
Fixed assets	165,581	339,703
Equity securities	1,829	1,830
Authorised but not contracted for	605,096	408,404
	772,506	749,937

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(Expressed in Hong Kong dollars)

34 Commitments and contingent liabilities *(continued)*

(b) Operating lease commitments

The Group leases various retail stores, 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 2011, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	Group	
	2011 \$000	2010 \$000
Land and buildings and transmission sites		
No later than 1 year	397,701	384,054
Later than 1 year and no later than 5 years	207,904	225,297
Later than 5 years	358	9,375
	605,963	618,726
Leased lines		
No later than 1 year	114,025	81,864
Later than 1 year and no later than 5 years	360,118	261,328
Later than 5 years	251,046	256,835
	725,189	600,027

(c) Performance bonds

	Group		Company	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Hong Kong	654,352	553,730	654,352	553,730
Other	4,005	4,005	–	–
	658,357	557,735	654,352	553,730

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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34 Commitments and contingent liabilities *(continued)*

(d) Lease out, lease back agreement

Under certain lease out, lease back agreement entered into during the year ended 30 June 1999, a subsidiary of the Company has undertaken to guarantee the obligations of the intermediary lessees to the lessors as agreed at the inception of the lease for a period of 16 years. The directors are of the opinion that the risk of the subsidiary company being called upon to honour this guarantee is remote and accordingly the directors do not consider that an estimate of the potential financial effect of these contingencies can practically be made.

- (e) The Company has provided corporate guarantee for general banking facilities granted to a wholly-owned subsidiary of \$650,000,000 (2010: nil). As at 30 June 2011, \$550,000,000 of the banking facilities were utilised by the subsidiary (2010: nil).

35 Related party transactions

The Group is controlled by Cellular 8 Holdings Limited, which owns 64.30% of the Company's shares as at 30 June 2011. The remaining 35.70% of the shares are widely held, of which 2.75% is held by another subsidiary of SHKP. 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.

	2011	2010
	\$000	\$000
Operating lease rentals for land and buildings and transmission sites (i)	81,713	76,657
Insurance expense (ii)	4,788	4,152

(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 stores 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 2011, rental and licence fees paid and payable to subsidiaries and associated companies of SHKP totalled \$81,713,000 (2010: \$76,657,000).

(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 2011, insurance premiums paid and payable were \$4,788,000 (2010: \$4,152,000).

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(Expressed in Hong Kong dollars)

35 Related party transactions *(continued)*

(b) As at 30 June 2011, the Group has 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

Key management includes directors and senior management. The compensation paid or payable to key management for employee services is shown below:

	2011 \$000	2010 \$000
Salaries, bonuses, share-based payments and other short-term employee benefits	26,323	23,332

(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:

	2011 \$000	2010 \$000
Trade receivables (note 23)	854	693
Deposits and prepayments (note 23)	7,260	5,978
Trade payables (note 27)	381	50
Other payables and accruals (note 27)	2,170	1,250

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

36 Ultimate holding company

The directors consider the ultimate holding company at 30 June 2011 to be Sun Hung Kai Properties Limited, a company incorporated in Hong Kong with its shares listed on the main board of HKSE.