

Notes to Condensed Consolidated Financial Statements

1. Principal accounting policies

The principal accounting policies adopted in the preparation of these unaudited condensed interim accounts ("interim accounts") are set out below:

(a) Basis of preparation

These interim accounts have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("HKSSAP") No. 25, "Interim Financial Reporting", issued by the Hong Kong Society of Accountants, and Appendix 16 of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited ("Listing Rules"), except that comparative figures for the condensed cash flow statement have not been prepared as the Company has taken the advantage of the transitional provision set out in the Listing Rules.

The accounting policies and methods of computation used in the preparation of these interim accounts are consistent with those used in the annual accounts for the year ended 30 June 2000 except that the Group has adopted HKSSAP No. 14, "Leases", in the preparation of these interim accounts. HKSSAP No. 14 prescribes the accounting policies and disclosure requirements in relation to finance and operating leases. The adoption of HKSSAP No. 14 by the Group does not have any impact on these interim accounts except that disclosures set out in the note 18 have been extended.

(b) Interests in an associate

An associate is a company, not being a subsidiary, in which an equity interest is held for the long-term and significant influence is exercised over its management.

The consolidated profit and loss account includes the Group's share of the results of the associate for the period and the consolidated balance sheet includes the Group's share of the net assets of the associate.

The interim accounts should be read in conjunction with the annual accounts for the year ended 30 June 2000.

2. Turnover

The Group is principally engaged in the provision of telecommunications related services and the sales of mobile telephones and accessories.

An analysis of the Group's turnover and the contributions to its operating loss for the period are as follows:

	Six months ended 31 December			
	2000		1999	
	Operating		Operating	
	Turnover	profit/(loss)	Turnover	profit/(loss)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Mobile and international telecommunications services	1,325,855	79,586	1,211,014	8,692
Mobile telephone and accessories	132,559	(87,135)	248,061	(376,784)
Broadband and other services	23,519	(105,389)	12,373	(25,500)
Total	1,481,933	(112,938)	1,471,448	(393,592)

No geographical analysis is provided as less than 10 per cent. of the consolidated turnover and less than 10 per cent. of the contributions to its operating loss of the Group are attributable to markets outside Hong Kong.

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3. Write off of deferred handset subsidy and other customer acquisition costs and other assets

This comprised the following:

	Six months ended 31 December	
	2000 HK\$'000	1999 HK\$'000
Deferred handset subsidy	–	352,730
Other deferred customer acquisition costs	–	40,437
China related assets	–	47,750
Other assets	–	47,294
	–	488,211
	–	488,211

The year ended 31 December 1999 was a year of severe competition in the mobile telephone market in Hong Kong. This severe competition had a pronounced adverse effect on the Group's financial performance in the first half of last fiscal year. In particular, the competition for new subscribers following the introduction of mobile number portability and the accompanying price discounting was intense. Accordingly, in December 1999, the Group reviewed the carrying value of deferred handset subsidies and other deferred subscriber acquisition costs. As a result of this review, deferred costs totaling HK\$393 million was expensed. In addition, the amortization period of current subscriber handset subsidies was reduced to 12 months.

The Group also reviewed the carrying value of assets relating to its business in China and decided to accelerate the amortization of its costs over seven years so as to align them with the life of the related operational contracts. This resulted in a charge of HK\$48 million. The Group also made a charge to write-down certain other assets totaling HK\$47 million.

4. Operating loss for the period

	Six months ended 31 December	
	2000	1999
	HK\$'000	HK\$'000
Operating loss for the period is stated after crediting and charging the following:		
Crediting		
Interest income	112,419	113,542
Charging		
Cost of inventories sold	189,134	352,458
Depreciation : owned fixed assets	131,406	136,210
leased fixed assets	75,389	79,758
Amortisation of deferred expenditure	71,613	41,931
Operating lease rentals for land and buildings and transmission sites	149,735	160,062
Loss on disposal of fixed assets	2,079	8,017
Provisions for stocks	19,000	–
Provisions for bad and doubtful debts	10,791	35,738

5. Taxation

No provision for Hong Kong profits tax has been provided as there is no estimated assessable profit for the period (1999 : Nil).

6. Dividend

	Six months ended 31 December	
	2000	1999
	HK\$'000	HK\$'000
Interim dividend (1999: HK\$0.11 per share)	–	66,249

The directors do not recommend the payment of an interim dividend for the six months ended 31 December 2000. Amounts shown in respect of the six months ended 31 December 1999 reflect the cash dividend of HK\$0.11 per share. A scrip dividend alternative to the interim dividend was also offered, with the result that only HK\$64,710,000 of the interim dividend was paid in cash.

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7. Loss per share

The calculation of loss per share is based on the loss attributable to shareholders of HK\$112,938,000 (1999: loss of HK\$393,592,000) and on the weighted average number of 601,402,716 shares (1999: 602,054,972 shares) in issue during the period. Diluted loss per share is the same as the basic loss per share as there is no dilution effect arising from the share options granted by the Company.

For the six months ended 31 December 1999, the calculation of diluted loss per share is based on the loss attributable to shareholders of HK\$393,592,000 and on the weighted average number of 603,404,791 shares after adjusting for the effects of all dilutive potential ordinary shares.

8. Fixed assets

	HK\$'000
Cost	
At 1 July 2000	3,439,762
Additions	219,469
Disposals	(11,411)
At 31 December 2000	3,647,820
Accumulated Depreciation	
At 1 July 2000	1,197,166
Charge for the period	206,795
Written back on disposals	(9,362)
At 31 December 2000	1,394,599
Net book value	
At 31 December 2000	2,253,221
At 30 June 2000	2,242,596

At 31 December 2000, the net book value of fixed assets held by the Group under finance leases amounted to HK\$1,030,609,000 (30 June 2000: HK\$1,108,599,000).

9. Interests in an associate

	31 December 2000 HK\$'000	30 June 2000 HK\$'000
Share of net assets	3	–
Amount due from an associate (note b)	21,027	–
	21,030	–

(a) Details of the Group's associate at 31 December 2000 are as follows:

Name	Place of incorporation	Principal activities	Interest held
New Top Finance Limited	British Virgin Islands	Investment holdings	37.5%

(b) The amount due from an associate is interest free and has no fixed term of repayment.

10. Trade debtors

The Group allows an average credit period of 30 days to its subscribers and other customers. The aging analysis of the trade debtors net of provision is as follows :

	31 December 2000 HK\$'000	30 June 2000 HK\$'000
Current to 30 days	158,939	195,346
31- 60 days	20,569	12,921
61 - 90 days	–	–
Over 90 days	–	–
	179,508	208,267

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11. Held-to-maturity debt securities

	31 December	30 June
	2000	2000
	HK\$'000	HK\$'000
Held-to-maturity debt securities		
Commercial paper, at cost	–	232,000

12. Trade creditors

The following is an aging analysis of the trade creditors :

	31 December	30 June
	2000	2000
	HK\$'000	HK\$'000
Current to 30 days	51,899	103,053
31- 60 days	51,488	47,939
61 - 90 days	49,513	12,671
Over 90 days	72,515	29,569
	225,415	193,232

13. Share capital

	Company	
	Shares of	
	HK\$0.1 each	HK\$'000
Authorized:		
At 1 July 2000 and 31 December 2000	1,000,000,000	100,000
Issued and fully paid:		
At 1 July 2000	602,389,100	60,239
Shares issued in lieu of cash dividend (note a)	1,296,742	129
Repurchase of shares (note b)	(4,123,000)	(412)
At 31 December 2000	599,562,842	59,956

- (a) On 19 September 2000, the Company declared a final dividend on its shares for the year ended 30 June 2000. The Company offered to its shareholders a scrip dividend alternative (the "Scheme") under which shareholders could elect to receive shares in lieu of the cash dividend. On 14 December 2000, 1,296,742 shares of HK\$0.1 each were issued as fully paid under the Scheme, at a value of HK\$12.12. A premium of HK\$15.6 million arose in respect of the issue (note 14).
- (b) During the six months ended 31 December 2000, the Company repurchased 4,123,000 ordinary shares on The Stock Exchange of Hong Kong Limited. These repurchased shares were subsequently cancelled and an amount equivalent to the nominal value of these shares was transferred from retained profits to the capital redemption reserve (note 14).

Details of such shares repurchased are as follows :

Month of repurchase	Number of shares repurchased	Price per share		Aggregate price paid HK\$
		highest HK\$	lowest HK\$	
October 2000	2,321,000	10.35	9.75	23,176,100
November 2000	51,500	12.25	11.95	621,950
December 2000	1,750,500	11.8	9.95	17,842,500
	<u>4,123,000</u>			<u>41,640,550</u>

14. Reserves

	Capital				Total HK\$'000
	Share premium HK\$'000	redemption reserve HK\$'000	Contributed surplus HK\$'000	Retained profits HK\$'000	
At 1 July 2000	4,389,896	216	199,800	813,491	5,403,403
Premium arising on issue of new shares in lieu of cash dividend (note 13(a))	15,587	-	-	-	15,587
Repurchase of shares (note 13(b))	(41,229)	412	-	(412)	(41,229)
Loss for the period	-	-	-	(112,938)	(112,938)
At 31 December 2000	<u>4,364,254</u>	<u>628</u>	<u>199,800</u>	<u>700,141</u>	<u>5,264,823</u>

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15. Deferred taxation

At 31 December 2000, a potential deferred taxation asset of HK\$51,150,000 (30 June 2000: HK\$94,581,000) relating principally to tax losses and accelerated depreciation allowances has not been recognized in the accounts.

16. Related party transactions

During the period, the Group had the following significant transactions with certain related parties in the ordinary course of business:

	Six months ended	
	31 December	
	2000	1999
	HK\$'000	HK\$'000
Operating lease rentals for land and buildings and transmission sites	<u>34,243</u>	<u>29,125</u>

Certain subsidiaries and associated companies of Sun Hung Kai Properties Limited, a shareholder of the Company, have leased premises to the Group for use as offices, retail shops and warehouses and have granted licences to SmarTone Mobile Communications Limited for the installation of base stations, antenna and telephone cables on certain premises owned by them.

17. Capital commitments

	31 December	30 June
	2000	2000
	HK\$'000	HK\$'000
Contracted but not provided for		
– fixed assets	53,502	148,625
– investment in an associate	37,473	57,549
– investment securities	50,700	70,200
Authorized but not contracted for	623,572	859,505
	<u>765,247</u>	<u>1,135,879</u>

18. Lease commitments

At 31 December 2000, the Group had future aggregate minimum lease payments in respect of land and buildings and transmission sites under operating leases as follows:

	31 December 2000 HK\$'000	Restated 30 June 2000 HK\$'000
Within one year	211,793	223,446
In the second to fifth years inclusive	132,116	126,359
After the fifth years	10,103	902
	354,012	350,707

19. Contingent liabilities

	31 December 2000 HK\$'000	30 June 2000 HK\$'000
Performance bonds	267,000	355,000

- (a) The performance bonds were issued by certain banks in favor of the Telecommunications Authority of Hong Kong for compliance with certain milestones under the local wireless fixed telecommunication network services and external satellite-based licences granted to the Group. The banks' obligations under the performance bond were guaranteed by the Company and a subsidiary of the Company.
- (b) Under the lease out lease back agreements entered into during the year ended 30 June 1999, a subsidiary company has undertaken to guarantee the obligation 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.
- (c) At 31 December 2000, the Company provided a corporate guarantee to a bank for HK\$10,000,000 in respect of banking facilities granted to a subsidiary. There was no utilisation of these facilities at 31 December 2000.