

NOTES TO THE ACCOUNTS

for the year ended 30 June 2001

1 Principal accounting policies

The principal accounting policies adopted in the preparation of these consolidated accounts are set out below:

a Basis of preparation

The accounts have been prepared under the historical convention in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants.

b Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 30 June. A company is a subsidiary if more than 50 per cent. of its voting capital is held for the long term or if the composition of its board of directors is controlled by the Group. The results of subsidiaries acquired or disposed of during the year are included as from their effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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 related goodwill or capital reserve which was not previously charged or recognised in the consolidated profit and loss account.

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

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision, if necessary, for any diminution in value other than temporary in nature. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

c Associate

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

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

1 Principal accounting policies (cont'd)

d Fixed assets

Fixed assets are stated at cost less accumulated depreciation. Fixed assets are depreciated at rates sufficient to write off their costs over their estimated useful lives on a straight-line basis. The principal annual rates adopted are as follows:

Leasehold land and buildings	Over the lease term
Leasehold improvements	Over the lease term
Network and testing equipment	10% - 33 ¹ / ₃ %
Computer, billing and office telephone equipment	20% - 33 ¹ / ₃ %
Other fixed assets	20% - 33 ¹ / ₃ %

The cost of the network comprises assets and equipment of the digital mobile radio telephone and local multipoint distribution services networks purchased at cost, together with direct payroll and overheads attributable to construction and installation of the network. Depreciation of each network commences from the date of launch.

No depreciation is provided for the part of any network under construction, including the equipment therein.

Other fixed assets comprise motor vehicles, equipment, furniture and fixtures.

The gain or loss arising from the disposal or retirement of fixed assets is the difference between the net sales proceeds and the carrying amount of the relevant asset and is recognised in the profit and loss account.

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

The carrying amounts of fixed assets are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. Expected future cash flows have been discounted in determining the recoverable amounts.

1 Principal accounting policies (cont'd)

e Investment securities

(i) Held-to-maturity debt securities

Held-to-maturity debt securities are stated in the balance sheet at cost plus/less any discount/premium unamortised to date. The discount or premium on acquisition is amortised over the period to maturity and included as interest income/expenses in the profit and loss account. Provision is made when there is a diminution in value other than temporary.

The carrying amounts of held-to-maturity debt securities are reviewed at the balance sheet date in order to assess the credit risk and whether the carrying amounts are expected to be recovered. Provisions are made when carrying amounts are not expected to be recovered and are recognised in the profit and loss account.

(ii) Investment securities

Investment securities are stated at cost less any provision for diminution in value.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The amount of the reduction is recognised as an expense in the profit and loss account.

f 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 determined on the basis of anticipated sales proceeds less estimated selling expenses.

g Deferred expenditure

(i) Licence application expenditure

Licence application expenditure is deferred and amortised over the terms of the licence.

(ii) Handset subsidies

The costs relating to handset subsidies provided to customers are deferred and amortised on a straight line basis over the average postpaid subscription life of 12 months.

1 Principal accounting policies (*cont'd*)

h Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising are dealt with in the profit and loss account.

The accounts of subsidiaries expressed in foreign currencies are translated at rates of exchange ruling at the balance sheet date. Exchange differences are dealt with as a movement in reserves.

i Trade receivables

Provision is made against trade receivables to the extent they are considered to be doubtful. Trade receivables in the balance sheet are stated net of such provision.

j Deferred taxation

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

k Assets under leases

(i) Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the fair value of the asset is recorded together with the obligation, excluding the interest element, to pay future rentals. Payments to the lessor are treated as consisting of capital and interest elements. Finance charges are debited to the profit and loss account in proportion to the capital balances outstanding. Assets held under finance leases are depreciated over the shorter of their estimated useful lives and the lease periods.

(ii) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight line basis over the lease periods.

1 Principal accounting policies (cont'd)

l Revenue recognition

Revenue is recognised net of retention discounts and sales incentives given when it is probable that the economic benefits will accrue to the Group and when the revenue can be measured reliably on the following bases:

- (i) invoiced value of goods supplied: when the significant risks and rewards of ownership have been transferred to the buyer;
- (ii) telecommunications, international direct dial and internet related service revenues: when the service is rendered and based on the usage of the Group's telecommunications networks and facilities;
- (iii) interest income: on a time proportion basis.

Telecommunications service revenue in respect of standard service plans billed in advance is deferred and included under deferred income.

m Customer introduction commissions

Customer introduction commissions for the digital mobile radio telephone network are expensed when incurred.

n Retirement benefit costs

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

The Group's contributions to The Schemes are expensed as incurred. Contributions to the ORSO scheme are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the Group's contributions.

o Comparatives

The comparative disclosures in relation to operating leases have been revised to take into account the requirements of the revised Statement of Standard Accounting Practice ('SSAP') 14 which the Group implemented in the current year. The adoption of the Standard has not impacted upon the reported operating loss.

Other comparative figures, including turnover and cost of inventories sold and services provided, have been reclassified to conform with the current year's presentation. Revenue is now stated net of retention discounts and sales incentives for both years ended 30 June 2000 and 2001.

2 Turnover and other revenues

The Group is principally engaged in the provision of telecommunications related services and the sale of mobile telephones and accessories. Revenues recognised during the year are as follows:

	2001 HK\$000	2000 HK\$000
Turnover		
Mobile and international telecommunications services	2,211,729	2,386,685
Mobile telephone and accessory sales	202,765	464,605
Internet and other services	70,860	43,167
	<u>2,485,354</u>	<u>2,894,457</u>
Other revenues		
Interest income	197,576	227,964
Other income	5,330	5,400
	<u>202,906</u>	<u>233,364</u>
Total revenues	<u>2,688,260</u>	<u>3,127,821</u>

Turnover for the year ended 30 June 2000 has been restated to conform with the current year's presentation (note 1o).

2 Turnover and other revenues (cont'd)

An analysis of the Group's turnover and contribution to operating profit/(loss) for the year by principal activities is as follows:

	2001		2000	
	Turnover HK\$000	Operating profit/(loss) HK\$000	Turnover HK\$000	Operating Profit/(loss) HK\$000
Mobile and international telecommunications services	2,211,729	201,375	2,386,685	207,386
Mobile telephone and accessory sales	202,765	(159,970)	464,605	(468,067)
Internet and other services	70,860	(326,852)	43,167	(102,644)
	<u>2,485,354</u>	<u>(285,447)</u>	<u>2,894,457</u>	<u>(363,325)</u>

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

3 Cost of inventories sold and services provided

	2001 HK\$000	2000 HK\$000
Cost of inventories sold	362,735	579,942
Interconnect charges and international telecommunications services	381,471	382,857
Other	112,471	111,761
	<u>856,677</u>	<u>1,074,560</u>

4 Other operating expenses

	2001 <i>HK\$000</i>	2000 <i>HK\$000</i>
Network costs	447,495	469,717
Depreciation	427,592	427,987
Salary and related costs (including directors' emoluments)	410,215	364,332
Sales and marketing expenses	275,187	324,762
Other operating expenses	240,646	195,285
Rental and utilities	142,146	135,704
Loss on disposal of fixed assets	6,037	10,588
	<u>1,949,318</u>	<u>1,928,375</u>

5 Write off of fixed and other assets

	2001 <i>HK\$000</i>	2000 <i>HK\$000</i>
Deferred handset subsidy	-	352,730
Other deferred customer acquisition costs	-	40,437
China related assets	-	47,750
Other assets	-	47,294
Impairment loss (note 13)	167,712	-
	<u>167,712</u>	<u>488,211</u>

During the year ended 30 June 2001, the Group has undertaken a review of the value of the fixed assets of its LMDS and other non-mobile businesses. As a result of this review, the Group made a charge of HK\$167 million to write-down certain fixed assets.

In the year ended 30 June 2000, deferred handset subsidies and subscriber acquisition costs totaling HK\$393 million were expensed. The amortisation of assets relating to its business in China was accelerated resulting in a charge of HK\$48 million in the year ended 30 June 2000. The Group also made a charge to write-down certain other assets totaling HK\$47 million in the year 30 June 2000.

6 Operating loss

	2001 HK\$000	2000 HK\$000
Operating loss is stated after crediting and charging the following:		
<i>Crediting</i>		
Net exchange gain	2,159	3,009
<i>Charging</i>		
Depreciation: owned fixed assets	277,322	268,471
leased fixed assets	150,270	159,516
Amortisation of deferred expenditure	125,251	122,041
Operating lease rentals for land and buildings, transmission sites and leased lines	450,083	455,031
Loss on disposal of fixed assets	6,037	10,588
Auditors' remuneration	1,365	1,350
Provision for inventories	9,756	-
Provision for bad and doubtful debts	28,743	63,614

7 Emoluments of directors and senior management

a Directors' emoluments

Details of the emoluments paid to the directors are as follows:

	2001 HK\$000	2000 HK\$000
Fees	900	980
Salaries and allowances	4,300	5,029
Bonuses	-	1,250
Pensions contributions	278	274
Benefits from share options exercised	-	606
	<u>5,478</u>	<u>8,139</u>

Included in the directors' fees in the above analysis are the emoluments of independent non-executive directors of the Company of HK\$240,000 (2000: HK\$160,000).

7 Emoluments of directors and senior management (*cont'd*)

a Directors' emoluments (*cont'd*)

Three directors waived emoluments of HK\$240,000 during the year (2000: Nil). During the year, no amounts have been paid by the Group to the directors as an inducement to join the Group or as compensation for loss of office (2000: Nil).

No director was granted any share option during the year ended 30 June 2001.

The emoluments of the directors fall within the following bands:

<i>HK\$</i>	2001 Number of directors	2000 Number of directors
0 - 1,000,000	13	13
3,000,001 - 3,500,000	-	1
3,500,001 - 4,000,000	-	1
4,500,001 - 5,000,000	1	-
	<u>14</u>	<u>15</u>

b Five highest paid individuals

In addition to the above analysis for the directors, there were four employees (2000: three employees) whose emoluments were among the five highest in the Group. Details of the emoluments paid to these employees are as follows:

	2001 <i>HK\$000</i>	2000 <i>HK\$000</i>
Salaries and allowances	9,645	6,591
Bonuses	892	490
Pensions contributions	523	587
	<u>11,060</u>	<u>7,668</u>

7 Emoluments of directors and senior management (cont'd)

b Five highest paid individuals (cont'd)

The emoluments of these employees fall within the following bands:

<i>HK\$</i>	2001 Number of employees	2000 Number of employees
2,000,001 - 2,500,000	1	2
2,500,001 - 3,000,000	2	1
3,000,001 - 3,500,000	1	-
	<u>4</u>	<u>3</u>

8 Retirement benefits

	2001 <i>HK\$000</i>	2000 <i>HK\$000</i>
Scheme costs	24,505	17,844
Less: forfeited contributions	<u>(7,537)</u>	<u>(6,446)</u>
Net costs charged to profit and loss account	<u>16,968</u>	<u>11,398</u>

Contributions to the ORSO scheme by the Group and the employees are calculated at specified percentages of each employee's basic salary and are expensed as incurred. The Group's contributions may be reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contribution. At 30 June 2000 and 2001, all contributions to the ORSO scheme forfeited by employees had been utilised by the Group to reduce its contributions payable.

A MPF has been 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 required to contribute 5 per cent. of employee's relevant income with a maximum amount of HK\$1,000 per month as a mandatory contribution. Employer's mandatory contributions are expensed as incurred and 100 per cent. vested in the employees as soon as they are paid to MPF.

9 Taxation

No provision for Hong Kong profits taxation has been made as there is no estimated assessable profit for the year (2000: Nil).

The deferred tax credit for the year which has not been accounted for is as follows:

	2001 <i>HK\$000</i>	2000 <i>HK\$000</i>
Accelerated depreciation allowances	(38,962)	11,519
Tax losses	(30,522)	(115,586)
Other timing differences	5,713	(849)
	<u>(63,771)</u>	<u>(104,916)</u>

10 Loss attributable to shareholders

Of the Group's loss for the year, a profit of HK\$11,082,000 (2000: HK\$112,952,000) has been dealt with in the accounts of the Company.

11 Dividends

	2001 <i>HK\$000</i>	2000 <i>HK\$000</i>
Interim, paid of nil per share (2000: HK\$0.11)	-	66,249
Final, proposed of nil per share (2000: HK\$0.05)	-	30,119
	<u>-</u>	<u>96,368</u>

The directors do not recommend any dividend for the year ended 30 June 2001. Amounts shown in respect of the year ended 30 June 2000 reflect a total of the cash dividend of HK\$0.16 per share. A scrip dividend alternative to the interim and final dividend was also offered. Of the liability outstanding at 30 June 2000 in respect of the final dividend, only HK\$14,287,000 was settled in cash.

12 Loss per share

The calculation of loss per share is based on the loss attributable to shareholders of HK\$283,834,000 (2000: HK\$363,325,000) and on the weighted average number of 599,543,833 shares (2000: 602,179,466 shares) in issue during the year.

For the year ended 30 June 2001, no diluted loss per share is presented as there are no potential dilutive ordinary shares outstanding. For the year ended 30 June 2000, the calculation of diluted loss per share is based on the loss attributable to shareholders of HK\$363,325,000 and on the weighted average number of 602,677,578 shares after adjusting for the effects of all potential dilutive ordinary shares.

13 Fixed assets

	Medium term leasehold land and buildings in Hong Kong HK\$000	Leasehold improvements HK\$000	Network and testing equipment HK\$000	Computer, billing and office telephone equipment HK\$000	Other fixed assets HK\$000	Network under construction HK\$000	Total HK\$000
Cost							
1 July 2000	8,000	174,656	2,365,589	403,600	65,054	422,863	3,439,762
Additions	-	24,696	17,645	39,134	8,178	276,850	366,503
Reclassifications	-	-	419,725	(245)	245	(419,725)	-
Disposals	-	(33,307)	(26,856)	(6,395)	(13,475)	-	(80,033)
30 June 2001	8,000	166,045	2,776,103	436,094	60,002	279,988	3,726,232
Accumulated depreciation							
1 July 2000	131	145,767	755,798	253,549	41,921	-	1,197,166
Charge for the year	315	14,128	330,647	71,522	10,980	-	427,592
Impairment loss	-	-	120,376	-	-	47,336	167,712
Reclassifications	-	-	8	(17)	9	-	-
Written back on disposals	-	(32,248)	(22,349)	(6,365)	(11,174)	-	(72,136)
30 June 2001	446	127,647	1,184,480	318,689	41,736	47,336	1,720,334
Net book value							
30 June 2001	7,554	38,398	1,591,623	117,405	18,266	232,652	2,005,898
30 June 2000	7,869	28,889	1,609,791	150,051	23,133	422,863	2,242,596

As at 30 June 2001, the net book value of fixed assets held by the Group under finance leases amounted to HK\$957,339,000 (2000: HK\$1,108,599,000).

14 Interest in an associate

	2001 <i>HK\$000</i>	2000 <i>HK\$000</i>
Group's share of net assets	3	-
Amount due from an associate	23,819	-
	<u>23,822</u>	<u>-</u>

Details of the Group's associate at 30 June 2001 are as follows:

Name	Place of incorporation	Principal activity	Particulars of issued shares held	Interest held
New Top Finance Limited	The British Virgin Islands	Investment holdings	375 ordinary shares of US\$1 each	37.5%

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

15 Investment securities

	2001 <i>HK\$000</i>	2000 <i>HK\$000</i>
Equity securities		
Overseas unlisted investment, at cost	39,196	21,765

16 Deferred expenditure

	2001			2000		
	Handset subsidies HK\$000	Licence application expenditure HK\$000	Total HK\$000	Handset subsidies HK\$000	Licence application expenditure HK\$000	Total HK\$000
Cost						
1 July	665,375	4,159	669,534	481,935	4,159	486,094
Additions	93,417	-	93,417	183,440	-	183,440
30 June	<u>758,792</u>	<u>4,159</u>	<u>762,951</u>	<u>665,375</u>	<u>4,159</u>	<u>669,534</u>
Accumulated amortisation						
1 July	603,560	3,293	606,853	129,205	2,877	132,082
Charge for the year	124,835	416	125,251	121,625	416	122,041
Written off during the year	-	-	-	352,730	-	352,730
30 June	<u>728,395</u>	<u>3,709</u>	<u>732,104</u>	<u>603,560</u>	<u>3,293</u>	<u>606,853</u>
Net book value						
30 June	<u>30,397</u>	<u>450</u>	<u>30,847</u>	<u>61,815</u>	<u>866</u>	<u>62,681</u>

17 Subsidiaries

	2001 HK\$000	2000 HK\$000
Unlisted shares, at cost	939,189	939,189
Amounts due by subsidiaries	<u>4,334,919</u>	<u>4,159,925</u>
	5,274,108	5,099,114
Amounts due to a subsidiary	<u>(74,978)</u>	<u>(74,978)</u>
	<u>5,199,130</u>	<u>5,024,136</u>

None of the subsidiaries have any loan capital subsisting at the end or at any time during the year.

17 Subsidiaries (cont'd)

Details of the principal subsidiaries which materially affect the results for the year ended 30 June 2001 or the net assets at 30 June 2001 of the Group are set out below:

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 digital mobile radio telephone services and sales of mobile telephones and accessories in Hong Kong	100,000,000 ordinary shares of HK\$1 each	100%
iSmart.Net Limited	Hong Kong	Provision of internet related services in Hong Kong	2 ordinary shares of HK\$ 1 each	100%
SmarTone Broadband Services Limited	Hong Kong	Provision of LMDS related services in Hong Kong	2 ordinary shares of HK\$1 each	100%
SmarTone Telecommunications Services (China) Limited	Hong Kong	Provision of agency and consultancy services in Hong Kong and Mainland China	2 ordinary shares of HK\$1 each	100%
SmarTone - Comunicações Móveis S.A.	Macau	Provision of digital mobile radio telephone services and sales of mobile telephones and accessories in Macau	1,000,000 shares of MOP1 each	72%

* *Subsidiary held directly by the Company.*

18 Inventories

At 30 June 2000 and 2001, all inventories and inventories in transit represent goods held for re-sale. At 30 June 2001, the carrying amount of inventories that are carried at net realisable value amounted to HK\$3,871,000 (2000: Nil).

19 Trade receivables

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

	2001 HK\$000	2000 HK\$000
Current to 30 days	136,893	195,346
31-60 days	14,433	12,921
61-90 days	5,461	-
	<u>156,787</u>	<u>208,267</u>

20 Held-to-maturity debt securities

	2001 HK\$000	2000 HK\$000
Commercial paper, at cost	-	232,000

21 Pledged bank deposits

At 30 June 2001, the Group had pledged bank deposits of HK\$134,049,000 (2000: HK\$354,791,000) to secure certain banking facilities granted to the Group.

22 Trade payables

The following is an ageing analysis of the trade payables:

	2001 <i>HK\$000</i>	2000 <i>HK\$000</i>
Current to 30 days	64,568	103,053
31-60 days	30,008	47,939
61-90 days	10,815	12,671
Over 90 days	25,320	29,569
	<u>130,711</u>	<u>193,232</u>

23 Share capital

	Shares of HK\$0.1 each	<i>HK\$000</i>
Authorised:		
1 July 2000 and 30 June 2001	<u>1,000,000,000</u>	<u>100,000</u>
Issued and fully paid:		
1 July 1999	601,872,250	60,187
Shares issued in lieu of cash dividends (<i>note a</i>)	51,350	5
Share options exercised (<i>note b</i>)	465,500	47
30 June 2000	<u>602,389,100</u>	<u>60,239</u>
1 July 2000	602,389,100	60,239
Shares issued in lieu of cash dividends (<i>note a</i>)	1,296,742	130
Repurchase of shares (<i>note c</i>)	(11,407,000)	(1,141)
30 June 2001	<u>592,278,842</u>	<u>59,228</u>

23 Share capital (cont'd)

- a On 14 March 2000 and 19 September 2000, the Company declared interim and final dividends on its shares for the year ended 30 June 2000. The Company offered to its shareholders scrip dividend alternatives (the 'Scheme') under which shareholders could elect to receive shares in lieu of the cash dividend. On 17 April 2000 and 14 December 2000, 51,350 and 1,296,742 shares of HK\$0.1 each were issued as fully paid under the Scheme, at values of HK\$29.97 and HK\$12.12 respectively per share. Premiums of HK\$1.5 million and HK\$15.6 million therefore arose in respect of the issues (note 24).
- b By a written resolution of the shareholders of the Company passed on 17 October 1996, a share option scheme (the 'Scheme') was approved and adopted. Under the Scheme, the directors of the Company may, at their discretion, grant to any executive and/or employee of the Group, including any director in full time employment with any company in the Group, options to subscribe for the Company's shares. The subscription price for the Company's shares under the Scheme is determined by the directors of the Company and will not be less than 80 per cent. of the average of the closing prices of the Company's shares quoted on The Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the date of grant of the option or the nominal value of the Company's shares, whichever is the higher. The maximum number of shares over which options may be outstanding may not exceed 10 per cent. of the Company's ordinary share capital in issue from time to time.

At 30 June 2001, options to subscribe for 4,947,000 shares (2000: 4,947,000 shares) within the following exercise periods were outstanding:

Exercise period	Exercise price HK\$	2001 Number of shares	2000 Number of shares
1 January 1997 to 31 December 2003	16.10	99,500	99,500
14 April 1999 to 13 April 2005	20.60	1,136,500	1,136,500
14 September 2000 to 13 September 2007	23.90	383,000	383,000
17 November 2000 to 16 November 2007	27.70	3,028,000	3,028,000
22 March 2001 to 21 March 2007	25.50	100,000	100,000
27 March 2001 to 26 March 2007 (note (i))	26.30	-	200,000
4 September 2001 to 3 September 2007	15.20	200,000	-
		4,947,000	4,947,000

50 per cent. of each option granted is exercisable in the first year after the option becomes exercisable and the remaining 50 per cent. is exercisable in full after the first anniversary of the option becoming exercisable.

- (i) Due to the resignation of a senior manager, the share option to subscribe for 200,000 shares at HK\$26.30 lapsed in November 2000.

23 Share capital (cont'd)

- c During the year ended 30 June 2001, the Company repurchased 11,407,000 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.

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	11.80	9.95	17,842,500
January 2001	29,500	11.50	11.25	333,350
March 2001	1,772,500	10.40	9.75	17,761,850
April 2001	1,034,500	9.00	8.80	9,225,275
May 2001	1,421,500	9.15	9.05	12,931,050
June 2001	3,026,000	9.10	8.60	26,627,575
	<u>11,407,000</u>			<u>108,519,650</u>

24 Reserves

	Share premium <i>HK\$000</i>	Capital redemption reserve <i>HK\$000</i>	Contributed surplus <i>HK\$000</i>	Retained profits <i>HK\$000</i>	Total <i>HK\$000</i>
Group					
1 July 1999	4,379,146	216	199,800	1,273,184	5,852,346
Premium arising on exercise of share options	9,216	-	-	-	9,216
Premium arising on issue of new shares in lieu of cash dividend	1,534	-	-	-	1,534
Loss for the year	-	-	-	(363,325)	(363,325)
Dividends	-	-	-	(96,368)	(96,368)
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	15,587	-	-	-	15,587
Repurchase of shares (note 23c)	(107,379)	1,141	-	(1,141)	(107,379)
Loss for the year	-	-	-	(283,834)	(283,834)
30 June 2001	4,298,104	1,357	199,800	528,516	5,027,777

24 Reserves (cont'd)

	Share premium <i>HK\$000</i>	Capital redemption reserve <i>HK\$000</i>	Contributed surplus <i>HK\$000</i>	Retained profits <i>HK\$000</i>	Total <i>HK\$000</i>
Company					
1 July 1999	4,379,146	216	938,989	10,011	5,328,362
Premium arising on exercise of share options	9,216	-	-	-	9,216
Premium arising on issue of new shares in lieu of cash dividend	1,534	-	-	-	1,534
Profit for the year	-	-	-	112,952	112,952
Dividends	-	-	-	(96,368)	(96,368)
1 July 2000	<u>4,389,896</u>	<u>216</u>	<u>938,989</u>	<u>26,595</u>	<u>5,355,696</u>
Premium arising on issue of new shares in lieu of cash dividend	15,587	-	-	-	15,587
Repurchase of shares (note 23c)	(107,379)	1,141	-	(1,141)	(107,379)
Profit for the year	-	-	-	11,082	11,082
30 June 2001	<u>4,298,104</u>	<u>1,357</u>	<u>938,989</u>	<u>36,536</u>	<u>5,274,986</u>

The contributed surplus of the Group represents the difference between the nominal value of the share capital and share premium of the subsidiary acquired pursuant to a group reorganisation in October 1996, over the nominal value of the Company's shares issued in exchange therefor.

The contributed surplus of the Company represents the difference between the nominal value of the Company's shares issued in exchange for the issued share capital of the subsidiaries acquired and the net asset value of the subsidiaries acquired. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to shareholders.

25 Deferred taxation

The potential deferred taxation (liabilities)/assets which have not been provided for/recognised in the accounts is as follows:

	Group	
	2001 HK\$000	2000 HK\$000
Accelerated depreciation allowances	(98,892)	(137,854)
Tax losses	262,108	231,586
Other timing differences	(4,864)	849
	<u>158,352</u>	<u>94,581</u>

26 Related party transactions

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

	2001 HK\$000	2000 HK\$000
Operating lease rentals for land and buildings and transmission sites (<i>note (i)</i>)	73,676	54,508
Insurance expense (<i>note (ii)</i>)	4,167	5,403
Consultancy fee (<i>note (iii)</i>)	8,851	2,055
Mobility leaders membership subscription fee (<i>note (iv)</i>)	118	517
Purchase of Genie portal service products (<i>note (v)</i>)	2,340	-

- (i) Leasing of offices, retail shops and warehouses and licences for the installation of transmission sites

Certain subsidiaries and associated companies of Sun Hung Kai Properties Limited ('SHKP'), 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.

For the year ended 30 June 2001, rental and licence fees paid and payable to subsidiaries and associated companies of SHKP totalled HK\$73,676,000 (2000: HK\$54,508,000).

- (ii) Insurance services

Sun Hung Kai Properties Insurance Limited, a wholly-owned subsidiary of SHKP, provides general insurance services to the Group. For the year ended 30 June 2001, insurance premiums paid and payable were HK\$4,167,000 (2000: HK\$5,403,000).

26 Related party transactions (cont'd)

(iii) Consultancy fee

A subsidiary of British Telecommunications Plc, a substantial shareholder of the Company, has provided consultancy services to the Group. For the year ended 30 June 2001, the consultancy fees paid were HK\$5,333,000 (2000: HK\$357,000).

The Group has paid consultancy and technical support fees to companies in which a non-executive director has an interest. For the year ended 30 June 2001, the total fees paid were HK\$3,168,000 (2000: HK\$1,698,000).

Sun Hung Kai Real Estate Agency Limited, a wholly-owned subsidiary of SHKP, provided consultancy services to the Group. For the year ended 30 June 2001, the consultancy fees paid were HK\$350,000 (2000: Nil).

(iv) Mobility leaders membership subscription fee

The Group has subscribed to a mobility leaders program organised by British Telecommunications Plc, a substantial shareholder of the Company, which provides information sharing among the members. For the year ended 30 June 2001, the subscription fees paid were HK\$118,000 (2000: HK\$517,000).

(v) Purchase of Genie portal service products

The Group has entered into a contract with Genie Internet (Hong Kong) Limited, a subsidiary of British Telecommunications Plc, a substantial shareholder of the Company, to provide mobile portal services. For the year ended 30 June 2001, the total fees paid were HK\$2,340,000 (2000: Nil).

- b At 30 June 2001, 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 In October 1999, New-Alliance Asset Management (Asia) Limited ('New-Alliance'), an associate of SHKP, was appointed as the investment manager of the Group's Provident Scheme. New-Alliance is remunerated out of the performance of the scheme, and for the year ended 30 June 2001, no fee was paid by the Group to New-Alliance (2000: Nil).

All related party transactions are carried out on an arm's length basis.

27 Capital commitments

	Group	
	2001 HK\$000	2000 HK\$000
Contracted but not provided for		
- fixed assets	13,208	148,625
- investment in an associate	34,681	57,549
- investment securities	50,700	70,200
Authorised but not contracted for	528,034	859,505
	626,623	1,135,879

28 Lease commitments

At 30 June, the Group had future aggregate minimum lease payments in respect of land and buildings, transmission sites and leased lines under operating leases as follows:

	Group	
	2001 HK\$000	2000 HK\$000
Within one year	214,072	86,871
In the second to fifth year inclusive	113,843	135,834
After the fifth year	6,941	690
	334,856	223,395
In respect of leased lines		
Within one year	17,216	-
In the second to fifth year inclusive	18,593	-
	35,809	-

The Company did not have any commitments under operating leases as at 30 June 2001 (2000: Nil)

29 Notes to the consolidated cash flow statement

a Reconciliation of operating loss to net cash inflow from operating activities

	2001 <i>HK\$000</i>	2000 <i>HK\$000</i>
Operating loss	(285,447)	(363,325)
Depreciation	427,592	427,987
Amortisation of deferred expenditure	125,251	122,041
Write off of deferred handset subsidy and other customer acquisition costs and other assets	-	488,211
Loss on disposal of fixed assets	6,037	10,588
Interest income	(197,576)	(227,964)
Impairment loss (note 5)	167,712	-
Decrease/(increase) in inventories and inventories in transit	55,062	(15,248)
Decrease/(increase) in trade receivables, prepayments, deposits and other receivables	164,902	(4,407)
Decrease in trade payables, accruals, deferred income and customers' deposits	(233,790)	(6,995)
Net cash inflow from operating activities	<u>229,743</u>	<u>430,888</u>

b Analysis of changes in financing during the year

	Share capital (including premium and capital redemption reserve)		Minority interest	
	2001 <i>HK\$000</i>	2000 <i>HK\$000</i>	2001 <i>HK\$000</i>	2000 <i>HK\$000</i>
1 July	4,450,351	4,439,549	-	-
Share options exercised	-	9,263	-	-
Issue of new shares in lieu of cash dividends	15,717	1,539	-	-
Repurchase of shares	(107,379)	-	-	-
Issue of new shares	-	-	272	-
Loan from a minority shareholder	-	-	6,796	-
Minority interest in share of loss	-	-	(1,613)	-
30 June	<u>4,358,689</u>	<u>4,450,351</u>	<u>5,455</u>	<u>-</u>

30 Contingent liabilities

	Group		Company	
	2001 HK\$000	2000 HK\$000	2001 HK\$000	2000 HK\$000
a Performance bonds	133,942	355,000	129,000	352,000

The performance bonds were issued by certain banks in favour of the telecommunications authorities of Hong Kong and Macau for compliance with certain milestones under the Hong Kong wireless fixed telecommunication network services and external satellite-based licences and Macau mobile services licence granted to the Group. The banks' obligations under the performance bonds were guaranteed by the Company and a subsidiaries of the Company.

- b Under the lease out lease back agreement 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 30 June 2001, 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 30 June 2001.

31 Subsequent event

In July 2001, the Hong Kong Office of the Telecommunications Authority ('OFTA') issued details of the process for auction of radiocommunications spectrum to be used for services using third-generation mobile telecommunications ('3G') services. On 19 September 2001, a wholly-owned subsidiary of the Company was notified by OFTA that it was provisionally successful in phase one of the licence process. The licence fee will be payable by way of annual royalty. The royalty will be calculated at 5 per cent. of 3G network turnover subject to minimum annual payments as determined by OFTA.

32 Approval of accounts

The accounts were approved by the board of directors on 24 September 2001.