

# SmarTone Telecommunications Holdings Limited

*(Incorporated in Bermuda with limited liability)*

**(Stock code: 315)**

## **2006 / 2007 ANNUAL RESULTS ANNOUNCEMENT**

*(All references to "\$" are to the Hong Kong dollars)*

- Revenues increased by 7% to \$4,039 million
- EBITDA registered a 15% growth to \$940 million
- Profit attributable to equity holders grew by 125% to \$158 million
- A new dividend policy is adopted
- Special cash dividend of \$0.85 per share is proposed

### **CHAIRMAN'S STATEMENT**

I am pleased to report the results of the Group for the year ended 30 June 2007.

#### **Financial Highlights**

Revenues of the Group increased by 7% to \$4,039 million, driven by a 10% growth in mobile service revenue. Earnings before interest, tax, depreciation and amortisation ("EBITDA") increased to \$940 million, representing a growth of 15%. Profit attributable to equity holders grew by 125% to \$158 million. Earnings per share was \$0.27, an increase of 126%.

#### **Dividend**

Your Board has decided to adopt a new dividend policy, under which the Group distributes each year 100% of its profit attributable to equity holders excluding extraordinary items as dividend. In accordance with the new policy, your Board proposes a final dividend of \$0.27 per share for the year ended 30 June 2007. To improve capital structure efficiency, your Board also recommends a special cash dividend of \$0.85 per share. After distributing the aforementioned dividends, your Company continues to have sufficient financial resources for its operations.

#### **Business Review**

##### *Hong Kong Mobile Business*

With a strong focus on delivering a superior customer experience in all areas of service, SmarTone-Vodafone has established its position as the premium quality mobile operator in Hong Kong. Leading the way in network performance, service innovation as well as

customer service, the company has been improving its customer profile, reflected in the increase in ARPU and data revenue, under very competitive market conditions.

Mobile service revenue continued to register solid growth, with significant increase in revenue from data services and outbound roaming outweighed the decline in local voice and inbound roaming revenue. Driven by the increasing popularity of 3G services, data revenue increased by 49% and accounted for 18.5% of service revenue.

Blended ARPU registered a 6% growth to \$225 and postpaid ARPU increased by 7% to \$261. Postpaid churn rate remained stable throughout the year and was 2.3% in June 2007. The company had 1,077,000 customers as of 30 June 2007. Its 3G customer base currently represents over 30% of postpaid customers.

SmarTone-Vodafone leads the market in innovative service propositions. It is the first operator to introduce a true Internet experience on mobile, leveraging on its superior full-coverage HSPA network, now upgraded to 7.2 Mbps, and the rapidly expanding choice of HTML-enabled HSPA and 3G phones. Customers can now surf the web to access its infinite variety of constantly renewed content, enjoy videos from the Internet live on their mobiles, and share instantly Internet content with their friends. SmarTone-Vodafone adopts a new service-based tariff for this mobile Internet service in order to better accommodate customers' preference for unlimited usage.

Consistent with its strategy of serving targeted customer segments with differentiated propositions, SmarTone-Vodafone has launched a service addressing the needs of teenagers and their parents. Through a range of community-based services, customers can stay in contact at all times with voice, video calling and messaging, including group instant messaging. Rich infotainment is available on a dedicated community portal which also provides for sharing of self-generated content. Parents are assured of staying in touch with their teenagers, a safe portal environment for them and effective budget management of their spending.

#### *Macau Mobile Business*

With the growing economy of Macau, the year saw continued increase in customer number, mobile service revenue and profits.

### **Prospects**

The competitive environment continues to be challenging. This is likely to be exacerbated by the pending issue of new wireless licences. Against this backdrop, your Company will continue to focus on further improving its cost efficiency in all areas of operations.

The rapid advancement of technology and the increasing convergence of communications and media offer new challenges as well as opportunities for innovative services. Your Company is well placed to drive revenue growth by continually enriching customers' mobile lifestyle and addressing their total communications needs. Your Company is in a strong financial position to pursue this strategy and to compete vigorously in the market.

## **Appreciation**

Mr. Ernest Ho-kai Lai resigned as Non-Executive Director of your Company and Mr. Wing-chung Yung has been appointed as Non-Executive Director. I would like to express my gratitude to Mr. Lai for his invaluable contribution and advice, and welcome Mr. Yung to the Board. I would also like to take this opportunity to extend my appreciation to our customers and shareholders for their continuing support, my fellow directors for their guidance and insight, as well as our staff for their commitment and hard work.

**Raymond Ping-luen Kwok**  
*Chairman*

Hong Kong, 28 August 2007

## MANAGEMENT DISCUSSION AND ANALYSIS

### Review of financial results

Revenues increased by 7% to \$4,039 million (2005/06: \$3,779 million) with the growth in mobile service revenue partly offset by the drop in handset and accessory sales. Mobile service revenue rose by \$275 million or 10% driven by an improvement in ARPU and a modest growth in average customer number. This outweighed the 4% increase in cost of sales and operating expenses. As a result, earnings before interest, tax, depreciation and amortisation (“EBITDA”) rose by \$124 million to \$940 million (2005/06: \$816 million). Operating profit increased substantially by \$78 million to \$183 million (2005/06: \$105 million). Profit attributable to equity holders of the Company surged by 125% to \$158 million (2005/06: \$70 million).

Revenues increased by \$260 million or 7% to \$4,039 million (2005/06: \$3,779 million).

- Mobile service revenue grew by 10% to \$3,146 million (2005/06: \$2,871 million), as higher revenue from data, prepaid and outbound roaming services outweighed the drop in local voice and inbound roaming revenue. Data service revenue reported significant growth mainly attributable to the increasing popularity of 3G services. Local voice revenue dropped modestly due to continued price competition in the market whereas inbound roaming revenue declined as a result of the downward pricing pressure on global wholesale roaming tariffs.

Hong Kong blended ARPU grew by \$12 to \$225 (2005/06: \$213) despite increasing market competition, reflecting further improvement in the quality of the Group’s customer base. Revenue growth in data, prepaid and outbound roaming services contributed to this increase.

Hong Kong postpaid ARPU grew by \$17 to \$261 (2005/06: \$244) despite heavy tariff discounting in the market.

Data service continued to play a pivotal role in driving revenue growth for the Group, achieving a strong 49% year-on-year increase. This growth attests to the Group’s efforts in enhancing its customer propositions for the 3G customer base. The growing popularity and increased usage of data roaming and SmarTone-Vodafone Mobile Email services also contributed to the growth in data service revenue.

- Mobile telephone and accessory sales fell modestly by 2% to \$893 million (2005/06: \$908 million) amidst lower average unit handset price due to keen market competition.

Cost of sales rose by 1% to \$1,533 million (2005/06: \$1,510 million) driven by higher IDD, interconnect and data service costs resulted from higher usage.

In line with the growth in mobile service revenue, operating expenses (excluding depreciation, amortisation and loss on disposal of fixed assets) rose by 7% to \$1,566 million (2005/06: \$1,467 million). Network operating costs increased as a result of the Group's continuing enhancement of network capacity, quality and coverage. The rise in sales and marketing expenses was generally in line with revenue growth. Staff costs rose mildly primarily due to headcount and salary increases. Rental and utilities increased against a backdrop of rising office and store rent.

Depreciation and loss on disposal of fixed assets fell modestly by \$4 million to \$482 million (2005/06: \$486 million).

Handset subsidy amortisation increased by \$46 million to \$212 million (2005/06: \$166 million) because of the significant amount of handset subsidies offered for customer acquisition and retention.

Mobile licence fee amortisation increased by \$5 million to \$63 million (2005/06: \$58 million), reflecting the full year impact of amortisation relating to 2G mobile licences as the GSM and PCS licences were renewed in January 2006 and September 2006 respectively.

Finance income increased substantially by \$44 million to \$100 million (2005/06: \$56 million) attributable to a higher average balance of bank deposits and debt securities, and improved returns thereon. Finance costs rose by \$8 million to \$78 million (2005/06: \$70 million) mainly due to higher accretion expenses for mobile licence fee liabilities.

Macau operations continued to grow and delivered solid results for the year ended 30 June 2007. With continued growth in customer number and the popularity of its SmarTone 'Spot' service, revenues rose by 14% to \$216 million (2005/06: \$189 million). Operating costs increased by 3% to \$83 million (2005/06: \$81 million). As a result, operating profit grew substantially by 42% to \$76 million (2005/06: \$54 million).

## **Capital structure, liquidity and financial resources**

There had been no major changes to the Group's capital structure during the year ended 30 June 2007. The Group was financed by share capital and internally generated funds during the year under review. The cash resources of the Group remain strong with cash and bank balances, and investments in held-to-maturity debt securities of \$2,348 million at 30 June 2007 (30 June 2006: \$2,051 million).

During the year ended 30 June 2007, the Group's net cash generated from operating activities and interest received amounted to \$941 million and \$97 million respectively. The Group's major outflows of funds during the year under review were payments for the purchase of fixed assets, handset subsidies, mobile licence fees and 2005/06 final dividend.

The directors are of the opinion that the Group can fund its capital expenditures and working capital requirements for the financial year ending 30 June 2008 with internal cash resources.

## **Treasury policy**

The Group invests its surplus funds in accordance with a treasury policy approved from time to time by the board of directors. Surplus funds are placed as deposit with banks in Hong Kong or invested in investment grade debt securities. Bank deposits in Hong Kong are maintained in Hong Kong or United States dollars.

The Group's investments in debts securities are denominated in either Hong Kong or United States dollars with a maximum maturity of three years. The Group's policy is to hold its investments in debt securities until maturity.

As at 30 June 2007 and 2006, the Group's total available banking facilities amounted to \$100 million, of which no amount was utilised.

The Group is required to arrange for banks to issue performance bonds and letters of credit on its behalf. In certain circumstances, the Group will partially or fully collateralise such instruments by cash deposits to lower the issuance costs. The total amount of pledged deposits as at 30 June 2007 was \$324 million (30 June 2006: \$320 million).

## **Functional currency and foreign exchange exposure**

The functional currency of the Group is the Hong Kong dollar. All material revenues, expenses, assets and liabilities, except the Group's United States dollar bank deposits and debt securities, are denominated in Hong Kong dollars. The Group therefore does not have any significant exposure to foreign currency gains and losses other than from its United States dollar denominated bank deposits and debt securities. The Group does not currently undertake any foreign exchange hedging.

## **Contingent liabilities**

### *Performance bonds*

Certain banks, on the Group's behalf, have issued performance bonds to the telecommunications authorities of Hong Kong and Macau in respect of obligations under licences issued by those authorities. The total amount outstanding at 30 June 2007 under these performance bonds was \$404 million (30 June 2006: \$353 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 1,692 full-time employees as at 30 June 2007 (30 June 2006: 1,622), with the majority of them based in Hong Kong. Total staff costs were \$395 million for the year ended 30 June 2007 (2005/06: \$368 million).

Employees receive a remuneration package consisting of basic salary, bonus and other benefits. Bonus payments are discretionary and depend, inter-alia, on both the Group's performance and the performance of the individual employee. Benefits include retirement schemes, medical and dental care insurance. Employees are provided with both internal and external training appropriate to each individual's requirements.

The Group has a share option scheme under which the Company may grant options to participants, including directors and employees, to subscribe for shares of the Company. During the year ended 30 June 2007, no share options were granted, 28,500 options were exercised to subscribe for 28,500 shares in the Company, and 1,152,500 share options were cancelled or lapsed. At 30 June 2007, 10,653,500 (30 June 2006: 11,834,500) share options were outstanding.

## RESULTS

The directors of SmarTone Telecommunications Holdings Limited (the "Company") are pleased to present the consolidated profit and loss account for the year ended 30 June 2007 and the consolidated balance sheet as at 30 June 2007 of the Company and its subsidiaries (the "Group").

### Consolidated Profit and Loss Account

For the year ended 30 June 2007

	Note	2007 \$000	2006 \$000
Mobile services		<b>3,146,057</b>	2,871,065
Mobile telephone and accessory sales		<b>892,865</b>	908,150
Revenues	4	<b>4,038,922</b>	3,779,215
Cost of sales		<b>(1,532,749)</b>	(1,510,161)
Other gains	5	<b>-</b>	14,045
Network costs		<b>(614,831)</b>	(575,249)
Staff costs		<b>(395,119)</b>	(367,633)
Sales and marketing expenses		<b>(281,451)</b>	(252,186)
Rental and utilities		<b>(143,406)</b>	(128,410)
Other operating expenses		<b>(131,007)</b>	(143,598)
Depreciation, amortisation and loss on disposal		<b>(757,047)</b>	(710,998)
Operating profit		<b>183,312</b>	105,025
Finance income	7	<b>99,570</b>	56,287
Finance costs	8	<b>(78,293)</b>	(69,659)
Profit before income tax	6	<b>204,589</b>	91,653
Income tax expense	9 (a)	<b>(27,664)</b>	(7,768)
Profit after income tax		<b>176,925</b>	83,885
Attributable to:			
Equity holders of the Company		<b>157,563</b>	70,020
Minority interests		<b>19,362</b>	13,865
		<b>176,925</b>	83,885
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in cents per share)	11		
Basic		<b>27.1</b>	12.0
Diluted		<b>27.1</b>	12.0
Dividends	10		
Final dividend proposed		<b>156,387</b>	69,935
Special cash dividend proposed		<b>492,329</b>	-
		<b>648,716</b>	69,935

## Consolidated Balance Sheet

At 30 June 2007

	Note	2007 \$000	2006 \$000
<b>Non-current assets</b>			
Fixed assets		1,832,045	1,924,064
Interest in an associate		1,812	1,812
Financial investments		58,854	72,224
Intangible assets		783,925	799,959
Deposits and prepayments – non-current portion		47,673	44,296
Deferred income tax assets		–	5,450
		<u>2,724,309</u>	<u>2,847,805</u>
<b>Current assets</b>			
Inventories		75,066	79,572
Financial investments		31,340	660,237
Trade receivables	12	179,418	151,895
Deposits and prepayments – current portion		82,078	75,291
Other receivables		31,143	30,435
Cash and bank balances		2,316,455	1,358,660
		<u>2,715,500</u>	<u>2,356,090</u>
<b>Current liabilities</b>			
Trade payables	13	154,984	158,225
Other payables and accruals		711,787	663,530
Current income tax liabilities		31,612	28,032
Customers' deposits		31,312	26,342
Deferred income		79,549	76,434
Mobile licence fee liabilities – current portion		65,895	52,407
		<u>1,075,139</u>	<u>1,004,970</u>
<b>Net current assets</b>		<u>1,640,361</u>	<u>1,351,120</u>
<b>Total assets less current liabilities</b>		<u>4,364,670</u>	<u>4,198,925</u>
<b>Non-current liabilities</b>			
Asset retirement obligations		47,587	38,328
Mobile licence fee liabilities – non-current portion		649,809	572,817
Deferred income tax liabilities		129,613	138,443
		<u>827,009</u>	<u>749,588</u>
<b>Net assets</b>		<u>3,537,661</u>	<u>3,449,337</u>
<b>Capital and reserves</b>			
Share capital		58,018	58,279
Reserves		3,452,526	3,367,263
		<u>3,510,544</u>	<u>3,425,542</u>
<b>Total equity attributable to equity holders of the Company</b>		<u>3,510,544</u>	<u>3,425,542</u>
Minority interests		27,117	23,795
		<u>3,537,661</u>	<u>3,449,337</u>
<b>Total equity</b>		<u>3,537,661</u>	<u>3,449,337</u>

## Notes to the Consolidated Financial Statements

For the year ended 30 June 2007

### 1. General information

SmarTone Telecommunications Holdings Limited (“the Company”) and its subsidiaries (together the “Group”) is principally engaged in the provision of mobile services and the sale of mobile telephones and accessories in Hong Kong and Macau.

The Company has its primary listing on The Stock Exchange of Hong Kong Limited (the “HKSE”).

### 2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 3. Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”). The consolidated financial statements have been prepared under the historical cost convention, except for certain financial assets and financial liabilities which are carried at fair values.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies.

#### • The adoption of new/revised HKFRS

For the year ended 30 June 2007, the Group adopted the new standards, amendments to published standards and interpretations of HKFRS below, which are relevant to its operations.

HKAS 21 (Amendment)	The Effects of Changes in Foreign Exchange Rates - Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions and The Fair Value Option
HKAS 39 and HKFRS 4 (Amendment)	Financial Instruments: Recognition and Measurement and Insurance Contracts - Financial Guarantee Contracts
HKFRS – INT 4	Determining whether an Arrangement contains a Lease
HK (IFRIC) – INT 8	Scope of HKFRS 2
HK (IFRIC) – INT 9	Reassessment of Embedded Derivatives

The adoption of Amendment to HKAS 21, 39, HKFRS 4, HKFRS Interpretation 4 and HK (IFRIC) Interpretation 8 and 9 did not result in substantial changes to the Group’s accounting policies. In summary:

- The amendment to HKAS 21 relates to circumstances under which loans from fellow subsidiaries can be regarded as part of net investment in a foreign operation, hence the exchange differences arising on those loans should be recorded directly.
- The amendments to HKAS 39 and HKFRS 4 on financial guarantee contracts introduce a requirement to recognise the fair value of financial guarantee issued under HKAS 39, unless the entity has previously asserted that it regards such contracts as insurance contracts.

- The amendment to HKAS 39 on cash flow hedge accounting of forecast intra-group transactions specifically permits hedge accounting to be adopted in consolidated financial statements in respect of the foreign exchange risk of a highly probable forecast intra-group transaction, but only if the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and if the foreign currency risk will affect consolidated profit or loss.
- The amendment to HKAS 39 on the fair value option restricts the circumstances under which the fair value option in HKAS 39 can be taken advantage of, compared to the original HKAS 39.
- HKFRS Interpretation 4 looks at the question as to whether certain supply arrangements contain in substance a lease that should be recognised by both the lessor and lessee in accordance with HKAS 17 “Leases”.
- HK (IFRIC) – INT 8 requires consideration of transactions involving the issuance of equity instruments – where the identifiable consideration received is less than the fair value of the equity instruments issued – to establish whether or not they fall within the scope of HKFRS 2.
- HK (IFRIC) – INT 9, requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required.

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group’s accounting policies beginning on or after 1 July 2007 or later periods but which the Group has not early adopted, are as follows:

HKAS 1 (Amendment)	Presentation of Financial Statements – Capital Disclosures <sup>1</sup>
HKAS 23	Revised - Borrowing Costs <sup>2</sup>
HKFRS 7	Financial Instruments: Disclosures <sup>1</sup>
HKFRS 8	Operating Segments <sup>2</sup>
HK (IFRIC) – INT 10	Interim Financial Reporting and Impairment <sup>3</sup>
HK (IFRIC) – INT 11	HKFRS 2 – Group and Treasury Share Transactions <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2007.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2009.

<sup>3</sup> Effective for annual periods beginning on or after 1 November 2006.

<sup>4</sup> Effective for annual periods beginning on or after 1 March 2007.

#### 4 Segment reporting

More than 90% of the Group's revenues and operating profit was attributable to its mobile communications operations. Accordingly, no analysis by business segment is included in these financial statements.

Segment information is presented by way of geographical regions as the primary reporting format. An analysis of the Group's segment information by geographical segment is set out as follows:

	For the year ended 30 June 2007			
	Hong Kong \$000	Macau \$000	Elimination \$000	Consolidated \$000
Revenues	<u>3,848,779</u>	<u>215,572</u>	<u>(25,429)</u>	<u>4,038,922</u>
Operating profit	<u>106,566</u>	<u>76,425</u>	<u>321</u>	<u>183,312</u>
Finance income				<u>99,570</u>
Finance costs				<u>(78,293)</u>
Profit before income tax				<u>204,589</u>
Income tax expense				<u>(27,664)</u>
Profit after income tax				<u>176,925</u>
Segment assets	5,227,723	120,080	–	5,347,803
Segment liabilities	(1,713,032)	(27,891)	–	(1,740,923)
Additions to fixed assets	362,940	26,718	–	389,658
Additions to intangible assets	258,520	961	–	259,481
Depreciation	451,738	16,990	–	468,728
Amortisation	274,679	836	–	275,515
Loss on disposal of fixed assets	12,757	47	–	12,804
Impairment loss of trade receivables	11,251	268	–	11,519
Impairment loss of inventories / (reversal of impairment loss)	8,174	(2)	–	8,172
	For the year ended 30 June 2006			
	Hong Kong \$000	Macau \$000	Elimination \$000	Consolidated \$000
Revenues	<u>3,613,226</u>	<u>189,329</u>	<u>(23,340)</u>	<u>3,779,215</u>
Operating profit	<u>50,736</u>	<u>53,968</u>	<u>321</u>	<u>105,025</u>
Finance income				<u>56,287</u>
Finance costs				<u>(69,659)</u>
Profit before income tax				<u>91,653</u>
Income tax expense				<u>(7,768)</u>
Profit after income tax				<u>83,885</u>
Segment assets	4,359,369	104,803	–	4,464,172
Segment liabilities	(1,567,959)	(20,124)	–	(1,588,083)
Additions to fixed assets	347,188	12,040	–	359,228
Additions to intangible assets	329,997	863	–	330,860
Depreciation	466,822	16,438	–	483,260
Amortisation	223,535	1,076	–	224,611
Loss on disposal of fixed assets	2,958	169	–	3,127
Impairment loss of trade receivables	12,637	275	–	12,912
Impairment loss of inventories / (reversal of impairment loss)	(8,097)	176	–	(7,921)

Segment assets consist primarily of fixed assets, intangible assets, inventories, receivables and operating cash. They exclude interest in an associate, financial investments and deferred income tax assets.

Segment liabilities comprise operating liabilities. They exclude items such as current income tax liabilities and deferred income tax liabilities.

## 5 Other gains

	<b>2007</b>	2006
	<b>\$000</b>	\$000
Write back of certain assets previously written off	<u>-</u>	<u>14,045</u>

For the year ended 30 June 2006, the Group recognised other gains amounting to \$14,045,000 in respect of recovery of certain other assets which were written off in prior years.

## 6 Profit before income tax

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

	<b>2007</b>	2006
	<b>\$000</b>	\$000
Cost of inventories sold	<b>880,731</b>	886,467
Amortisation		
Handset subsidies	<b>212,231</b>	166,209
Mobile licence fees	<b>63,284</b>	58,402
Depreciation		
Owned fixed assets	<b>389,338</b>	377,522
Leased fixed assets	<b>79,390</b>	105,738
Operating lease rentals for land and buildings, transmission sites and leased lines	<b>560,166</b>	510,305
Auditors' remuneration	<b>1,480</b>	1,632
Loss on disposal of fixed assets	<b>12,804</b>	3,127
Net exchange (gain)/loss	<b>(4,445)</b>	6,220
Contributions to defined contribution plans included in staff costs*	<b>19,412</b>	17,328

\* Net of forfeited contributions of \$3,403,000 (2006: \$3,078,000).

## 7 Finance income

	2007 \$000	2006 \$000
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Interest income from debt securities		
Listed	1,354	7,637
Unlisted	<u>1,502</u>	<u>16,795</u>
	2,856	24,432
Interest income from deposits with banks and other financial institutions	94,060	29,261
Accretion income	<u>2,654</u>	<u>2,594</u>
	<u><u>99,570</u></u>	<u><u>56,287</u></u>

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

## 8 Finance costs

	2007 \$000	2006 \$000
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Accretion expenses		
Asset retirement obligations	1,457	3,559
Mobile licence fee liabilities	76,834	66,022
Other borrowing costs	<u>2</u>	<u>78</u>
	<u><u>78,293</u></u>	<u><u>69,659</u></u>

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

## 9 Income tax expense

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profit for the year. Income tax on overseas profits has been calculated on the estimated assessable profit for the year at the tax rates prevailing in the countries in which the Group operates.

### a The amount of income tax expense charged to the consolidated profit and loss account represents:

	2007 \$000	2006 \$000
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Current income tax		
Hong Kong profits tax	21,892	19,488
Overseas tax	9,152	5,369
Deferred income tax	<u>(3,380)</u>	<u>(17,089)</u>
	<u><u>27,664</u></u>	<u><u>7,768</u></u>

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

	<b>2007</b>	2006
	<b>\$000</b>	\$000
Profit before income tax	<b>204,589</b>	91,653
Notional tax on profit before income tax, calculated at Hong Kong tax rate of 17.5% (2006: 17.5%)	<b>35,803</b>	16,039
Effect of different tax rates in other countries	<b>(3,948)</b>	(4,308)
Expenses not deductible for tax purposes	<b>72</b>	4,062
Income not subject to tax	<b>(17,785)</b>	(12,296)
Tax losses for which no deferred income tax asset was recognised	<b>66</b>	15
Utilisation of previously unrecognised tax losses	<b>(11,015)</b>	(8,469)
Recognition of previously unrecognised tax losses	<b>–</b>	(5,450)
Under provision in prior year	<b>124</b>	–
Temporary differences not recognised	<b>24,347</b>	18,175
Income tax expense	<b>27,664</b>	7,768

**10 Dividends**

	<b>2007</b>	2006
	<b>\$000</b>	\$000
Final dividend, proposed, of \$0.27 (2006: \$0.12) per share (note a)	<b>156,387</b>	69,935
Special cash dividend, proposed, of \$0.85 (2006: nil) per share (note b)	<b>492,329</b>	–
	<b>648,716</b>	69,935

a At a meeting held on 28 August 2007, the directors proposed a final dividend of \$0.27 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 2008.

b At a meeting held on 28 August 2007, the directors proposed a special cash dividend of \$0.85 per share. This proposed special cash dividend is not included as a dividend payable in these financial statements, but will be reflected as an appropriation of retained profits for the year ending 30 June 2008.

**11 Earnings per share**

The calculations of basic and diluted earnings per share are based on the Group's profit attributable to equity holders of \$157,563,000 (2006: \$70,020,000).

The basic earnings per share is based on the weighted average number of shares in issue during the year of 582,016,324 (2006: 582,791,428). The diluted earnings per share is based on 582,063,916 (2006: 582,889,237) shares which is the weighted average number of shares in issue during the year plus the weighted average number of 47,592 (2006: 97,809) shares deemed to be issued at no consideration if all outstanding options had been exercised.

## 12 Trade receivables

The Group allows an average credit period of thirty days to its subscribers and other customers. An ageing analysis of trade receivables, net of provisions, is as follows:

	<b>2007</b>	2006
	<b>\$000</b>	\$000
Current to 30 days	<b>159,535</b>	138,200
31 – 60 days	<b>15,304</b>	10,769
61 – 90 days	<b>3,365</b>	2,547
Over 90 days	<b>1,214</b>	379
	<b>179,418</b>	151,895

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

The Group has recognised a loss of \$11,519,000 (2006: \$12,912,000) for the impairment of its trade receivables during the year ended 30 June 2007. The loss has been included in other operating expenses in the consolidated profit and loss account.

## 13 Trade payables

An ageing analysis of trade payables is as follows:

	<b>2007</b>	2006
	<b>\$000</b>	\$000
Current to 30 days	<b>75,656</b>	92,994
31 – 60 days	<b>40,094</b>	28,922
61 – 90 days	<b>9,769</b>	7,860
Over 90 days	<b>29,465</b>	28,449
	<b>154,984</b>	158,225

## DIVIDENDS

The directors recommended the payment of a final dividend for the year ended 30 June 2007 of \$0.27 per share (2005/06: \$0.12 per share). As no interim dividend was paid during the year (2005/06: nil), the proposed final dividend makes a total dividend for the year of \$0.27 per share (2005/06: \$0.12 per share). To improve capital structure efficiency, the directors also recommended the additional payment of a special cash dividend of \$0.85 per share (2005/06: nil).

Subject to approval of the shareholders at the forthcoming Annual General Meeting, the proposed final dividend and the special cash dividend of a total of \$1.12 per share will be paid on or about 19 November 2007 to shareholders registered in the Company's register of members as at the close of business on 6 November 2007.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 7 November 2007 to Friday, 9 November 2007, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the final dividend and the special cash dividend which are subject to approval at the Annual General Meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on Tuesday, 6 November 2007.

## PURCHASE, SALE OR REDEMPTION OF SHARES

During the year ended 30 June 2007, the Company repurchased 2,641,000 shares on the Stock Exchange of Hong Kong. These repurchased shares were cancelled. Details of the repurchases were as follows:

Month of repurchase	Number of shares repurchased	Price per share		Aggregate Price paid
		Highest	Lowest	
		\$	\$	\$
November 2006	847,500	7.45	7.22	6,224,000
December 2006	66,000	7.50	7.50	495,000
March 2007	139,500	7.78	7.50	1,069,000
May 2007	1,305,000	9.12	8.88	11,776,000
June 2007	283,000	9.00	8.76	2,518,000
	<u>2,641,000</u>			<u>22,082,000</u>

The aggregate price of the repurchased shares (before expenses) in the amount of \$22,082,000 has been charged against the retained profits and contributed surplus accounts. A sum equivalent to the nominal value of the repurchased shares amounting to \$264,000 has been transferred from share capital to capital redemption reserve.

Save as disclosed above, at no time during the year ended 30 June 2007 was there any purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's shares.

## REVIEW OF THE ANNUAL RESULTS BY AUDIT COMMITTEE

The Audit Committee of the Company has reviewed the full year financial statements and reports of the Group for the year ended 30 June 2007. The Committee was content that the accounting policies and methods of computation adopted by the Group are in accordance with the current best practice 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 financial information disclosed above complies with Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

## CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to building and maintaining high standards of corporate governance. Throughout the financial year ended 30 June 2007, 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 Listing Rules with the only deviation from code provision A.4.1 in respect of the service term of non-executive directors. Non-executive directors of the Company are not appointed with specific term but they are required to retire from office by rotation and are subject to re-election by shareholders at annual general meeting at least once in every three years.

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

Full details of the report on corporate governance will be set out in the Company's 2006/07 Annual Report.

By order of the Board  
**Alvin Yau-hing Mak**  
Company Secretary

Hong Kong, 28 August 2007

*As at the date of this announcement, the Executive Directors of the Company are Mr Douglas Li and Mr Patrick Kai-lung Chan; Non-Executive Directors are Mr Raymond Ping-luen Kwok, Mr Michael Yick-kam Wong, Mr Andrew Sing-tak So, Mr Wing-yui Cheung, Mr David Norman Prince and Mr Wing-chung Yung; Independent Non-Executive Directors are Mr Eric Ka-cheung Li, JP, Mr Leung-sing Ng, JP, Mr Xiang-dong Yang and Mr Eric Fock-kin Gan.*