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SmarTone Telecommunications Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock code: 315)

2008 / 2009 ANNUAL RESULTS ANNOUNCEMENT

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

- Financial results deteriorated in the second half with the full impact of the economic slowdown
- EBITDA and net profit dropped by 18% and 85% respectively
- Launched a wireless fixed broadband and telephone service to broaden source of revenue
- Upgrade to a full all-IP infrastructure anticipated to be completed in 2009

CHAIRMAN'S STATEMENT

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

Financial Highlights

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

Dividend

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

Business Review

Hong Kong

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

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

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

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

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

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

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

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

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

Macau

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

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

Prospects

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

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

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

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

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

Appreciation

During the year, Mr. Thomas Hon-wah Siu was appointed Non-Executive Director of your Company. I would like to welcome Mr. Siu to the Board. I would also like to take this opportunity to express my gratitude to our customers and shareholders for their continuing support, my fellow directors for their guidance as well as our staff for their dedication and hardwork.

Raymond Ping-luen Kwok

Chairman

Hong Kong, 2 September 2009

MANAGEMENT DISCUSSION AND ANALYSIS

Review of financial results

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

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

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

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

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

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

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

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

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

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

The global economic downturn had a negative impact on the results of Macau operations. Revenues declined by 13% to \$243 million (2007/08: \$281 million). Cost of inventories sold and services provided decreased by 8%. Operating expenses, depreciation and amortisation increased by 8% collectively. As a result, operating profit fell by 36% to \$77 million (2007/08: \$121 million).

Capital structure, liquidity and financial resources

There had been no major changes to the Group's capital structure during the year ended 30 June 2009. The Group was financed by share capital and internally generated funds during the year. The cash resources of the Group remained strong with cash and bank balances (including pledged bank deposits) and investments in held-to-maturity debt securities of \$1,411 million at 30 June 2009 (30 June 2008: \$1,677 million). As at 30 June 2009, the Group had no bank or other borrowings.

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

The directors are of the opinion that the Group can fund its capital expenditures and working capital requirements for the financial year ending 30 June 2010 with internal cash resources.

Treasury policy

The Group invests its surplus funds in accordance with a treasury policy approved from time to time by the board of directors. Surplus funds are placed as bank deposits or invested in investment grade debt securities. Bank deposits are principally maintained in Hong Kong and United States dollars. Investments in debt securities are denominated in either Hong Kong dollar or United States dollar, and having a maximum maturity of three years. The Group's policy is to hold its investments in debt securities until maturity.

The Group is required to arrange for banks to issue performance bonds and letters of credit on its behalf. In certain circumstances, the Group will partially or fully collateralise such instruments by cash deposits to lower the issuance costs. Pledged bank deposits amounted to \$389 million as at 30 June 2009 (30 June 2008: \$333 million).

Functional currency and foreign exchange exposure

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

Contingent assets and liabilities

Fixed-mobile interconnection charge

As at 30 June 2009, the Group had contingent assets and liabilities in respect of fixed-mobile interconnection charge of up to \$24 million (30 June 2008: nil) and \$16 million (30 June 2008: nil) respectively as disclosed in note 14 to this results announcement.

Performance bonds

Certain banks, on the Group's behalf, have issued performance bonds to the telecommunications authorities of Hong Kong and Macau in respect of obligations under licences issued by those authorities. The total amount outstanding at 30 June 2009 under these performance bonds was \$505 million (30 June 2008: \$454 million).

Lease out, lease back arrangement

A bank, on the Group's behalf, had issued a letter of credit to guarantee the Group's obligations under a lease out, lease back arrangement entered into during the year ended 30 June 1999. This letter of credit is fully cash collateralised using surplus cash deposits. The directors are of the opinion that the risk of the Group being required to make payment under this guarantee is remote.

Employees and share option scheme

The Group had 1,861 full-time employees as at 30 June 2009 (30 June 2008: 1,790), with the majority of them based in Hong Kong. Total staff costs were \$449 million for the year ended 30 June 2009 (2007/08: \$430 million).

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

The Group has a share option scheme under which the Company may grant options to participants, including directors and employees, to subscribe for shares of the Company. During the year ended 30 June 2009, no share options were granted or exercised; and 440,000 share options were cancelled or lapsed. At 30 June 2009, 8,846,500 share options (30 June 2008: 9,286,500) were outstanding.

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 2009 and the consolidated balance sheet as at 30 June 2009 of the Company and its subsidiaries (the "Group").

Consolidated Profit And Loss Account

For the year ended 30 June 2009

	Note	2009 \$000	2008 \$000
Service revenue		3,255,036	3,432,943
Handset and accessory sales		448,155	640,479
Revenues	4	3,703,191	4,073,422
Cost of inventories sold and services provided		(1,085,420)	(1,324,071)
Other gains	5	1,033	-
Network costs		(725,884)	(667,841)
Staff costs		(449,374)	(429,727)
Sales and marketing expenses		(245,013)	(269,010)
Rental and utilities		(161,404)	(154,802)
Other operating expenses		(145,822)	(140,264)
Depreciation, amortisation and loss on disposal		(775,799)	(743,392)
Operating profit		115,508	344,315
Finance income	6	35,627	76,603
Finance costs	7	(84,290)	(83,598)
Share of results of an associate		4,350	-
Profit before income tax	8	71,195	337,320
Income tax expense	9	(9,549)	(31,342)
Profit after income tax		61,646	305,978
Attributable to:			
Equity holders of the Company		42,456	275,755
Minority interests		19,190	30,223
		61,646	305,978
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in cents per share)	10		
Basic		7.6	47.8
Diluted		7.6	47.8
Dividends	11		
Interim dividend paid		-	161,042
Final dividend proposed		43,019	110,985
		43,019	272,027

Consolidated Balance Sheet

At 30 June 2009

	Note	2009 \$000	2008 \$000
Non-current assets			
Leasehold land		16,362	-
Fixed assets		1,844,639	1,846,948
Interest in an associate		3	1,812
Financial investments		390,507	95,823
Intangible assets		701,790	780,509
Deposits and prepayments - non-current portion		51,562	55,275
		<u>3,004,863</u>	<u>2,780,367</u>
Current assets			
Inventories		75,182	68,401
Trade receivables	12	168,759	201,351
Deposits and prepayments - current portion		172,815	103,317
Other receivables		25,798	52,708
Pledged bank deposits		388,626	333,159
Cash and cash equivalents		668,271	1,303,342
		<u>1,499,451</u>	<u>2,062,278</u>
Current liabilities			
Trade payables	13	148,077	161,766
Other payables and accruals		627,593	663,110
Current income tax liabilities		48,920	64,646
Customers' deposits		26,702	26,897
Deferred income		81,811	79,788
Mobile licence fee liabilities - current portion		83,290	73,500
		<u>1,016,393</u>	<u>1,069,707</u>
Net current assets		<u>483,058</u>	<u>992,571</u>
Total assets less current liabilities		<u>3,487,921</u>	<u>3,772,938</u>
Non-current liabilities			
Asset retirement obligations		55,353	52,687
Mobile licence fee liabilities - non-current portion		652,260	656,739
Deferred income tax liabilities		97,650	103,960
Net assets		<u>2,682,658</u>	<u>2,959,552</u>
Capital and reserves			
Share capital		53,774	57,312
Reserves		2,595,374	2,874,327
Total equity attributable to equity holders of the Company		<u>2,649,148</u>	<u>2,931,639</u>
Minority interests		33,510	27,913
Total equity		<u>2,682,658</u>	<u>2,959,552</u>

Notes to the Consolidated Financial Statements

For the year ended 30 June 2009

1 General information

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

The Company has its 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 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 or revised HKFRS

For the year ended 30 June 2009, the Group adopted the new standards, amendments to published standards and interpretations of HKFRS below, which are relevant to its operations.

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

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

- HK(IFRIC) – INT 12 applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services. HK(IFRIC) – INT 12 is not relevant to the Group’s operations because none of the Group’s companies provide for public sector services.
- HK(IFRIC) – INT 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. This interpretation does not have any impact on the Group’s financial statements.

- HK(IFRIC) – INT 14 provides guidance on assessing the limit in HKAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. This interpretation does not have any impact on the Group’s financial statements as the Group operates defined contribution retirement schemes (including Mandatory Provident Funds).

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group’s accounting policies beginning on or after 1 July 2009 or later periods but which the Group has not early adopted, are as follows:

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

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

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

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

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

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

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

Except for the following new standards, amendments and interpretations, these new standards, amendments and interpretations are not relevant to the Group:

HKAS 1 (Revised), "Presentation of Financial Statements"

HKAS 1 (Revised) requires all owner changes in equity to be presented in a statement of changes in equity. All comprehensive income is presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). It requires presenting a statement of financial position as at the beginning of the earliest comparative period in a complete set of financial statements when there are retrospective adjustments or reclassification adjustments. However, it does not change the recognition, measurement or disclosure of specific transactions and other events required by other HKFRSs. The Group will apply HKAS 1 (Revised) from 1 July 2009.

HKAS 23 (Revised), "Borrowing Costs"

The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply HKAS 23 (Revised) from 1 July 2009 but is currently not applicable to the Group as there are no qualifying assets.

HKAS 27 (Revised), "Consolidated and Separate Financial Statements"

The amendment requires non-controlling interests (i.e. minority interests) to be presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent. Total comprehensive income must be attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Changes in a parent's ownership interest in a subsidiary that do not result in the loss of control are accounted for within equity. When control of a subsidiary is lost, the assets and liabilities and related equity components of the former subsidiary are derecognised. Any gain or loss is recognised in profit or loss. Any investment retained in the former subsidiary is measured at its fair value at the date when control is lost. The Group will apply HKAS 27 (Revised) from 1 July 2009.

HKFRS 2 Amendment, "Share-based Payment Vesting Conditions and Cancellations"

The amendment clarifies the definition of "vesting conditions" and specifies the accounting treatment of "cancellations" by the counterparty to a share-based payment arrangement. Vesting conditions are service conditions (which require a counterparty to complete a specified period of service) and performance conditions (which require a specified period of service and specified performance targets to be met) only. All "non-vesting conditions" and vesting conditions that are market conditions shall be taken into account when estimating the fair value of the equity instruments granted. All cancellations are accounted for as an acceleration of vesting and the amount that would otherwise have been recognised over the remainder of the vesting period is recognised immediately. The Group will apply HKFRS 2 (Amendment) from 1 July 2010 and this standard does not have significant impact on the results of operations of the Group.

HKFRS 8, "Operating Segments"

HKFRS 8 replaces HKAS 14. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply HKFRS 8 from 1 July 2009. The Group has already commenced on assessment of the impact of this new standard, but is not yet in a position to state whether this new standard would have a significant impact on its results of operations and financial position.

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

	For the year ended 30 June 2008				
	Hong Kong \$000	Macau \$000	Elimination \$000	Unallocated \$000	Consolidated \$000
Revenues	3,826,516	280,562	(33,656)	-	4,073,422
Operating profit/Segment result	223,727	120,588	-	-	344,315
Finance income					76,603
Finance costs					(83,598)
Profit before income tax					337,320
Income tax expense					(31,342)
Profit after income tax					305,978
Additions to fixed assets	442,333	32,613	-	-	474,946
Additions to intangible assets	278,736	1,502	-	-	280,238
Depreciation	427,764	22,624	-	-	450,388
Amortisation of intangible assets	282,480	1,174	-	-	283,654
Loss/(gain) on disposal of fixed assets	9,571	(221)	-	-	9,350
Impairment loss of trade receivables	10,523	534	-	-	11,057
(Reversal of impairment loss)/impairment loss of inventories	(1,676)	9	-	-	(1,667)
Segment assets	4,596,259	148,751	-	97,635	4,842,645
Segment liabilities	(1,682,619)	(31,868)	-	(168,606)	(1,883,093)

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

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

5 Other gains

	2009	2008
	\$000	\$000
Write back of provision for amount due from and interest in an associate	<u>1,033</u>	<u>-</u>

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

6 Finance income

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

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.

7 Finance costs

	2009	2008
	\$000	\$000
Accretion expenses		
Asset retirement obligations	2,959	3,166
Mobile licence fee liabilities	81,331	80,430
Other borrowing costs	-	2
	<u>84,290</u>	<u>83,598</u>

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

8 Profit before income tax

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

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

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

9 Income tax expense

Hong Kong profits tax has been provided at the rate of 16.5% (2008: 16.5%) on the estimated assessable profit for the year. Income tax on overseas profits has been calculated on the estimated assessable profit for the year at the tax rates prevailing in the countries in which the Group operates.

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

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

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

	2009	2008
	\$000	\$000
Profit before income tax	<u>71,195</u>	<u>337,320</u>
Notional tax on profit before income tax, calculated at Hong Kong tax rate of 16.5% (2008: 16.5%)	11,747	55,658
Effect on opening deferred tax balances resulting from a decrease in tax rate during the year	-	(7,407)
Effect of different tax rates in other countries	(3,391)	(5,287)
Expenses not deductible for tax purposes	798	493
Income not subject to tax	(6,910)	(12,465)
Tax losses for which no deferred income tax asset was recognised	3,726	623
Utilisation of previously unrecognised tax losses	(6,170)	(31)
Over provision in prior year	(1,523)	(692)
Temporary differences not recognised	<u>11,272</u>	<u>450</u>
Income tax expense	<u>9,549</u>	<u>31,342</u>

10 Earnings per share

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

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

11 Dividends

	2009	2008
	\$000	\$000
Interim dividend, paid, of nil (2008: 28 cents) per share	-	161,042
Final dividend, proposed, of 8 cents (2008: 20 cents) per share	43,019	110,985
	<u>43,019</u>	<u>272,027</u>

At a meeting held on 2 September 2009, the directors proposed a final dividend of 8 cents per share. This proposed dividend is not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained profits for the year ending 30 June 2010.

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

12 Trade receivables

The credit periods granted by the Group to its customers generally range from 15 days to 45 days from the date of invoice. An ageing analysis of trade receivables, net of provisions, is as follows:

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

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

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

13 Trade payables

An ageing analysis of trade payables is as follows:

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

14 Other contingent assets and liabilities

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

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

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

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

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

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

DIVIDENDS

The directors recommended the payment of a final dividend for the year ended 30 June 2009 of 8 cents per share (2007/08: 20 cents per share). As no interim dividend was paid during the year (2007/08: 28 cents per share), the proposed final dividend makes a total dividend for the year of 8 cents per share (2007/08: 48 cents per share).

Subject to approval of the shareholders at the forthcoming Annual General Meeting, the proposed final dividend will be paid on or about 16 November 2009 to shareholders registered in the Company's register of members as at the close of business on 3 November 2009.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 4 November 2009 to Friday, 6 November 2009, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for attending and voting at the forthcoming Annual General Meeting and establish entitlements to the aforesaid final dividend (which is subject to approval at the forthcoming 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 at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong by no later than 4:30 p.m. on Tuesday, 3 November 2009.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the year ended 30 June 2009, the Company repurchased 35,378,500 shares of the Company on the Stock Exchange of Hong Kong. These repurchased shares were cancelled prior to 30 June 2009. Details of the repurchases were as follows:

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

Save as disclosed above, at no time during the year ended 30 June 2009 was there any purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's shares.

REVIEW OF 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 2009. The Committee was satisfied that the accounting policies and methods of computation adopted by the Group are in accordance with the current best practices in Hong Kong. The Committee found no unusual items that were omitted from the financial statements and was satisfied with the disclosures of data and explanations shown in the financial statements. The Committee was also satisfied with the internal control measures adopted by the Group.

The financial information disclosed above complies with the disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

CORPORATE GOVERNANCE

The Company is committed to building and maintaining high standards of corporate governance. Throughout the financial year ended 30 June 2009, the Company has applied the principles and complied with the requirements set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the 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 three 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.

Full details of the report on corporate governance will be set out in the Company's 2008/09 Annual Report.

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

Hong Kong, 2 September 2009

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 Wing-yui Cheung, Mr David Norman Prince, Mr Wing-chung Yung and Mr Thomas Hon-wah Siu; Independent Non-Executive Directors are Dr Eric Ka-cheung Li, JP, Mr Leung-sing Ng, JP, Mr Xiang-dong Yang, Mr Eric Fock-kin Gan and Mr Peter David Sullivan.