

SMARTONE TELECOMMUNICATIONS HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 0315)

2005 / 2006 INTERIM RESULTS ANNOUNCEMENT

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

- Turnover increased by 2% to \$1,859 million, underpinned by a 7% growth in service revenue
- Net profit decreased to \$37 million, driven by the increase in 3G-related costs and intensifying price competition, as well as the adoption of new/revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (collectively referred to hereinafter "new HKFRS")
- 3G services have stimulated usage and spending materially

CHAIRMAN'S STATEMENT

I am pleased to announce the financial results of the Group for the six months ended 31 December 2005.

Financial Highlights

The Group has changed certain of its accounting policies as a consequence of its adoption of the new HKFRS which are effective for accounting periods commencing on or after 1 January 2005. Comparative figures have been restated accordingly.

The adoption of the new HKFRS from 1 July 2005 has resulted in a \$29 million reduction in profit attributable to equity holders for the six months ended 31 December 2005. The major part of this, amounting to \$24 million, is attributable to the adoption of Hong Kong Accounting Standard 38 "Intangible Assets" ("HKAS 38") for 3G licence fee.

The adoption of HKAS 38 requires the 3G licence to be treated as an intangible asset. As of 31 December 2005, the adoption of HKAS 38 resulted in an intangible asset, amounting to \$614 million, and a corresponding contractual obligation amounting to \$543 million. The intangible asset is to be amortised over the remaining licence period from commercial launch and all continuing 3G licence fee payments are to be set off against the contractual obligation.

Turnover of the Group increased to \$1,859 million, a growth of 2% and 4% on the same period last year and the preceding six months respectively. Earnings before interest, tax, depreciation and amortisation ("EBITDA") was \$396 million, representing a 16% decrease on the corresponding period last year and a 3% increase on the previous half year. Profit attributable to equity holders declined and amounted to \$37 million. Earnings per share for the period was \$0.06.

Dividend

The existing dividend policy of distributing two-thirds of net profit as dividend remains unchanged. In view of the first half results, your Board does not declare the payment of an interim dividend.

Business Review

Hong Kong Mobile Business

SmarTone-Vodafone continued to deliver growth in service revenue, driven by the rising ARPU. Blended ARPU for the period of \$210 registered a 7% year-on-year growth and a 3% increase compared to the preceding six months, resulting from the increasing number of higher value customers, including data users and business customers. With increasing revenue from data and roaming services, postpaid ARPU increased to \$240, representing a growth of 5% on the first half of last year and 2% on the previous six months. Data revenue continued to grow and its contribution to service revenue increased to 8.7%. Total customer number as at the end of the period was 1,054,000. Postpaid churn rate for December 2005 remained stable at 2.4%.

The period saw an increase in operating expenses and depreciation related to 3G. Coupled with the growth in handset subsidies driven by the intensifying price competition in the market, profitability of the business was reduced.

There has been a continuing improvement in customer profile, evidenced by the increase in ARPU. The company's 3G customer base continued to grow and totalled 100,000 in February 2006. Multimedia usage and ARPU of 3G customers have been significantly higher than those of 2G.

SmarTone-Vodafone continues to extend its leadership in service innovation and quality with enhancements in its customer propositions.

- Bet to Win, a leading mobile betting and information service, has been improved with a wider range of content and offerings. SmarTone-Vodafone also leads the market by partnering with the Hong Kong Jockey Club to launch the first secure WAP-based mobile betting service in Hong Kong. This service allows customers to enjoy a much-enhanced mobile betting experience with a comprehensive range of 2G and 3G handsets.
- SmarTone-Vodafone's mobile news service has been improved with enriched content. It now offers the fullest English language mobile news coverage in the market. In particular, it provides customers with the strongest line-up of English mobile TV financial news in Hong Kong, supported by the unique Electronic Programme Guide enabling customers to pre-order the programmes of their choice and view their programmes with a single click.
- Music Now, the company's marketing platform for music on mobile, continues to add on new content and artists. It leads the market by supporting free sampling before purchase for all music content and offering customers the largest library of mobile music in Hong Kong.

- In addition to Email on the go™ and BlackBerry® from Vodafone, SmarTone-Vodafone Mobile Email is enhancing its range of leading push email solutions with the upcoming launch of Windows Mobile Email. It caters for the different needs of different customers with the widest choice of mobile email solutions and the broadest range of handheld business devices.
- Leveraging the global scale and best practices of the Vodafone Group, SmarTone-Vodafone has upgraded its laptop connectivity solutions with the introduction of Vodafone Mobile Connect Card, enabling business customers to enjoy enhanced features.

To ensure the delivery of the best customer experience in the market, the company continues to upgrade its key commercial enablers.

- 3G roaming coverage has been expanded to cover over 60 overseas destinations, including Japan and Korea where 2G GSM roaming is not available. This allows SmarTone-Vodafone's customers to continue to enjoy the widest 3G roaming coverage among Hong Kong operators.
- SmarTone-Vodafone is the first in the world to enable all audio and video content for Progressive Download, enabling customers to replay multimedia content immediately after the download commences, without having to wait until the completion of the download process.
- The company has introduced a range of new handset models, including Sharp SX833, Sharp SX313, Samsung Anycall Z308, Toshiba TS10, Toshiba TX60 and Motorola E770, to broaden the choice of superior handsets for customers, and currently offers the largest number of 3G handset brands in Hong Kong. It has also launched the BlackBerry® 8700™ from Vodafone, a new email device designed for customers who demand uncompromising email, voice and browsing performance in an all-in-one device.

In the 2005 Service & Courtesy Award of Hong Kong Retail Management Association, the major association representing Hong Kong's retail industry, SmarTone-Vodafone again achieved outstanding results by winning four top service awards. The company has outperformed leading retailers from a wide range of businesses in Hong Kong and won 'The Best Team Performance Award' five years in a row, demonstrating its continuing innovation and clear leadership in customer service.

Macau Mobile Business

Turnover and profits increased during the period, as the economy of Macau continued to grow.

Prospects

Market competition has intensified following recent merger and acquisition transactions in Hong Kong. Our brand position, customer propositions, network quality and customer service have made great strides in the past several years. Together with a strong financial position, I am confident that your Company will be able to develop new services and to compete aggressively in the market to increase revenue market share. Leveraging on a widening choice of compelling 3G handsets for customers as well as the declining handset costs, your Company will benefit from more growth opportunities arising from 3G in the future, and enhance value for shareholders.

Severe pressure on profits in the current financial year is expected given the costs increase related to 3G and the competitive market.

Appreciation

I would like to take this opportunity to express my gratitude to our customers, shareholders and fellow directors for their continual support, as well as to our staff for their contributions and hard work.

Raymond Kwok Ping-luen
Chairman

Hong Kong, 28 February 2006

MANAGEMENT DISCUSSION AND ANALYSIS

New and revised accounting standards

The Group has changed certain of its accounting policies following its adoption of the new HKFRS in its accounts for the financial year commencing 1 July 2005 through to 30 June 2006. The adoption of the new HKFRS from 1 July 2005 has resulted in a \$29 million reduction in profit attributable to equity holders for the six months ended 31 December 2005. The major part of this, amounting to \$24 million, is attributable to the adoption of Hong Kong Accounting Standard 38 "Intangible Assets" ("HKAS 38") for 3G licence fee.

The adoption of HKAS 38 requires the 3G licence to be treated as an intangible asset. As of 31 December 2005, the adoption of HKAS 38 resulted in an intangible asset, amounting to \$614 million, and a corresponding contractual obligation amounting to \$543 million. The intangible asset is to be amortised over the remaining licence period from commercial launch and all continuing 3G licence fee payments are to be set off against the contractual obligation.

Effects of changes in the accounting policies on profit attributable to equity holders of the Company, the various balance sheet items and opening equity attributable to equity holders of the Company are summarised in Note 2 to the interim financial report.

Review of financial results

Operating revenue rose by \$28 million to \$1,859 million, driven by a 7% growth in mobile services revenue due to increase in ARPU. Operating profit, however, fell by \$180 million or 75% to \$60 million, as operating expenses, depreciation and amortisation rose significantly as a result of 3G and intensifying market competition. Finance income dropped by \$2 million amidst lower average balance of held-to-maturity investments and bank deposits. Despite that the Group had no bank and other borrowings, finance costs increased by \$26 million due to higher accretion expenses in respect of contractual obligations for 3G licence fees, arising from a change in accounting policy upon the adoption of HKAS 38. Taxation charge fell by \$23 million accordingly. Profit attributable to equity holders of the Company for the six months ended 31 December 2005 fell to \$37 million from \$224 million for the same period last year.

Turnover increased by \$28 million to \$1,859 million (first half of 2004/05: \$1,831 million) as higher mobile services revenue was partially offset by lower handset and accessory sales.

- Mobile services revenue grew by \$96 million or 7% to \$1,406 million (first half of 2004/05: \$1,310 million) driven by higher prepaid, data and roaming services revenues, partially offset by a reduction in local voice revenue as a result of continued downward pressures on tariffs.

Hong Kong blended ARPU for the six months ended 31 December 2005 rose by \$14 to \$210 (first half of 2004/05: \$196), reflecting continued improvement in customer profile in both business and consumer segments.

Despite intensifying price competition, postpaid ARPU for the period under review recorded a 5% increase to \$240 (first half of 2004/05: \$228). Revenues from all services other than local voice recorded growth.

Multimedia services revenue achieved a strong year-on-year increase of 34% as a result of increasing 3G customer base and the Group's continued success in enhancing its customer propositions to different customer segments. The growth was driven by the enrichment of SmarTone iN! services, which included the launch of Football Express, Music Now and Bet to Win. Data service revenue continued to grow and accounted for 8.7% of mobile services revenue for the six months ended 31 December 2005 (first half of 2004/05: 7.0%).

- Handset and accessory sales fell by 13% to \$454 million (first half of 2004/05: \$521 million) despite higher sales volume, as heavy handset subsidies prevalent in the market resulted in lower handset selling prices.

Cost of goods sold and services provided rose by \$25 million to \$749 million (first half of 2004/05: \$724 million). Cost of handsets and accessories sold fell by 9% to \$449 million. Cost of services provided rose by 30% to \$300 million as interconnect, prepaid IDD costs, roaming partner charges and data related services costs increased due to higher usage.

Other operating expenses (excluding depreciation, amortisation and loss on disposal of fixed assets) rose by \$79 million to \$714 million (first half of 2004/05: \$635 million). Major areas of increase were network costs incurred upon 3G rollout; marketing and sales costs incurred for the promotion of 3G handsets and services; and an unrealised exchange loss arising from the translation of net monetary assets denominated in United States dollars.

Depreciation and disposal loss rose by \$31 million to \$244 million (first half of 2004/05: \$213 million) due to depreciation for the 3G network.

Amortisation of intangible assets increased substantially by \$74 million to \$92 million (first half of 2004/05: \$18 million). Handset subsidy amortisation rose by \$50 million to \$64 million (first half of 2004/05: \$14 million) due to the significant amounts of handset subsidy capitalized for 3G handsets sold. Handset subsidies are deferred and amortised on a straight-line basis over the customer contract periods. 3G licence fee amortisation, arising upon the adoption of HKAS 38, rose by \$24 million to \$28 million (first half of 2004/05: \$4 million). 3G licence fees are amortised on a straight-line basis over the remaining licence period from the date of commercial launch of 3G.

Finance income fell by \$2 million to \$24 million (first half of 2004/05: \$26 million) mainly due to lower average balance of held-to-maturity investments and bank deposits.

Finance costs increased by \$26 million to \$33 million (first half of 2004/05: \$7 million). This was attributable to higher accretion expenses in respect of 3G licence fee obligations, arising upon the adoption of HKAS 38, which were accounted for upon the commercial launch of 3G.

Macau operations continued to improve and contributed positively to the Group's performance for the six months ended 31 December 2005. Operating revenue rose by 17% to \$95 million. Operating profit rose by 29% to \$28 million amidst strong revenue growth, partially offset by higher network costs and sales and marketing expenses.

Capital structure, liquidity and financial resources

There had been no major changes to the Group's capital structure during the six months ended 31 December 2005. The Group was financed by share capital, internally generated funds and short-term Hong Kong dollar floating rate revolving credit facilities (expired in November 2005 and not being renewed) during the period. The cash resources of the Group remain strong with cash and bank balances and investments in held-to-maturity debt securities at 31 December 2005 of \$1,720 million.

During the period, the Group's net cash generated from operating activities and interest received amounted to \$470 million and \$30 million respectively. The Group's major outflows of funds in the period were payment of final dividends for the financial year 2004/05 and purchases of fixed assets.

The directors are of the opinion that the Group can fund its capital expenditure and working capital requirements for the current financial year ending 30 June 2006 from existing 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 3 years. The Group's policy is to hold its investments in debt securities until maturity.

As at 31 December 2005, the Group's total available banking facilities amounted to \$100 million, represented by uncommitted trade finance facilities. No amount of the facilities was utilised as at 31 December 2005.

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 cost. Total amount of pledged deposits at 31 December 2005 was \$329 million (30 June 2005: \$328 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 its United States dollar fixed income investments and bank deposits, are denominated in Hong Kong dollars. The Group therefore does not have any significant exposure to foreign currency gains and losses other than those arising due to its United States dollar denominated fixed income investments and bank deposits. 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 31 December 2005 under these performance bonds was \$353 million (30 June 2005: \$313 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.

Bank Facilities Guarantees

At 31 December 2005, there were contingent liabilities in respect of guarantees given by the Company on behalf of a wholly owned subsidiary relating to uncommitted trade finance facilities granted by a bank of up to \$100 million (30 June 2005: \$300 million).

Employees and share option scheme

The Group had 1,605 full-time employees at 31 December 2005, with majority of which based in Hong Kong. Total staff costs were \$177 million in the period under review (first half of 2004/05: \$177 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 and 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 the participants, including directors and employees, to subscribe for shares of the Company. No share options were granted or exercised, and 898,000 share options were cancelled during the six months ended 31 December 2005. At 31 December 2005, 12,194,500 share options were outstanding.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

The directors are pleased to present the Group's consolidated profit and loss account for the six months ended 31 December 2005, and the consolidated balance sheet as at 31 December 2005 of the Group, all of which are unaudited and condensed, along with selected explanatory notes.

Consolidated profit and loss account

For the six months ended 31 December 2005

		Unaudited six months ended	
		31 December	
	Note	2005	2004
		\$'000	\$'000
			(Restated)
Mobile services		1,405,937	1,309,857
Mobile telephone and accessory sales		453,530	520,721
Turnover		1,859,467	1,830,578
Cost of goods sold and services provided	5	(748,970)	(724,443)
Gross profit		1,110,497	1,106,135
Network costs	5	(272,946)	(240,613)
Staff costs		(177,230)	(177,454)
Sales and marketing expenses		(132,892)	(99,394)
Rental and utilities	5	(59,880)	(54,094)
Other operating expenses	5	(71,384)	(62,985)
Depreciation and amortisation	5	(336,487)	(231,780)
Operating profit		59,678	239,815
Finance income	6	24,057	26,333
Finance costs	6	(33,237)	(7,274)
Profit before taxation		50,498	258,874
Income tax expense	7	(6,293)	(29,714)
Profit after taxation		44,205	229,160
Attributable to:			
Equity holders of the Company		37,045	224,025
Minority interests		7,160	5,135
		44,205	229,160

		Unaudited six months ended	
		31 December	
	Note	2005	2004
		\$000	\$000
			(Restated)
Dividends			
In respect of the period	8	—	110,730
Attributable to prior years paid in the period	8	116,558	192,321
		<u> </u>	<u> </u>
Earnings per share for profit			
attributable to the equity holders			
of the Company during the period			
(expressed in \$ per share)			
- basic	9	\$0.06	\$0.38
- diluted	9	\$0.06	\$0.38
		<u> </u>	<u> </u>

Consolidated balance sheet

As at 31 December 2005 and 30 June 2005

		Unaudited	Audited
		31 December	30 June
	Note	2005	2005
		\$000	\$000
			(Restated)
Non-current assets			
Fixed assets		1,962,818	2,068,270
Interest in an associate		20,464	29,469
Financial investments		81,691	744,898
Intangible assets		789,595	693,710
Deferred tax assets		4,156	8,311
		<u> </u>	<u> </u>
		2,858,724	3,544,658
		<u> </u>	<u> </u>
Current assets			
Inventories		144,250	189,100
Financial investments		1,042,163	390,895
Trade receivables	10	179,068	168,116
Deposits and prepayments		124,586	117,158
Other receivables		25,973	33,528
Cash and bank balances		645,071	765,212
		<u> </u>	<u> </u>
		2,161,111	1,664,009
		<u> </u>	<u> </u>

		Unaudited	Audited
		31 December	30 June
		2005	2005
	Note	\$000	\$000
			(Restated)
Current liabilities			
Trade payables	11	128,210	137,317
Other payables and accruals		614,330	708,518
Taxation payable		9,185	6,956
Customers' deposits		23,198	23,085
Contractual obligations – current portion		50,000	50,000
Deferred income		75,566	72,915
		<u>900,489</u>	<u>998,791</u>
Net current assets		<u>1,260,622</u>	<u>665,218</u>
Total assets less current liabilities		<u>4,119,346</u>	4,209,876
Non-current liabilities			
Contractual obligations		529,573	547,056
Deferred tax liabilities		149,209	152,957
		<u>3,440,564</u>	<u>3,509,863</u>
Net assets		<u>3,440,564</u>	<u>3,509,863</u>
Capital and reserves			
Share capital		58,279	58,279
Reserves		3,351,603	3,428,062
Total equity attributable to equity holders of the Company		<u>3,409,882</u>	3,486,341
Minority interests		30,682	23,522
Total equity		<u>3,440,564</u>	<u>3,509,863</u>

Notes:

1 Basis of preparation and accounting policies

These unaudited condensed consolidated interim financial statements ("interim financial statements") have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. These interim financial statements should be read in conjunction with the 2004/05 annual financial statements.

The accounting policies and methods of computation used in the preparation of these interim financial statements are consistent with those used in the annual financial statements for the year ended 30 June 2005 except that the Group has changed certain of its accounting policies following its adoption of the new HKFRS which are effective for accounting periods commencing on or after 1 January 2005.

These interim financial statements have been prepared in accordance with the new HKFRS issued and effective as at the time of preparing these interim financial statements. The new HKFRS that will be applicable at 30 June 2006, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing these interim financial statements.

The changes to the Group's accounting policies and the effect of adopting these new policies are set out in note 2 below.

2 Changes in accounting policies

(a) Effect of adopting new HKFRS

In 2005/06, the Group adopted the new HKFRS below, which are relevant to its operations. The 2004/05 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employees Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 34	Interim Financial Reporting
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 2	Share-based Payments

The adoption of new / revised HKASs 1, 2, 7, 8, 10, 12, 14, 17, 18, 19, 21, 23, 24, 27, 28, 33, 34, 36, and 37 did not result in substantial changes to the Group's accounting policies. In summary:

- HKAS 1 has affected the presentation of minority interests, share of net after-tax results of associates and other disclosures.
- HKASs 2, 7, 8, 10, 12, 14, 17, 18, 19, 23, 27, 28, 33, 34, 36, and 37 had no material effect on the Group's policies.
- HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as the presentation currency for respective entity financial statements. The entity of which the functional currency differs from the presentation currency is translated based on the guidance of the revised standard.
- HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of HKAS 16 has resulted in a change in accounting policy relating to the recognition of fixed assets and liabilities subject to retirement obligations at fair value.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy for recognition, measurement, derecognition and disclosure of financial instruments. Following the adoption of HKASs 32 and 39, the financial assets have been classified into loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Held-to-maturity investments are stated in the balance sheet at amortised cost. Interest income from held-to-maturity investments is calculated using the effective interest method. Available-for-sale financial assets that are quoted in an active market are measured at fair value and changes in fair value are recognised in the investment revaluation reserve. Available-for-sale financial assets that are not quoted in an active market are measured at cost less impairment. Loans and receivables are stated in the balance sheet at amortised cost.

The adoption of HKAS 38 has resulted in a change in accounting policy relating to the recognition of the fees and royalties payable for the third generation licence telecommunications spectrum ("3G Licence"). The 3G Licence is considered an intangible asset representing the right to provide a telecommunications service rather than a right to use an identifiable asset, being the radio spectrum allocated to the Group under the terms of the licence. In order to measure the intangible asset, HKAS 39 Financial Instruments: Recognition and Measurement is applied for recognition of the minimum annual fee and royalty payments as they constitute a contractual obligation to deliver cash and hence should be considered a financial liability. As a result, capitalised minimum annual payments together with the interest accrued prior to commercial launch, are classified as an intangible asset and amortised on a straight-line basis over the remaining licence period from the date the asset is ready for its intended use. Interest is accrued on the outstanding minimum annual fees and charged to finance costs in the profit and loss account after the commercial launch. Variable annual payments on top of the minimum annual payments, if any, are recognised in the profit and loss account as incurred. The change in accounting policy is applied retrospectively.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 30 June 2005, the provision of share options to employees did not result in an expense in the profit and loss account. Effective on 1 July 2005, the Group expenses the cost of share options in the profit and loss account. As a transitional provision, the cost of share options granted after 7 November 2002 and had not yet vested on 1 July 2005 was expensed retrospectively in the profit and loss account of the respective periods.

All changes in the accounting policies have been made in accordance with the transitional provisions in the respective standards. All standards adopted by the Group require retrospective application other than:

- HKAS 39 – does not permit to recognize, derecognize and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous Statement of Standard Accounting Practice ("SSAP") 24 "Accounting for investments in securities" for the 2004/05 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognized at 1 July 2005;
- HKFRS 2 – only retrospective application for all equity instruments granted after 7 November 2002 and not vested at 1 July 2005.

(i) The adoption of HKAS 16 resulted in:

	As at		
	31 December	30 June	
	2005	2005	
	\$000	\$000	
Increase in fixed assets	29,967	31,054	
Increase in liabilities	36,310	35,116	
Decrease in retained profits	6,343	4,062	
	For the year	Six months ended	
	ended	31 December	
	30 June 2005	2005	2004
	\$000	\$000	\$000
Decrease in profit attributable to equity holders	4,062	2,281	1,843
Decrease in basic earnings per share (\$)	0.01	0.00	0.00
Decrease in diluted earnings per share (\$)	0.01	0.00	0.00

(ii) The adoption of HKASs 32 and 39 resulted in:

- redesignate all “non-trading securities” as “available-for-sale financial assets” or “loans and receivables”, at 1 July 2005; and
- restate the held-to-maturity investments at amortised cost using effective interest method instead of straight line method from 1 July 2005.

(iii) The adoption of HKAS 38 resulted in:

	As at		
	31 December	30 June	
	2005	2005	
	\$000	\$000	
Increase in intangible assets	614,223	642,637	
Decrease in fixed assets	138,685	146,462	
Increase in liabilities	510,773	507,451	
Decrease in retained profits	35,235	11,276	
	For the year	Six months ended	
	ended	31 December	
	30 June 2005	2005	2004
	\$000	\$000	\$000
(Decrease)/increase in profit attributable to equity holders	(21,745)	(23,959)	3,415
Decrease in basic earnings per share (\$)	0.04	0.04	0.00
Decrease in diluted earnings per share (\$)	0.04	0.04	0.00

(iv) The adoption of HKFRS 2 resulted in:

		As at	
	31 December		30 June
	2005		2005
	\$000		\$000
Increase in employee share-based compensation reserve	13,452		10,583
Decrease in retained profits	13,452		10,583
	For the year	Six months ended	
	ended	31 December	
	30 June 2005	2005	2004
	\$000	\$000	\$000
Decrease in profit attributable to equity holders	6,423	2,869	3,176
Decrease in basic earnings per share (\$)	0.01	0.00	0.01
Decrease in diluted earnings per share (\$)	0.01	0.00	0.01

(b) New Accounting Policies

The accounting policies used for the interim financial statements for the six months ended 31 December 2005 are the same as those set out in note (1) to the 2004/05 annual financial statements except for the following:

(i) Foreign currency translation

(1) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). These interim financial statements are presented in HK dollars, which is the Company's functional and presentation currency.

(2) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the profit and loss account.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(3) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- a. assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

b. income and expenses for each profit and loss account are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

c. all resulting exchange differences are recognized as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognized in the profit and loss account as part of the gain or loss on sale.

(ii) Fixed assets

The assets' residual value and useful lives are reviewed and adjusted, if applicable, at each balance sheet date.

(iii) Intangible assets – telecommunications licence for third generation ("3G") services

The discounted value of the minimum annual fees and royalties payable for the 3G Licence over the licence period together with the interest accrued prior to commercial launch, are classified as an intangible asset and amortised on a straight line basis over the remaining licence period from the date the asset is ready for its intended use. Interest is accrued on the outstanding minimum annual fees and charged to finance costs in the profit and loss account after the commercial launch. Variable annual payments on top of the minimum annual payments, if any, are recognised in the profit and loss account as incurred.

(iv) Financial investments

From 1 July 2004 to 30 June 2005:

The Group classified its investments in securities, other than subsidiaries, associates and jointly controlled entities, as non-trading securities and held-to-maturity debt securities.

(1) Non-trading securities

Investments that were held for non-trading purpose were stated at cost less any provision for impairment losses.

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 impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to profit and loss account when the circumstances and events that led to the write-downs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(2) Held-to-maturity debt securities

Debt securities which are intended to be held until maturity are stated in the balance sheet at cost plus or minus any discount or premium amortised to date. The discount or premium on acquisition is amortised over the period to maturity and included as interest income in the profit and loss account. Provision is made when there is a diminution in value other than temporary.

From 1 July 2005 onwards:

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

(1) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realized within 12 months of the balance sheet date. During the period, the Group did not hold any investments in this category.

(2) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet.

(3) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. They are included in non-current assets, except for those with maturities less than 12 months after the balance sheet date. These are classified as current assets.

(4) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of investments are recognized on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realized and unrealized gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the profit and loss account in the period in which they arise. Unrealized gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognized in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the profit and loss account as gains or losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active, and for unlisted securities, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the profit and loss account – is removed from equity and recognized in the profit and loss account. Impairment losses recognized in the profit and loss account on equity instruments are not reversed through the profit and loss account.

(v) Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognized in the profit and loss account.

(vi) Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(vii) Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the profit and loss account over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(viii) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognizes the impact of the revision of original estimates, if any, in the profit and loss account, and a corresponding adjustment to equity over the remaining vesting period. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and the share premium when the options are exercised.

(ix) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continuous unwinding the discount as interest income.

3 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

Major areas where critical estimates and assumptions are applied include those related to impairment and useful lives of plant and equipment, contractual obligations-asset retirement obligations, estimated fair value of financial instruments and deferred taxation.

(a) Impairment and useful lives of plant and equipment

The plant and equipment used in the network are long-lived but may be subject to technical obsolescence. The annual depreciation charges are sensitive to the estimated economic useful lives the Group allocates to each type of fixed assets. Management performs annual reviews to assess the appropriateness of their estimated economic useful lives. Such reviews take into account the technological changes, prospective economic utilisation and physical condition of the assets concerned. Management also regularly reviews whether there are any indications of impairment and will recognise an impairment loss if the carrying amount of an asset is lower than its recoverable amount which is the greater of its net selling price or its value in use. In determining the value in use, management assess the present value of the estimated future cash flows expected to arise from the continuing use of the asset and from its disposal at the end of its useful life. Estimates and judgements are applied in determining these future cash flows and the discount rate. Management estimates the future cash flows based on certain assumptions, such as the market competition and development and the expected growth in subscribers and average revenue per subscriber.

(b) Contractual obligations - asset retirement obligations

The Group evaluates and recognises, on a regular basis, the fair value of fixed assets and obligations which arise from future reinstatement of leased properties upon end of lease terms. To establish the fair values of the asset retirement obligations, estimates and judgement are applied in determining these future cash flows and the discount rate. Management estimates the future cash flows based on certain assumptions, such as the types of leased properties, probability of renewal of lease terms and restoration costs. The discount rate used is referenced to the Group's historical weighted average cost of capital.

(c) Estimated fair value of financial instruments

The fair value of financial instruments that are not traded in active market is determined based on the latest available financial information existing at each balance sheet date.

(d) Deferred taxation

The Group provides for deferred taxation in full, using the liability method, on temporary difference arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation. Deferred tax assets are only recognised to the extent that it is probable future taxable profits will be available against which the temporary differences can be utilised. Deferred taxation is provided on temporary difference arising from depreciation on fixed assets except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

4 Segment reporting

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:

	Six months ended 31 December 2005			
	Hong Kong	Macau	Inter-segment	Consolidated
	\$000	\$000	elimination	\$000
	\$000	\$000	\$000	\$000
Turnover	<u>1,776,949</u>	<u>94,799</u>	<u>(12,281)</u>	<u>1,859,467</u>
Operating profit	<u>32,098</u>	<u>27,580</u>	<u>—</u>	<u>59,678</u>
Finance income				24,057
Finance costs				<u>(33,237)</u>
Profit before taxation				50,498
Income tax expense				<u>(6,293)</u>
Profit after taxation				<u>44,205</u>

	Six months ended 31 December 2004 (Restated)			Consolidated \$000
	Hong Kong \$000	Macau \$000	Inter-segment elimination \$000	
Turnover	<u>1,764,142</u>	<u>81,297</u>	<u>(14,861)</u>	<u>1,830,578</u>
Operating profit	<u>218,504</u>	<u>21,311</u>	<u>—</u>	239,815
Finance income				26,333
Finance costs				<u>(7,274)</u>
Profit before taxation				258,874
Income tax expense				<u>(29,714)</u>
Profit after taxation				<u>229,160</u>

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

5 Expenses by nature

	Six months ended 31 December	
	2005 \$000	2004 \$000
Cost of inventories sold	449,125	493,243
Depreciation:		
Owned fixed assets	184,888	147,778
Leased fixed assets	57,040	62,823
Amortisation of intangible assets	92,372	18,473
Operating lease rentals for land and buildings, transmission sites and leased lines	244,984	211,027
Loss on disposal of fixed assets	2,187	2,706
Provision for bad and doubtful debts	6,646	7,786
Net exchange loss	7,366	226

6 Net finance (costs)/income

	Six months ended	
	31 December	
	2005	2004
	\$000	\$000
Finance income		
Interest income from:		
Listed debt securities	4,086	8,973
Unlisted debt securities	8,628	13,417
Deposits with banks and other financial institutions	11,343	3,943
	<u>24,057</u>	<u>26,333</u>
Finance costs		
Interest expense on bank loans repayable within five years	—	(105)
Other borrowing costs	(76)	(267)
Accretion expenses		
3G licence fee obligations	(31,323)	(5,165)
Asset retirement obligations	(1,838)	(1,737)
	<u>(33,237)</u>	<u>(7,274)</u>
	<u>(9,180)</u>	<u>19,059</u>

Accretion expenses represented changes in the contractual obligations due to passage of time by applying an interest method of allocation to the amount of the liability at the beginning of the period.

7 Income tax expense

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profit for the period. Taxation on overseas profits has been provided on the estimated profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged to the consolidated profit and loss account represents:

	Six months ended	
	31 December	
	2005	2004
	\$000	\$000
Current taxation		
— Hong Kong	3,696	14,972
— Overseas	2,190	2,073
Deferred taxation relating to the origination of temporary differences	407	12,669
	<u>6,293</u>	<u>29,714</u>

8 Dividends

	Six months ended	
	31 December	
	2005	2004
	\$000	\$000
In respect of the period		
Interim declared/paid, of Nil per share (2004: \$0.19 per share)	—	110,730
Attributable to prior years paid in the period		
Final of \$0.20 per share (2004: \$0.33 per share)	116,558	192,321
	<u>116,558</u>	<u>303,051</u>

At a meeting held on 5 September 2005, the directors declared a final dividend of \$0.20 per share for the year ended 30 June 2005, which was paid on 11 November 2005 and has been reflected as an appropriation of retained profits for the six months ended 31 December 2005.

9 Basic and diluted earnings per share

The calculations of basic and diluted earnings per share are based on the profit attributable to equity holders of \$37,045,000 (2004 restated: \$224,025,000).

The basic earnings per share is based on the weighted average number of shares in issue during the period of 582,791,428 (2004: 582,834,803). The diluted earnings per share is based on 582,853,905 (2004: 582,853,706) shares which is the weighted average number of shares in issue during the period plus the weighted average number of 62,477 (2004: 18,903) shares deemed to be issued at no consideration if all outstanding options had been exercised.

10 Trade receivables

	31 December	30 June
	2005	2005
	\$000	\$000
Trade receivables	192,796	181,951
Less: provision for impairment of receivables	<u>(13,728)</u>	<u>(13,835)</u>
Trade receivables – net	<u>179,068</u>	<u>168,116</u>

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

	31 December	30 June
	2005	2005
	\$000	\$000
Current to 30 days	156,030	147,715
31 - 60 days	18,368	11,451
61 - 90 days	2,550	4,259
Over 90 days	<u>2,120</u>	<u>4,691</u>
	<u>179,068</u>	<u>168,116</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 \$6,646,000 (2004: \$7,786,000) for the impairment of its trade receivables during the six months ended 31 December 2005. The loss has been included in other operating expenses in the profit and loss account.

11 Trade payables

The ageing of the trade payables is as follows:

	31 December	30 June
	2005	2005
	\$000	\$000
Current to 30 days	54,118	95,906
31 - 60 days	41,544	21,075
61 - 90 days	5,789	3,276
Over 90 days	26,759	17,060
	<u>128,210</u>	<u>137,317</u>

12 Comparative figures

The comparative figures presented in these interim financial statements are prepared by the Group and have been adjusted for the impact of the relevant new HKFRSs as set out in note 2.

INTERIM DIVIDEND

The directors do not recommend the payment of an interim dividend for the six months ended 31 December 2005 (2004: \$0.19 per share).

PURCHASE, SALE OR REDEMPTION OF SHARES

At no time during the six months period ended 31 December 2005 was there any purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's shares.

REVIEW OF THE INTERIM RESULTS

The Audit Committee of the Company has reviewed the relevant interim financial statements and report of the Group and 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 interim financial statements for the six months ended 31 December 2005 have not been audited but have been reviewed by the Company's external auditors.

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") and has been reviewed by the Audit Committee and the auditors before being put forward to the directors for approval.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Group is committed to building and maintaining high standards of corporate governance. Throughout the six months period ended 31 December 2005, the Group has complied with the requirements set out in the Code on Corporate Governance Practices (the “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.

The Board of Directors will continue to monitor and review the Group’s progress in respect of corporate governance practices to ensure compliance with the Code.

By the order of the Board
Maria Li Sau-ping
Secretary

Hong Kong, 28 February 2006

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

Please also refer to the published version of this announcement in South China Morning Post.