SMARTONE TELECOMMUNICATIONS HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 315)

2OO5 / 2OO6 ANNUAL RESULTS ANNOUNCEMENT

(All references to $ are to the Hong Kong Dollars)

- Service revenue increased by 9% to $2,871 million
- Continued improvements in ARPU, data revenue and churn rate
- Growth in 3G customer base with significantly higher ARPU
- Profit attributable to equity holders of $70 million

CHAIRMAN'S STATEMENT

I am pleased to announce the financial results of the Group for the year ended 30 June 2006. This year saw a significant growth in service revenue and continued improvements in key operating metrics, a creditable performance in a mature and highly competitive mobile market like Hong Kong. The results, however, are adversely affected by the significant increase in handset subsidy amortisation arising from competition in the market, and 3G costs.

Financial Highlights

Turnover of the Group grew by 4% to $3,779 million, driven by 9% increase in service revenue. Earnings before interest, tax, depreciation and amortisation ("EBITDA") was $816 million, representing 5% decrease from last year. Profit attributable to equity holders and earnings per share for the year amounted to $70 million and $0.12 respectively.

The Group's accounting policies have been amended with the adoption of the new / revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (collectively referred to hereinafter "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 has a negative impact of $58 million on profit attributable to equity holders for the year under review. The major part of this, amounting to $49 million, is attributable to the adoption of Hong Kong Accounting Standard 38 "Intangible Assets" for 3G licence fee. The negative impact on profit attributable to equity holders for the previous year due to the adoption of the new HKFRS was $12 million.

Dividend

With the modest level of profit for this year, your Board recommends a full distribution of profit attributable to equity holders, representing a final dividend of $0.12 per share. Your Board, however, still considers that the normal dividend policy is to distribute two-thirds of profit.

Business Review

Hong Kong Mobile Business

The Hong Kong market remains very competitive, notwithstanding the recent market consolidation. The persistence of fierce price competition exerts substantial pressure on tariffs and handset prices, as well as industry revenue and profitability. Against this backdrop, SmarTone-Vodafone continued to achieve significant service revenue growth and improvements in key operating metrics during the year. This reflects the company's unique customer franchise, underpinned by its strong brand, targeted and differentiated propositions, focused distribution as well as emphasis on customer relationship management.

With an improving customer profile, blended ARPU for the year rose by 7% to $213. Postpaid ARPU increased by 6% to $244, driven by the continued growth in data and roaming usage. Data revenue registered 43% increase on last year and represented 13.6% of service revenue. The increase was attributable to the robust growth in adoption of multimedia services, stimulated by 3G, and outweighed the decline in local voice revenue.

Total customer base increased from 1,011,000 as of 30 June 2005 to 1,063,000 as of 30 June 2006. Postpaid churn rate for June 2006 was 2.5%, an improvement on 2.8% for June 2005.

During the year, fierce competition in the market triggered a significant increase in handset subsidies. Coupled with the increase in network expenses and depreciation arising from 3G as well as the full year impact of 3G licence fee, profitability decreased substantially. Nevertheless, SmarTone-Vodafone is on track in pursuing revenue growth via 3G, with the focus on offering compelling services for targeted customer segments. This is evidenced by the growth in 3G customers and their significantly higher ARPU. The 3G customer base now stands at 160,000, representing just over 20% of postpaid customer base.

To meet the rising expectations and needs of customers, SmarTone-Vodafone launched a range of new service propositions for consumers and businesses, leveraging on the latest technology and its customer focus. These further extend the company's leadership in service excellence and innovation.

- Earlier in the year, SmarTone-Vodafone introduced a number of consumer-oriented service propositions in the areas of music, news and betting. All of these are generating significant traction with our customers.

- SmarTone-Vodafone Mobile Broadband, Hong Kong's first commercial service enabled by HSDPA (High-Speed Downlink Packet Access), offers customers broadband Internet access speed of up to 1.8 Mbps. Riding on the company's Hong-Kong-wide HSDPA network, it enables customers to enjoy secured true broadband everywhere. Two service offerings, *Flexi* and *Contract*, were introduced to meet different needs of customers. SmarTone-Vodafone also initiated a new indirect distribution channel for Flexi to better address certain customer segments.

- With SmarTone-Vodafone Mobile Email, the company is the only operator in Hong Kong offering customers a choice of mobile email solutions to properly address their needs, based on their email systems, scale, device preferences and total cost of ownership. To complement its proposition, SmarTone-Vodafone also offers the widest range of Handheld Business Devices.

- Traveller is a service proposition targeted at roaming customers. It focuses on providing customers with call screening to prevent nuisance calls and to save on roaming expenses while travelling; and automatic phonebook backup on a centralised database to ensure access to phonebook even when a phone is lost. These service features are combined with a pioneering same-rate tariff for roaming in five key destinations in Asia, providing predictable charging as well as outstanding savings.

Macau Mobile Business

The mobile business in Macau continued to achieve growth in turnover and profits during the year, driven by increase in customer base. The company has recently submitted a bid to the Government of the Macau Special Administrative Region for a 3G licence.

Prospects

The mobile industry is undergoing rapid changes. With intensifying market competition, rapidly evolving technologies and changing customer requirements, there will be both challenges and opportunities ahead. To enhance value for shareholders, your Company will continue to focus on increasing revenue market share with its targeted and differentiated propositions for specific customer segments. It will also explore and develop new revenue streams by introducing new services.

Given the high customer expectations, competitive environment and compact geography of the Hong Kong market, SmarTone-Vodafone has rolled out a high quality HSDPA network with Hong-Kong-wide coverage at commercial launch in June 2006. Besides much higher data speed, the network offers increased capacity and improved network economics which open up opportunities for the company to roll out new services to address wider communications needs of customers.

With fierce price competition, increase in handset subsidy amortisation as well as higher operating expenses arising from the development and marketing of new services, profitability is expected to be under continuing pressure in the year ending 30 June 2007. Initiatives for further improving efficiency and managing costs are being implemented to mitigate the potential impact on profitability.

Appreciation

Dr. Sachio Semmoto retired as independent non-executive director of the Company during the year. I would like to take this opportunity to express my gratitude to Dr. Semmoto for his invaluable contributions and advice. I would also like to extend my appreciation to our customers and shareholders for their continuous support, to our fellow directors for their guidance, as well as to our staff for their dedications and hard work.

Raymond Kwok Ping-luen
Chairman

Hong Kong, 28 August 2006

MANAGEMENT DISCUSSION AND ANALYSIS

New and revised accounting standards

The Group's accounting policies have been changed with the adoption of the new / revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (collectively referred to hereinafter "new HKFRS") which are effective for accounting periods commencing on or after 1 January 2005. The adoption of the new HKFRS has a negative impact of $58 million on profit attributable to equity holders for the year ended 30 June 2006. The major part of this, amounting to $49 million, is attributable to the adoption of Hong Kong Accounting Standard 38 "Intangible Assets" ("HKAS 38") for 3G licence fee. The negative impact on profit attributable to equity holders for the previous year due to adoption of the new HKFRS was $12 million.

The adoption of HKAS 38 requires all mobile licences to be treated as intangible assets. The net present value of annual licence fee payments is recognised as an intangible asset, together with a corresponding liability ("mobile licence fee liability") on the balance sheet. The intangible asset is amortised over the remaining licence period. The deemed interest on the mobile licence fee liability is charged to the profit and loss account as accretion expenses under finance costs. Actual payments of licence fee are set off against the mobile licence fee liability. At the end of the licence period, the intangible asset and its corresponding liability become zero balances.

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 3 to the consolidated financial statements.

Review of financial results

Revenues rose by 4% to $3,779 million (2004/05: $3,619 million), primarily driven by a 9% growth in mobile service revenue due to an improvement in ARPU and a modest growth in the average customer number. Operating profit, however, fell by 69% to $105 million (2004/05: $342 million) as operating expenses, depreciation and amortisation rose significantly as a result of 3G network rollout and intensifying market competition. Finance income rose to $56 million (2004/05: $49 million) largely due to improved returns on debt securities and bank deposits. Despite that the Group had no bank and other borrowings throughout the year, finance costs amounted to $70 million for the year ended 30 June 2006 (2004/05: $40 million), comprising mainly of accretion expenses in respect of mobile licence fee liability for 3G arose from a change in accounting policy upon the adoption of HKAS 38. Taxation charge fell accordingly. Profit attributable to equity holders of the Company for the year ended 30 June 2006 fell by 79% to $70 million (2004/05: $327 million).

Revenues increased by $160 million to $3,779 million (2004/05: $3,619 million) due to higher mobile service revenue, partially offset by lower handset and accessory sales.

- Mobile service revenue grew by 9% to $2,871 million (2004/05: $2,635 million). Data, roaming and prepaid services were the main contributors to revenue growth, more than compensating the reduction in local voice revenue resulted from continued downward pressures on tariffs.

  Hong Kong blended ARPU for the year ended 30 June 2006 rose by 7% to $213 (2004/05: $199) against a backdrop of increasing market competition, reflecting the Group's success in improving its customer profile.

  Driven by the success of new and enhanced service offerings, revenue from data and roaming services grew strongly, offsetting the impact of lower postpaid local voice revenue. As a result, postpaid ARPU increased by 6% to $244 (2004/05: $231).

  Multimedia service revenue achieved a strong year-on-year increase of 54% as a result of increasing 3G customer base and the Group's continued success in addressing the needs of different targeted customer segments. Data service revenue grew by 43% and accounted for 13.6% of mobile service revenue for the year ended 30 June 2006 (2004/05: 10.3%).

- Handset and accessory sales fell by 8% to $908 million (2004/05: $985 million) despite higher sales volume, as heavy handset subsidies prevalent in the market resulted in lower average handset selling prices.

Cost of goods sold and services provided rose by $54 million to $1,510 million (2004/05: $1,456 million). Cost of handsets and accessories sold fell by 7% to $886 million (2004/05: $955 million), with the impact of higher sales volume offset by the increase in handset subsidies capitalised. Cost of services provided rose by 25% to $624 million (2004/05: $501 million) as interconnect, prepaid IDD, roaming and data related service costs increased due to higher usage.

Other operating expenses (excluding depreciation, amortisation and loss on disposal of fixed assets) rose by $135 million to $1,467 million (2004/05: $1,332 million). The major areas of increase were network costs, sales and marketing expenses, and an unrealised exchange loss arising from the translation of net monetary assets denominated in United States dollars.

Depreciation and disposal loss rose by $35 million to $486 million (2004/05: $451 million) due to a full year's depreciation of the 3G network charged in 2005/06, as compared to seven months' charges in 2004/05.

Amortisation of intangible assets increased substantially by $161 million to $225 million (2004/05: $64 million).

- During the year ended 30 June 2006, handset subsidy amortisation rose by $135 million to $166 million (2004/05: $31 million) as significant amounts of handset subsidy were offered for customer acquisition and retention. Handset subsidies are deferred and amortised on a straight-line basis over the customer contract periods.

- Mobile licence fee amortisation in respect of 3G and 2G mobile licences, arising upon the adoption of HKAS 38, rose by $25 million to $58 million (2004/05: $33 million) mainly due to the full year impact of mobile licence fee amortisation for 3G for the year ended 30 June 2006, compared to seven months' amortisation in 2004/05. All mobile licence fee is amortised on a straight-line basis over the remaining licence period.

Finance income rose to $56 million (2004/05: $49 million) mainly due to increased return on debts securities and bank deposits, as bank deposit rates rose significantly during the year ended 30 June 2006.

Finance costs increased by $30 million to $70 million (2004/05: $40 million). This was mainly attributable to higher accretion expenses in respect of mobile licence fee liabilities, arising from the adoption of HKAS 38. Accretion expenses for the 3G licence were accounted for upon the commercial launch of 3G services in December 2004. Accretion expenses for a 2G licence were accounted for upon renewal of the GSM 900 licence in January 2006.

Macau operations continued to grow during the year. Operating revenue rose by 17% to $189 million (2004/05: $162 million). Operating profit rose by 29% to $54 million (2004/05: $42 million) amidst strong revenue growth, partially offset by higher network, sales and marketing expenses.

Capital structure, liquidity and financial resources

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

During the year ended 30 June 2006, the Group's net cash generated from operating activities and interest received amounted to $1,056 million and $67 million respectively. The Group's major outflows of funds during the year were payments for purchase of fixed assets, handset subsidies and 2004/05 final dividend.

The directors are of the opinion that the Group can fund its capital expenditures and working capital requirements for the year ending 30 June 2007 with internal cash resources and banking facilities.

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 30 June 2006, the Group's total available banking facilities amounted to $100 million. No amount of the facilities was utilised as at 30 June 2006.

The Group is required to arrange for banks to issue performance bonds and letters of credit on its behalf. In certain circumstances, the Group will partially or fully collateralise such instruments by cash deposits to lower the issuance costs. The total amount of pledged deposits at 30 June 2006 was $320 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 debt securities 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 debt securities 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 30 June 2006 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 30 June 2006, there were contingent liabilities in respect of guarantees given by the Company on behalf of a wholly owned subsidiary relating to uncommitted banking facilities granted by a bank of up to $100 million (30 June 2005: $300 million).

Employees and share option scheme

The Group had 1,622 full-time employees at 30 June 2006, with majority of which based in Hong Kong. Total staff costs were $368 million for the year ended 30 June 2006 (2004/05: $366 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 1,258,000 share options were cancelled during the year ended 30 June 2006. At 30 June 2006, 11,834,500 share options were outstanding.

RESULTS

The directors of the Company are pleased to present the audited consolidated profit and loss account for the year ended 30 June 2006 and the consolidated balance sheet as at 30 June 2006 of the Group.

Consolidated profit and loss account
For the year ended 30 June 2006

	Note	**2006** *$000*	2005 *$000* *(restated)*
Mobile services		**2,871,065**	2,634,787
Mobile telephone and accessory sales		**908,150**	984,705
Revenues	4	**3,779,215**	3,619,492
Cost of goods sold and services provided	6	**(1,510,161)**	(1,456,340)
Gross profit		**2,269,054**	2,163,152
Other gains	5	**14,045**	26,419
Network costs	6	**(575,249)**	(503,300)
Staff costs	6	**(367,633)**	(365,588)
Sales and marketing expenses		**(252,186)**	(227,986)
Rental and utilities	6	**(128,410)**	(109,507)
Other operating expenses	6	**(143,598)**	(125,931)
Depreciation, amortisation and loss on disposal	6	**(710,998)**	(515,255)
Operating profit		**105,025**	342,004
Finance income	7	**56,287**	48,722
Finance costs	8	**(69,659)**	(39,806)
Profit before income tax		**91,653**	350,920
Income tax expense	9 (a)	**(7,768)**	(13,705)
Profit after income tax		**83,885**	337,215
Attributable to:			
Equity holders of the Company		**70,020**	326,944
Minority interests		**13,865**	10,271
		83,885	337,215
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in $ per share)	11		
Basic		**$0.12**	$0.56
Diluted		**$0.12**	$0.56
Dividends	10		
In respect of the year		**69,935**	227,288

Consolidated balance sheet

At 30 June 2006

	Note	**2006** *$000*	2005 *$000* *(restated)*
Non-current assets			
Fixed assets		**1,924,064**	2,053,039
Interest in an associate		**1,812**	29,469
Financial investments		**72,224**	744,898
Intangible assets		**799,959**	693,710
Deposits and prepayments — non-current portion	12	**44,296**	—
Deferred income tax assets		**5,450**	8,311
		2,847,805	3,529,427
Current assets			
Inventories		**79,572**	189,100
Financial investments		**660,237**	390,895
Trade receivables	12	**151,895**	168,116
Deposits and prepayments — current portion	12	**75,291**	117,158
Other receivables	12	**30,435**	33,528
Cash and bank balances	13	**1,358,660**	765,212
		2,356,090	1,664,009
Current liabilities			
Trade payables	14	**158,225**	137,317
Other payables and accruals	14	**663,530**	708,518
Current income tax liabilities		**28,032**	6,956
Customers' deposits		**26,342**	23,085
Deferred income		**76,434**	72,915
Mobile licence fee liabilities — current portion		**52,407**	50,000
		1,004,970	998,791
Net current assets		**1,351,120**	665,218
Total assets less current liabilities		**4,198,925**	4,194,645
Non-current liabilities			
Asset retirement obligations	2	**38,328**	33,264
Mobile licence fee liabilities — non-current portion		**572,817**	511,940
Deferred income tax liabilities		**138,443**	158,393
NET ASSETS		**3,449,337**	3,491,048
CAPITAL AND RESERVES			
Share capital		**58,279**	58,279
Reserves		**3,367,263**	3,409,247
Total equity attributable to equity holders of the Company		**3,425,542**	3,467,526
Minority interests		**23,795**	23,522
Total equity		**3,449,337**	3,491,048

Notes:

1 Basis of preparation

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

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

2 The adoption of new / revised HKFRS

For the year ended 30 June 2006, the Group adopted the new / revised standards and interpretations of HKFRS below, which are relevant to its operations. The comparative figures for the year ended 30 June 2005 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 36	Impairment of Assets
HKAS 37	Provision, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 (Amendment)	Transition and Initial Recognition of Financial Assets and Financial Liabilities
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, 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, 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 the consolidated financial instruments. Following the adoption of HKASs 32 and 39, the financial assets have been classified into loans and receivables, held-to-maturity debt securities and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Held-to-maturity debt securities are stated in the consolidated balance sheet at amortised cost. Interest income from held-to-maturity debt securities 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 consolidated balance sheet at amortised cost.

The adoption of HKAS 39 has also resulted in recognising rental deposits relating to cell sites, switch centres, stores and offices as financial assets at fair values. As a result, the difference between nominal and fair values of the deposits is treated as prepaid operating rental expenses. The prepayments are then amortised over the remaining lease terms of the respective cell sites, switch centres, stores and offices, while the rental deposits generate deemed interest income over the remaining lease terms.

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 right to use telecommunication spectrum. This right represents a right to provide a service rather than a right to use an identifiable asset, and is therefore accounted for as an intangible asset. 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 as a financial liability and be initially measured at its fair value. 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 consolidated profit and loss account after the commercial launch. Variable annual payments on top of the annual minimum payments, if any, are recognised in the consolidated 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 consolidated profit and loss account. Effective on 1 July 2005, the Group expenses the cost of share options in the consolidated 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 consolidated 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 recognise, derecognise 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 comparative information of the year ended 30 June 2005. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised 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 30 June	
	2006	2005
	$000	*$000*
Increase in fixed assets	**15,574**	15,823
Increase in other assets	**3,982**	3,054
Increase in liabilities	**38,328**	33,264
Decrease in retained profits	**18,772**	14,387

	For the year ended 30 June	
	2006	2005
	$000	*$000*
Decrease in profit attributable to equity holders	**4,385**	3,177
Decrease in basic earnings per share ($)	**0.01**	0.01
Decrease in diluted earnings per share ($)	**0.01**	0.01

(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 debt securities at amortised cost using effective interest method instead of straight-line method from 1 July 2005.

	As at 30 June	
	2006	2005
	$000	*$000*
Increase in available-for-sale financial assets	**40,281**	—
Increase in held-to-maturity debt securities	**692,180**	—
Decrease in non-trading securities	**732,461**	—

(iii) The adoption of HKAS 39 resulted in:

	As at 30 June	
	2006	2005
	$000	*$000*
Increase in prepaid operating rental expenses — non-current assets (a)	**7,199**	—
Increase in rental deposits — non-current assets (a)	**37,097**	—
Increase in prepaid operating rental expenses — current assets (b)	**1,058**	—
Decrease in rental deposits — current assets (b)	**45,354**	—

a Classified under "Deposits and prepayments — non-current portion" in the consolidated balance sheet.

b Classified under "Deposits and prepayments — current portion" in the consolidated balance sheet.

(iv) The adoption of HKAS 38 resulted in:

	As at 30 June	
	2006	2005
	$000	*$000*
Increase in intangible assets	**585,808**	642,637
Decrease in fixed assets	**130,900**	146,462
Increase in liabilities	**523,591**	515,941
Decrease in retained profits	**68,683**	19,766

	For the year ended 30 June	
	2006	2005
	$000	*$000*
Decrease in profit attributable to equity holders	**48,917**	2,266
Decrease in basic earnings per share ($)	**0.08**	—
Decrease in diluted earnings per share ($)	**0.08**	—

(v) The adoption of HKFRS 2 resulted in:

	As at 30 June	
	2006	2005
	$000	*$000*
Increase in employee share-based compensation reserve	**14,864**	10,583
Decrease in retained profits	**14,864**	10,583

	For the year ended 30 June	
	2006	2005
	$000	*$000*
Decrease in profit attributable to equity holders	**4,281**	6,423
Decrease in basic earnings per share ($)	**0.01**	0.01
Decrease in diluted earnings per share ($)	**0.01**	0.01

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 2006 or later periods but which the Group has not early adopted, as follows:

HKAS 1 (Amendment)	Presentation of Financial Statements — Capital Disclosures
HKAS 19 (Amendment)	Employees Benefits — Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 and HKFRS 4 (Amendment)	Financial Guarantee Contracts
HKFRS 1 (Amendment)	First-time Adoption of Hong Kong Financial Reporting Standards
HKFRS 7	Financial Instruments: Disclosures
HKFRS-Int 4	Determining whether an Arrangement contains a Lease

3 Comparative figures

The comparative figures presented in these financial statements have been adjusted for the impact of the adoption of the relevant new HKFRS as set out in note 2.

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 2006			
	Hong Kong	**Macau**	**Elimination**	**Consolidated**
	$000	***$000***	***$000***	***$000***
Revenues	**3,613,226**	**189,329**	**(23,340)**	**3,779,215**
Operating profit	**50,736**	**53,968**	**321**	**105,025**
Finance income				**56,287**
Finance costs				**(69,659)**
Profit before income tax				**91,653**
Income tax expense				**(7,768)**
Profit after income tax				**83,885**
Assets	**4,359,369**	**104,803**	**—**	**4,464,172**
Liabilities	**(1,567,959)**	**(20,124)**	**—**	**(1,588,083)**
Capital expenditures	**677,185**	**12,903**	**—**	**690,088**
Depreciation	**466,822**	**16,438**	**—**	**483,260**
Amortisation	**223,535**	**1,076**	**—**	**224,611**
Loss on disposal of fixed assets	**2,958**	**169**	**—**	**3,127**
Impairment loss of trade receivables	**12,637**	**275**	**—**	**12,912**
(Reversal of impairment loss) / impairment loss of inventories	**(8,097)**	**176**	**—**	**(7,921)**

	For the year ended 30 June 2005 *(restated)*			
	Hong Kong	Macau	Elimination	Consolidated
	$000	*$000*	*$000*	*$000*
Revenues	3,482,886	161,854	(25,248)	3,619,492
Operating profit	299,767	41,912	325	342,004
Finance income				48,722
Finance costs				(39,806)
Profit before income tax				350,920
Income tax expense				(13,705)
Profit after income tax				337,215
Assets	3,948,124	71,739	—	4,019,863
Liabilities	(1,508,740)	(28,299)	—	(1,537,039)
Capital expenditures	744,463	27,737	—	772,200
Depreciation	435,341	15,371	—	450,712
Amortisation	62,882	1,210	—	64,092
Loss/(gain) on disposal of fixed assets	569	(118)	—	451
Impairment loss of trade receivables	13,913	698	—	14,611
Impairment loss of inventories	12,056	47	—	12,103

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

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

Capital expenditure comprises additions to fixed assets and intangible assets and is allocated based on where the assets are located.

5 Other gains

	2006	2005
	$000	*$000*
Write back of certain assets previously written off (a)	**14,045**	—
Write back of provision for amount due from an associate (b)	**—**	26,419
	14,045	26,419

a During the year, the Group recognised other gains amounting to $14,045,000 in respect of recovery of certain other assets which were written off in prior years.

b During the year ended 30 June 2005, following an assessment of the recoverability of the amount due from an associate, the Group reversed the provision for amount due from an associate by $26,419,000.

6 Expenses by nature

	2006	2005
	$000	*$000*
		(restated)
Cost of inventories sold	**886,467**	955,215
Amortisation		
Handset subsidy	**166,209**	30,942
Mobile licence fees	**58,402**	33,150
Depreciation		
Owned fixed assets	**377,522**	325,223
Leased fixed assets	**105,738**	125,489
Operating lease rentals for land and buildings, transmission sites and leased lines	**510,305**	443,677
Auditors' remuneration	**1,632**	1,219
Loss on disposal of fixed assets	**3,127**	451
Net exchange loss/(gain)	**6,220**	(16)
Impairment loss on available-for-sale financial assets	**12,632**	6,531
Contributions to defined contribution plans*	**17,328**	14,334

* *Net of forfeited contributions of $3,078,000 (2005: $4,250,000).*

7 Finance income

	2006	2005
	$000	*$000*
Interest income from debt securities		
Listed	**7,637**	14,275
Unlisted	**16,795**	23,682
	24,432	37,957
Interest income from deposits with banks and other financial institutions	**29,261**	10,765
Accretion income	**2,594**	—
	56,287	48,722

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

8 Finance costs

	2006	2005
	$000	*$000*
		(restated)
Interest expense on bank loans repayable within five years	**—**	144
Accretion expenses		
Asset retirement obligations	**3,559**	3,161
Mobile licence fee liabilities	**66,022**	36,153
Other borrowing costs	**78**	348
	69,659	39,806

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

9 Income tax expense

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profit for the year. Income tax on overseas profits has been calculated on the estimated assessable profit for the year at the tax rates prevailing in the countries in which the Group operates.

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

	2006	2005
	$000	*$000*
		(restated)
Current income tax		
Hong Kong profits tax	**19,488**	2,114
Overseas tax	**5,369**	4,842
Deferred income tax	**(17,089)**	6,749
	7,768	13,705

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

	2006	2005
	$000	*$000*
		(restated)
Profit before income tax	**91,653**	350,920
Notional tax on profit before income tax, calculated at Hong Kong tax rate of 17.5% (2005: 17.5%)	**16,039**	61,411
Effect of different tax rates in other countries	**(4,308)**	(1,037)
Expenses not deductible for tax purposes	**4,062**	2,933
Income not subject to tax	**(12,296)**	(13,101)
Tax losses for which no deferred income tax asset was recognised	**15**	65
Utilisation of previously unrecognised tax losses	**(8,469)**	(30,080)
Recognition of previously unrecognised tax losses	**(5,450)**	(8,311)
Temporary differences not recognised	**18,175**	1,825
Income tax expense	**7,768**	13,705

10 Dividends

	2006	2005
	$000	*$000*
Interim, paid, of nil (2005: $0.19) per share	**—**	110,730
Final, proposed, of $0.12 (2005: $0.20) per share	**69,935**	116,558
Attributable to the year	**69,935**	227,288

At a meeting held on 28 August 2006, the directors proposed a final dividend of $0.12 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 2007.

11 Earnings per share

The calculations of basic and diluted earnings per share are based on the Group's profit attributable to equity holders of $70,020,000 (2005 restated: $326,944,000).

The basic earnings per share is based on the weighted average number of shares in issue during the year of 582,791,428 (2005: 582,813,116). The diluted earnings per share is based on 582,889,237 (2005: 582,837,482) shares which is the weighted average number of shares in issue during the year plus the weighted average number of 97,809 (2005: 24,366) shares deemed to be issued at no consideration if all outstanding options had been exercised.

12 Trade and other receivables

	2006	2005
	$000	*$000*
Trade receivables	**166,136**	181,951
Less: provision for impairment of trade receivables	**(14,241)**	(13,835)
Trade receivables — net	**151,895**	168,116
Deposits and prepayments	**119,587**	117,158
Other receivables	**30,435**	33,528
	301,917	318,802
Less: deposits and prepayments — non-current portion	**(44,296)**	—
Current portion	**257,621**	318,802

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

	2006	2005
	$000	*$000*
Current to 30 days	**138,200**	147,715
31 — 60 days	**10,769**	11,451
61 — 90 days	**2,547**	4,259
Over 90 days	**379**	4,691
	151,895	168,116

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 $12,912,000 (2005: $14,611,000) for the impairment of its trade receivables during the year ended 30 June 2006. The loss has been included in other operating expenses in the consolidated profit and loss account.

13 Cash and bank balances

	2006	2005
	$000	*$000*
Short-term pledged bank deposits (a)	**320,130**	327,539
Cash at bank and in hand	**54,632**	81,295
Short-term bank deposits	**983,898**	356,378
Cash and cash equivalents	**1,038,530**	437,673
	1,358,660	765,212

a Of the pledged bank deposits, $181,733,000 (2005: $170,910,000) has been pledged as cash collateral for the Group's 3G licence performance bonds.

14 Trade and other payables

	2006	2005
	$000	*$000*
		(restated)
Trade payables	**158,225**	137,317
Other payables and accruals	**663,530**	708,518
Current portion	**821,755**	845,835

An ageing analysis of trade payables is as follows:

	2006	2005
	$000	*$000*
Current to 30 days	**92,994**	95,906
31 — 60 days	**28,922**	21,075
61 — 90 days	**7,860**	3,276
Over 90 days	**28,449**	17,060
	158,225	137,317

DIVIDENDS

The directors recommended the payment of a final dividend for the year ended 30 June 2006 of $0.12 per share (2004/05: $0.20 per share) to the shareholders registered in the Company's register of members as at the close of business on 2 November 2006. As no interim dividend was paid by the Company during the year (2004/05: $0.19 per share), the proposed final dividend makes a total dividend of $0.12 per share for the financial year ended 30 June 2006 (2004/05: $0.39 per share). The proposed final dividend, if approved at the forthcoming Annual General Meeting, will be payable on or about 15 November 2006.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 3 November 2006 to Tuesday, 7 November 2006, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the final dividend which are subject to approval at the Annual General Meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on Thursday, 2 November 2006.

PURCHASE, SALE OR REDEMPTION OF SHARES

At no time during the year ended 30 June 2006 was there any purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's shares.

REVIEW OF THE ANNUAL RESULTS BY AUDIT COMMITTEE

The Audit Committee of the Company has reviewed the full year financial statements and reports of the Group for the year ended 30 June 2006. The Committee was content that the accounting policies and methods of computation adopted by the Group are in accordance with the current best practice in Hong Kong. The Committee found no unusual items that were omitted from the financial statements and was satisfied with the disclosures of data and explanations shown in the financial statements.

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

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to building and maintaining high standards of corporate governance. Throughout the financial year ended 30 June 2006, the Company has applied the principles and complied with the requirements set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Listing Rules with the only deviation from code provision A.4.1 in respect of the service term of non-executive directors. Non-executive directors of the Company are not appointed with specific term but they are required to retire from office by rotation and are subject to re-election by shareholders at annual general meeting at least once in every three years.

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

Full details of the report on corporate governance will be set out in the Company's 2005/06 Annual Report.

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

Hong Kong, 28 August 2006

As at the date of this announcement, the 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.