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## **SmarTone Telecommunications Holdings Limited**

*(Incorporated in Bermuda with limited liability)*

**(Stock code: 315)**

### **2009 / 2010 INTERIM RESULTS ANNOUNCEMENT**

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

- Total revenue and service revenue dropped by 7% and 2% respectively
- Data service revenue increased by 23% and accounted for 33% of service revenue
- EBITDA improved by 7%
- Net profit increased by 112% to \$111 million, including two non-recurring items with positive impact of \$23 million
- Strong balance sheet and continuing investment in network superiority

### **CHAIRMAN'S STATEMENT**

I am pleased to report the results of the Group for the six months ended 31 December 2009.

### **Financial Highlights**

Total revenue decreased by 7% to \$1,810 million, compared with the same period last year, reflecting lower handset and accessory sales, and a 2% decline in service revenue. Earnings before interest, tax, depreciation, amortisation, impairment loss and loss on disposal ("EBITDA") improved by 7% to \$517 million as a result of the reduction in interconnection charges and cost control measures. Profit attributable to equity holders increased by 112% to \$111 million. Earnings per share increased by 125% to 20.7 cents.

The Group's results included two non-recurring items comprising of accelerated depreciation and impairment loss in respect of fixed assets at its Macau operations; and deferred income tax credit. Excluding the impact of these two items, operating profit grew by 49% to \$139 million and profit attributable to equity holders of the Company grew by 69% to \$88 million.

## **Dividend**

In line with the Company's dividend policy of full distribution of profit attributable to equity holders excluding extraordinary items, your Board proposes an interim dividend of 17 cents per share.

## **Business Review**

### *Hong Kong*

Service revenue recovered from the low levels in the second half of 2008/09, but remained 2% below the same period last year. Local service revenue was stable as the growth in data service revenue more than offset the decline in local tariffs. Data service revenue increased by 23% year-on-year and accounted for 33% of service revenue during the period. Roaming revenue recovered from the low point in the second half of 2008/09, but was still below the levels before the onset of global financial crisis in the same period last year.

Handset and accessory sales, net of handset subsidies, dropped by 42%, as a result of lower volume of handsets sold and lower average selling price. This reflected reduced local market demand for new handsets and higher handset subsidies.

Total customer number increased by 8% to 1,231,000 as of 31 December 2009, of which just over 70% were postpaid customers. Postpaid churn rate improved to 1.5% from 2.0% in the same period last year. Blended ARPU improved to \$214, compared to \$210 in the previous six months, but was still lower than \$230 for the same period last year.

SmarTone-Vodafone's strategy is to create and deliver unbeatable customer experience through outstanding network performance, compelling and differentiated services and unrivalled customer care.

Our HSPA+ network is already 28.8 Mbps ready, and consistently measures better, in terms of speed and stability, than other networks in Hong Kong. Our backhaul is now fully upgraded to all-IP on fibre, enabling us to increase capacity quickly and more efficiently as bandwidth demand increases. Your Company's preparation and investment has proved timely in accommodating comfortably the dramatic increase in smartphone, mobile and wireless fixed broadband usage, while still maintaining our quality benchmarks. Our superior network performance is now increasingly recognised by customers and the wider market.

Continuing our focus in offering unique and demonstrably superior services and applications, SmarTone-Vodafone exclusively enables customers to watch videos on demand while browsing the most popular websites in Hong Kong, including Facebook, Apple Daily, on.cc, Yahoo!, Tudou and many others. With our proprietary technology, customers can watch videos on YouTube in a much higher resolution than using the same smartphones on other networks. A range of exclusive applications and widgets focusing on local customers' needs, completes a strong and unique line-up of propositions for smartphone users.

Your Company leads the market in providing workshops for customers, helping them to make the most of their phones and services, with more than 150 sessions every month. Also helping customers to choose more easily what they want from various application stores, our Apps Select application provides weekly selections of the latest and most popular apps that are most relevant to local needs and tastes, complete with bi-lingual descriptions and links to the relevant app stores for instant download.

SmarTone-Vodafone commenced selling iPhones in late January 2010 and market response has been encouraging.

In the broadband market, SmarTone-Vodafone took the lead in disclosing the typical usable broadband speeds likely to be experienced by customers, instead of the maximum network speed which is of little relevance to them. Such transparency should increase public confidence and encourage greater wireless broadband adoption.

Offering unrivalled convenience, ease of use and performance, SmarTone-Vodafone's innovative wireless fixed services have made encouraging progress in the fixed voice and broadband markets. This new level of plug-and-play simplicity, requiring no installation or wiring, as well as flexible placement in the home, has resonated well with our customers.

#### *Macau*

Revenue and profit declined in the period as a result of the weak economy. SmarTone Macau was awarded a 3G licence in September 2009 and 3G services are expected to be launched in 2010.

#### **Prospects**

Despite the recent economic recovery, business environment for the second half of the financial year is expected to remain challenging. Competition in the local market could result in further lowering of tariffs and more aggressive handset subsidies. Growth in data service revenue should continue. Roaming revenue is recovering but is still likely to be lower than the levels prior to the financial markets turmoil.

Your Company will maintain its leadership in network performance by continuing to invest in network upgrades for higher speed and capacity. Network speeds will increase to 42 Mbps in 2010, paving the way for 80 Mbps and even higher speeds with the implementation of 4G LTE.

SmarTone-Vodafone continues to innovate and develop new service propositions in voice, broadband and multimedia & applications to meet increasing customer expectation for a better experience. With its brand's growing appeal to demanding and higher-paying customers, and making use of its existing business infrastructure including the HSPA+ network, distribution channels and business support systems, SmarTone-Vodafone will pursue opportunities in both the mobile and fixed markets.

### **Appreciation**

During the period, Mr. Michael Yick-kam Wong resigned as Non-Executive Director and Member of Audit Committee. The Board would like to take this opportunity to thank Mr. Wong for his valuable contributions to the Company over the past years. Mr. Alfred Wing-kit Tsim has been appointed as Non-Executive Director and Member of Audit Committee of the Company. I would like to welcome Mr. Tsim to the Board.

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

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

Hong Kong, 3 March 2010

## MANAGEMENT DISCUSSION AND ANALYSIS

### Review of financial results

Service revenue declined by 2% to \$1,659 million (first half of 2008/09: \$1,696 million) while cost of services provided decreased by 18% to \$288 million (first half of 2008/09: \$350 million). Handset and accessory sales fell by 42% whereas cost of inventories sold dropped by 39%. Operating expenses reduced by 2%. As a result, earnings before interest, tax, depreciation, amortisation, impairment loss and loss on disposal ("EBITDA") increased by 7% to \$517 million (first half of 2008/09: \$482 million). Depreciation, amortisation, impairment loss and loss on disposal increased by 10% to \$429 million (first half of 2008/09: \$389 million), including accelerated depreciation and impairment loss of fixed assets totalled \$51 million (first half of 2008/09: nil). As a result, operating profit fell by 6% to \$87 million (first half of 2008/09: \$93 million). Finance income fell by 31% to \$16 million (first half of 2008/09: \$23 million). The Group recognised deferred tax assets of \$61 million (first half of 2008/09: nil), comprising a net amount of \$55 million related to certain previously unrecognised deferred tax assets recognised upon the restructuring of business operations in Hong Kong for ongoing cost savings, and an amount of \$6 million related to accelerated depreciation and impairment loss of fixed assets. This resulted in an income tax credit of \$46 million (first half of 2008/09: income tax expense of \$9 million). Profit attributable to equity holders of the Company grew by 112% to \$111 million (first half of 2008/09: \$52 million).

There were two non-recurring items, comprising of accelerated depreciation and impairment loss of fixed assets, and deferred income tax credit. Excluding the impact of these two items, operating profit grew by 49% to \$139 million (first half of 2008/09: \$93 million) whereas profit attributable to equity holders of the Company grew by 69% to \$88 million (first half of 2008/09: \$52 million).

Revenues declined by \$145 million or 7% to \$1,810 million (first half of 2008/09: \$1,955 million).

- Service revenue declined by \$37 million or 2% to \$1,659 million (first half of 2008/09: \$1,696 million) due to lower roaming revenue, offsetting the growth in local service revenue. The continued downward pressure on roaming tariffs and reduction in business travel since late 2008 amidst the global economic downturn had a material negative impact on roaming revenue. The increase in local service revenue was driven by higher data service revenue, offsetting the drop in postpaid voice and prepaid revenue.

Data service revenue grew strongly by 23% as a result of the increasing popularity of smartphones and higher penetration of mobile and fixed broadband services.

Hong Kong blended ARPU fell by 7% to \$214 (first half of 2008/09: \$230), reflecting continued downward pressure on local tariffs and lower roaming revenue.

- Handset and accessory sales fell by \$108 million or 42% to \$151 million (first half of 2008/09: \$259 million) attributable to reduced sales volume and lower average unit selling price resulted from keen market competition.

Cost of inventories sold and services provided decreased by \$161 million or 27% to \$442 million (first half of 2008/09: \$603 million). Cost of inventories sold fell by \$98 million or 39% to \$154 million (first half of 2008/09: \$252 million) broadly in line with the fall in handset and accessory sales. Cost of services provided decreased by \$63 million or 18% to \$288 million (first half of 2008/09: \$350 million) mainly due to lower fixed-mobile interconnection charge ("FMIC") and roaming costs. As disclosed in note 14 to this results announcement, FMIC was not provided for since 27 April 2009 upon withdrawal of the regulatory guidance on FMIC by the Office of the Telecommunications Authority of Hong Kong.

Operating expenses, excluding depreciation, amortisation, impairment loss and loss on disposal, fell by 2% to \$851 million (first half of 2008/09: \$870 million). Network operating costs increased by 3% as the Group continued to improve on network capacity, quality and coverage. The upgrade to a full all-IP network infrastructure resulted in cost increases during the transition period but an improved cost structure going forward. With lower spending on advertising campaigns, sales and marketing expenses dropped by 8%. Staff costs, rental and utilities, and other operating expenses fell by 5% collectively as a result of the Group's cost saving measures.

Depreciation, impairment loss and loss on disposal increased by 19% to \$273 million (first half of 2008/09: \$229 million), including accelerated depreciation and impairment loss of fixed assets totalled \$51 million (first half of 2008/09: nil) for the impending early retirement of certain 2G mobile network equipment of Macau operations upon the change of sole network solution provider for the launch of 3G mobile network and replacement of 2G mobile network.

Handset subsidy amortisation fell by 4% to \$123 million (first half of 2008/09: \$128 million). Mobile licence fee amortisation remained broadly stable at \$34 million (first half of 2008/09: \$32 million).

Finance income decreased by 31% or \$7 million to \$16 million (first half of 2008/09: \$23 million) as interest rates plummeted. Finance costs remained broadly stable at \$43 million (first half of 2008/09: \$42 million). Finance costs, comprising of the deemed interest on mobile licence fee liabilities and asset retirement obligations, were not attributable to bank or other borrowings.

The results of Macau operations were adversely affected by economic slowdown and the non-recurring accelerated depreciation and impairment loss of fixed assets totalled \$51 million (first half of 2008/09: nil). Revenues fell by 17% to \$112 million (first half of 2008/09: \$135 million). Cost of inventories sold and services provided, and operating expenses decreased by 8% collectively. Depreciation, amortisation, impairment loss and loss on disposal increased by 377% to \$65 million (first half of 2008/09: \$14 million). As a result, Macau operations recorded an operating loss of \$19 million (first half of 2008/09: operating profit of \$49 million). Excluding the impact of the non-recurring items, comprised of accelerated depreciation and impairment loss of fixed assets, operating profit declined by 35% to \$32 million (first half of 2008/09: \$49 million).

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

There had been no major changes to the Group's capital structure during the period ended 31 December 2009. The Group was financed by share capital and internally generated funds during the period. The cash resources of the Group remained strong with cash and bank balances (including pledged bank deposits) and investments in held-to-maturity debt securities of \$1,409 million at 31 December 2009 (30 June 2009: \$1,411 million). As at 31 December 2009, the Group had no bank or other borrowings.

During the period ended 31 December 2009, the Group's net cash generated from operating activities and interest received amounted to \$504 million and \$14 million respectively. The Group's major outflows of funds during the period under review were payments for the purchase of fixed assets, handset subsidies, mobile licence fees, share repurchases and 2008/09 final dividend.

During the period ended 31 December 2009, the Company repurchased 6,651,500 shares of the Company at an aggregate price of \$38 million on The Stock Exchange of Hong Kong Limited. The highest and lowest prices per share were \$6.55 and \$5.12 respectively. Of these repurchased shares, 6,098,000 shares were cancelled prior to 31 December 2009 and the balance of 553,500 shares were cancelled subsequently in January 2010.

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

## **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 in bank deposits or invested in investment grade debt securities. Bank deposits are principally maintained in Hong Kong and United States dollars. Investments in debt securities are denominated in either Hong Kong dollar or United States dollar, and having a maximum maturity of three years. The Group's policy is to hold its investments in debt securities until maturity.

The Group is required to arrange for banks to issue performance bonds and letters of credit on its behalf. In certain circumstances, the Group will partially or fully collateralise such instruments by cash deposits to lower the issuance costs. Pledged bank deposits amounted to \$354 million as at 31 December 2009 (30 June 2009: \$389 million).

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

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

## **Contingent assets and liabilities**

### *Fixed-mobile interconnection charge*

As at 31 December 2009, the Group had contingent assets and liabilities in respect of fixed-mobile interconnection charge of up to \$90 million (30 June 2009: \$24 million) and \$61 million (30 June 2009: \$16 million) respectively as disclosed in note 14 to this results announcement.

### *Performance bonds*

Certain banks, on the Group's behalf, have issued performance bonds to the telecommunications authorities of Hong Kong and Macau in respect of obligations under licences issued by those authorities. The total amount outstanding at 31 December 2009 under these performance bonds was \$558 million (30 June 2009: \$505 million).



#### *Lease out, lease back arrangement*

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

#### **Employees and share option scheme**

The Group had 1,781 full-time employees as at 31 December 2009 (30 June 2009: 1,861), with the majority of them based in Hong Kong. Total staff costs were \$219 million for the period ended 31 December 2009 (first half of 2008/09: \$221 million).

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

The Group has a share option scheme under which the Company may grant options to participants, including directors and employees, to subscribe for shares of the Company. During the period ended 31 December 2009, no share options were granted or exercised; and 97,000 share options were cancelled or lapsed. At 31 December 2009, 8,749,500 share options (30 June 2009: 8,846,500) were outstanding.

## RESULTS

The directors of the Company are pleased to present the Group's consolidated profit and loss account and consolidated statement of comprehensive income for the six months ended 31 December 2009 and the consolidated balance sheet as at 31 December 2009 of the Group, all of which are unaudited and condensed, along with selected explanatory notes.

### Condensed Consolidated Profit and Loss Account

For the six months ended 31 December 2009

|                                                                                                                                  | Note | Unaudited six months<br>ended 31 December |               |
|----------------------------------------------------------------------------------------------------------------------------------|------|-------------------------------------------|---------------|
|                                                                                                                                  |      | 2009<br>\$000                             | 2008<br>\$000 |
| Service revenue                                                                                                                  |      | <b>1,658,682</b>                          | 1,696,074     |
| Handset and accessory sales                                                                                                      |      | <b>150,877</b>                            | 258,560       |
| Revenues                                                                                                                         | 4    | <b>1,809,559</b>                          | 1,954,634     |
| Cost of inventories sold and services provided                                                                                   |      | <b>(442,099)</b>                          | (602,641)     |
| Network costs                                                                                                                    |      | <b>(374,277)</b>                          | (363,386)     |
| Staff costs                                                                                                                      |      | <b>(219,403)</b>                          | (221,453)     |
| Sales and marketing expenses                                                                                                     |      | <b>(115,101)</b>                          | (125,228)     |
| Rental and utilities                                                                                                             |      | <b>(78,241)</b>                           | (81,936)      |
| Other operating expenses                                                                                                         |      | <b>(63,881)</b>                           | (77,635)      |
| Depreciation, amortisation, impairment loss and loss on disposal                                                                 |      | <b>(429,059)</b>                          | (389,490)     |
| Operating profit                                                                                                                 |      | <b>87,498</b>                             | 92,865        |
| Finance income                                                                                                                   | 5    | <b>15,906</b>                             | 22,994        |
| Finance costs                                                                                                                    | 6    | <b>(43,173)</b>                           | (42,013)      |
| Profit before income tax                                                                                                         | 7    | <b>60,231</b>                             | 73,846        |
| Income tax credit/(expense)                                                                                                      | 8    | <b>46,072</b>                             | (9,319)       |
| Profit after income tax                                                                                                          |      | <b>106,303</b>                            | 64,527        |
| Attributable to:                                                                                                                 |      |                                           |               |
| Equity holders of the Company                                                                                                    |      | <b>111,167</b>                            | 52,336        |
| Minority interests                                                                                                               |      | <b>(4,864)</b>                            | 12,191        |
|                                                                                                                                  |      | <b>106,303</b>                            | 64,527        |
| Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in cents per share) | 9    |                                           |               |
| Basic                                                                                                                            |      | <b>20.7</b>                               | 9.2           |
| Diluted                                                                                                                          |      | <b>20.7</b>                               | 9.2           |
| Dividends                                                                                                                        | 10   | <b>132,936</b>                            | 111,620       |

## Condensed Consolidated Statement of Comprehensive Income

For the six months ended 31 December 2009

|                                                                    | Unaudited six months<br>ended 31 December |          |
|--------------------------------------------------------------------|-------------------------------------------|----------|
|                                                                    | 2009                                      | 2008     |
|                                                                    | \$000                                     | \$000    |
| Profit for the period                                              | <b>106,303</b>                            | 64,527   |
| Other comprehensive income:                                        |                                           |          |
| Fair value gain/(loss) on financial investments, net of tax        | <b>510</b>                                | (16,871) |
| Currency translation differences                                   | <b>162</b>                                | (119)    |
| Other comprehensive income/(expense) for the period,<br>net of tax | <b>672</b>                                | (16,990) |
| Total comprehensive income for the period                          | <b>106,975</b>                            | 47,537   |
| Total comprehensive income attributable to:                        |                                           |          |
| Equity holders of the Company                                      | <b>111,839</b>                            | 35,346   |
| Minority interests                                                 | <b>(4,864)</b>                            | 12,191   |
|                                                                    | <b>106,975</b>                            | 47,537   |

## Condensed Consolidated Balance Sheet

As at 31 December 2009 and 30 June 2009

|                                                                   | Note | Unaudited<br>31 December<br>2009<br>\$000 | Audited<br>30 June<br>2009<br>\$000<br>(restated) |
|-------------------------------------------------------------------|------|-------------------------------------------|---------------------------------------------------|
| <b>Non-current assets</b>                                         |      |                                           |                                                   |
| Leasehold land                                                    |      | 16,068                                    | 16,362                                            |
| Fixed assets                                                      |      | 1,793,801                                 | 1,844,639                                         |
| Interest in an associate                                          |      | 3                                         | 3                                                 |
| Financial investments - non-current portion                       |      | 702,803                                   | 390,507                                           |
| Intangible assets                                                 |      | 711,362                                   | 701,790                                           |
| Deposits and prepayments - non-current portion                    |      | 86,180                                    | 93,682                                            |
|                                                                   |      | <b>3,310,217</b>                          | <b>3,046,983</b>                                  |
| <b>Current assets</b>                                             |      |                                           |                                                   |
| Inventories                                                       |      | 62,892                                    | 75,182                                            |
| Financial investments - current portion                           |      | 75,491                                    | -                                                 |
| Trade receivables                                                 | 11   | 172,592                                   | 168,759                                           |
| Deposits and prepayments - current portion                        |      | 139,819                                   | 130,695                                           |
| Other receivables                                                 |      | 24,463                                    | 25,798                                            |
| Pledged bank deposits                                             |      | 354,427                                   | 388,626                                           |
| Cash and cash equivalents                                         |      | 313,348                                   | 668,271                                           |
|                                                                   |      | <b>1,143,032</b>                          | <b>1,457,331</b>                                  |
| <b>Current liabilities</b>                                        |      |                                           |                                                   |
| Trade payables                                                    | 12   | 187,523                                   | 148,077                                           |
| Other payables and accruals                                       |      | 612,922                                   | 627,593                                           |
| Current income tax liabilities                                    |      | 16,591                                    | 48,920                                            |
| Customers' deposits                                               |      | 28,996                                    | 26,702                                            |
| Deferred income                                                   |      | 86,962                                    | 81,811                                            |
| Mobile licence fee liabilities - current portion                  |      | 88,609                                    | 83,290                                            |
|                                                                   |      | <b>1,021,603</b>                          | <b>1,016,393</b>                                  |
| <b>Net current assets</b>                                         |      | <b>121,429</b>                            | <b>440,938</b>                                    |
| <b>Total assets less current liabilities</b>                      |      | <b>3,431,646</b>                          | <b>3,487,921</b>                                  |
| <b>Non-current liabilities</b>                                    |      |                                           |                                                   |
| Asset retirement obligations                                      |      | 55,853                                    | 55,353                                            |
| Mobile licence fee liabilities - non-current portion              |      | 626,179                                   | 652,260                                           |
| Deferred income tax liabilities                                   | 13   | 37,335                                    | 97,650                                            |
| <b>Net assets</b>                                                 |      | <b>2,712,279</b>                          | <b>2,682,658</b>                                  |
| <b>Capital and reserves</b>                                       |      |                                           |                                                   |
| Share capital                                                     |      | 53,164                                    | 53,774                                            |
| Reserves                                                          |      | 2,630,469                                 | 2,595,374                                         |
| <b>Total equity attributable to equity holders of the Company</b> |      | <b>2,683,633</b>                          | <b>2,649,148</b>                                  |
| Minority interests                                                |      | 28,646                                    | 33,510                                            |
| <b>Total equity</b>                                               |      | <b>2,712,279</b>                          | <b>2,682,658</b>                                  |

## Notes to the Condensed Interim Financial Statements

### 1 General information

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

The Company is a limited liability company incorporated in Bermuda. The address of its head office and principal place of business is 31/F, Millennium City 2, 378 Kwun Tong Road, Kwun Tong, Hong Kong.

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

These unaudited condensed consolidated interim financial information (the “Interim Financial Statements”) are presented in thousands of units of HK dollars (\$000), unless otherwise stated. The Interim Financial Statements have been approved for issue by the board of directors on 3 March 2010.

### 2 Basis of preparation

The Interim Financial Statements for the six months ended 31 December 2009 have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting”. The Interim Financial Statements should be read in conjunction with the annual financial statements for the year ended 30 June 2009 which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

### 3 Accounting policies

Except as described below, the accounting policies adopted are consistent with those of the annual financial statements for the year ended 30 June 2009, as described in those annual financial statements for the year ended 30 June 2009.

Taxes on income in the interim periods are accrued using tax rate that would be applicable to expected total annual earnings.

The following new standards, amendments to standards and interpretations are mandatory for the financial year ending 30 June 2010. The following new standards, amendments to standards and interpretations are relevant to the Group’s operations but did not result in material impacts to the Group’s financial statements for the year ending 30 June 2010.

|                     |                                                                                                          |
|---------------------|----------------------------------------------------------------------------------------------------------|
| HKAS 1 (Revised)    | Presentation of Financial Statements <sup>1</sup>                                                        |
| HKAS 23 (Revised)   | Borrowing Costs <sup>1</sup>                                                                             |
| HKAS 27 (Revised)   | Consolidated and Separate Financial Statements <sup>2</sup>                                              |
| HKFRS 2 (Amendment) | Share-based Payment – Vesting Conditions and Cancellations <sup>1</sup>                                  |
| HKFRS 3 (Revised)   | Business Combinations <sup>2</sup>                                                                       |
| HKFRS 7 (Amendment) | Financial Instruments – Fair Value Measurements and Liquidity Risk of Financial Instruments <sup>1</sup> |
| HKFRS 8             | Operating Segments <sup>1</sup>                                                                          |
| HK (IFRIC) – INT 17 | Distributions of Non-cash Assets to Owners <sup>2</sup>                                                  |
| HK (IFRIC) – INT 18 | Transfer of Assets from Customers <sup>2</sup>                                                           |

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

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

Apart from the above, a number of improvements and minor amendments to HKFRSs have also been issued by the Hong Kong Institute of Certified Public Accountants and are effective for the accounting period ended 31 December 2009. However, they have no significant impact on the Interim Financial Statements.

The following new standards, amendments to standards and interpretations to existing standards have been published that are mandatory for the Group's accounting policies beginning on or after 1 July 2010 or later periods and are relevant to the Group's operations but which the Group has not been early adopted.

|                     |                                                                 |
|---------------------|-----------------------------------------------------------------|
| HKAS 1 (Amendment)  | Presentation of Financial Statements <sup>1</sup>               |
| HKAS 7 (Amendment)  | Statement of Cash Flows <sup>1</sup>                            |
| HKAS 36 (Amendment) | Impairment of Assets <sup>1</sup>                               |
| HKAS 39 (Amendment) | Financial Instruments: Recognition and Measurement <sup>1</sup> |
| HKFRS 2 (Amendment) | Group Cash-settled Share-based Payment Transaction <sup>2</sup> |
| HKFRS 8 (Amendment) | Operating Segments <sup>1</sup>                                 |
| HKFRS 9             | Financial Instruments <sup>3</sup>                              |

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2010.

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2010.

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2013.

#### 4 Segment information

The chief operating decision-maker (the "CODM") has been identified as the Group's senior executive management. The CODM reviews the Group's internal reporting in order to assess performance and allocate resources. The CODM has determined the operating segments based on these reports.

The CODM considers the business from a geographic perspective. The CODM measures the performance of its segments based on earnings before interest, tax, depreciation, amortisation, impairment loss and loss on disposal ("EBITDA") and operating profit.

An analysis of the Group's segment information by geographical segment is set out as follows:

##### (a) Segment results

|                                                                               | Unaudited six months ended 31 December 2009 |                 |                      |                       |
|-------------------------------------------------------------------------------|---------------------------------------------|-----------------|----------------------|-----------------------|
|                                                                               | Hong Kong<br>\$000                          | Macau<br>\$000  | Elimination<br>\$000 | Consolidated<br>\$000 |
| Revenues                                                                      | <u>1,709,602</u>                            | <u>111,909</u>  | <u>(11,952)</u>      | <u>1,809,559</u>      |
| EBITDA                                                                        | <u>471,075</u>                              | <u>45,482</u>   | <u>-</u>             | <u>516,557</u>        |
| Depreciation, amortisation,<br>impairment loss and loss<br>on disposal (Note) | <u>(364,150)</u>                            | <u>(64,909)</u> | <u>-</u>             | <u>(429,059)</u>      |
| Operating profit/(loss)                                                       | <u>106,925</u>                              | <u>(19,427)</u> | <u>-</u>             | <u>87,498</u>         |

|                                                                        | Unaudited six months ended 31 December 2008 |                 |                      |                       |
|------------------------------------------------------------------------|---------------------------------------------|-----------------|----------------------|-----------------------|
|                                                                        | Hong Kong<br>\$000                          | Macau<br>\$000  | Elimination<br>\$000 | Consolidated<br>\$000 |
| Revenues                                                               | <u>1,834,874</u>                            | <u>135,030</u>  | <u>(15,270)</u>      | <u>1,954,634</u>      |
| EBITDA                                                                 | 419,723                                     | 62,632          | -                    | 482,355               |
| Depreciation, amortisation,<br>impairment loss and loss<br>on disposal | <u>(375,872)</u>                            | <u>(13,618)</u> | <u>-</u>             | <u>(389,490)</u>      |
| Operating profit                                                       | <u>43,851</u>                               | <u>49,014</u>   | <u>-</u>             | <u>92,865</u>         |

Note: Included accelerated depreciation of \$40,472,000 and impairment loss of fixed assets of \$10,700,000 for Macau operations recognised as a result of the impending early retirement of certain 2G mobile network equipment, following the change of sole network solution provider for the launch of 3G mobile network and replacement of 2G mobile network.

(b) Segment assets

|                                            | Hong Kong<br>\$000      | Macau<br>\$000        | Unallocated<br>\$000  | Consolidated<br>\$000   |
|--------------------------------------------|-------------------------|-----------------------|-----------------------|-------------------------|
| <b>At 31 December 2009<br/>(Unaudited)</b> | <u><b>3,549,685</b></u> | <u><b>125,267</b></u> | <u><b>778,297</b></u> | <u><b>4,453,249</b></u> |
| At 30 June 2009 (Audited)                  | <u>3,957,625</u>        | <u>156,179</u>        | <u>390,510</u>        | <u>4,504,314</u>        |

**5 Finance income**

|                                               | Unaudited six months<br>ended 31 December |               |
|-----------------------------------------------|-------------------------------------------|---------------|
|                                               | <b>2009</b>                               | 2008          |
|                                               | <b>\$000</b>                              | \$000         |
| Interest income from listed debt securities   | <b>13,435</b>                             | 7,801         |
| Interest income from unlisted debt securities | <b>1,672</b>                              | -             |
| Interest income from bank deposits            | <b>728</b>                                | 14,253        |
| Accretion income                              | <b>71</b>                                 | 940           |
|                                               | <u><b>15,906</b></u>                      | <u>22,994</u> |

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

## 6 Finance costs

|                                | Unaudited six months<br>ended 31 December |               |
|--------------------------------|-------------------------------------------|---------------|
|                                | 2009                                      | 2008          |
|                                | \$000                                     | \$000         |
| Accretion expenses             |                                           |               |
| Mobile licence fee liabilities | 41,896                                    | 40,544        |
| Asset retirement obligations   | 1,277                                     | 1,469         |
|                                | <u>43,173</u>                             | <u>42,013</u> |

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

## 7 Profit before income tax

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

|                                                                                     | Unaudited six months<br>ended 31 December |            |
|-------------------------------------------------------------------------------------|-------------------------------------------|------------|
|                                                                                     | 2009                                      | 2008       |
|                                                                                     | \$000                                     | \$000      |
|                                                                                     |                                           | (restated) |
| Cost of inventories sold                                                            | 149,657                                   | 254,024    |
| Impairment loss/(reversal of impairment loss) of inventories                        | 4,799                                     | (1,653)    |
| Operating lease rentals for land and buildings, transmission sites and leased lines | 336,984                                   | 330,220    |
| Amortisation                                                                        |                                           |            |
| Handset subsidies                                                                   | 122,755                                   | 128,424    |
| Mobile licence fees                                                                 | 33,646                                    | 32,191     |
| Leasehold land                                                                      | 317                                       | -          |
| Depreciation                                                                        |                                           |            |
| Owned fixed assets                                                                  | 220,994                                   | 187,617    |
| Leased fixed assets                                                                 | 38,727                                    | 38,844     |
| Impairment loss of fixed assets                                                     | 10,700                                    | -          |
| Loss on disposal of fixed assets                                                    | 1,920                                     | 2,414      |
| Net exchange (gain)/loss                                                            | (120)                                     | 4,413      |



## 8 Income tax credit/(expense)

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

The amount of income tax credit/(expense) recognised in the condensed consolidated profit and loss account represents:

|                               | Unaudited six months<br>ended 31 December |         |
|-------------------------------|-------------------------------------------|---------|
|                               | 2009                                      | 2008    |
|                               | \$000                                     | \$000   |
| <hr/>                         |                                           |         |
| Current income tax            |                                           |         |
| Hong Kong profits tax         | (9,938)                                   | (2,828) |
| Overseas tax                  | (4,305)                                   | (5,875) |
| Deferred income tax (note 13) | 60,315                                    | (616)   |
|                               | <hr/>                                     | <hr/>   |
|                               | 46,072                                    | (9,319) |
|                               | <hr/>                                     | <hr/>   |
| <hr/>                         |                                           |         |

## 9 Earnings per share

The calculations of basic and diluted earnings per share are based on the Group's profit attributable to equity holders of \$111,167,000 (2008: \$52,336,000).

The basic earnings per share is based on the weighted average number of shares in issue during the period of 537,167,239 (2008: 566,025,381). The diluted earnings per share is based on 537,167,239 (2008: 566,025,381) shares which is the weighted average number of shares in issue during the period plus the weighted average number of nil (2008: nil) shares deemed to be issued at no consideration if all outstanding options had been exercised.

## 10 Dividends

|                                                                | Unaudited six months<br>ended 31 December |                |
|----------------------------------------------------------------|-------------------------------------------|----------------|
|                                                                | 2009                                      | 2008           |
|                                                                | \$000                                     | \$000          |
| <hr/>                                                          |                                           |                |
| In respect of the period                                       |                                           |                |
| Interim dividend declared of 17 cents (2008: nil)<br>per share | 89,917                                    | -              |
| Attributable to prior years paid in the period                 |                                           |                |
| Final dividend of 8 cents (2008: 20 cents) per<br>share        | 43,019                                    | 111,620        |
|                                                                | <u>132,936</u>                            | <u>111,620</u> |
| <hr/>                                                          |                                           |                |

At a meeting held on 3 March 2010, the directors declared an interim dividend of 17 cents per share for the year ending 30 June 2010. The interim dividend declared is not reflected as a dividend payable in the Interim Financial Statements, but will be reflected as an appropriation of retained profits for the year ending 30 June 2010.

At a meeting held on 2 September 2009, the directors declared a final dividend of 8 cents per share for the year ended 30 June 2009, which were paid on 16 November 2009 and have been reflected as an appropriation of retained profits for the six months ended 31 December 2009.

The interim dividend declared is calculated based on the number of shares in issue at the date of approval of the Interim Financial Statements.

## 11 Trade receivables

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

|                    | <b>Unaudited<br/>31 December<br/>2009<br/>\$000</b> | <b>Audited<br/>30 June<br/>2009<br/>\$000</b> |
|--------------------|-----------------------------------------------------|-----------------------------------------------|
| Current to 30 days | <b>152,070</b>                                      | 146,988                                       |
| 31 - 60 days       | <b>13,986</b>                                       | 14,075                                        |
| 61 - 90 days       | <b>3,251</b>                                        | 4,312                                         |
| Over 90 days       | <b>3,285</b>                                        | 3,384                                         |
|                    | <b>172,592</b>                                      | 168,759                                       |

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 \$6,303,000 (2008: \$6,505,000) for the impairment of its trade receivables during the six months ended 31 December 2009. The loss has been included in other operating expenses in the condensed consolidated profit and loss account.

## 12 Trade payables

An ageing analysis of trade payables is as follows:

|                    | <b>Unaudited<br/>31 December<br/>2009<br/>\$000</b> | <b>Audited<br/>30 June<br/>2009<br/>\$000</b> |
|--------------------|-----------------------------------------------------|-----------------------------------------------|
| Current to 30 days | <b>85,391</b>                                       | 101,227                                       |
| 31 - 60 days       | <b>71,647</b>                                       | 30,081                                        |
| 61 - 90 days       | <b>22,419</b>                                       | 3,103                                         |
| Over 90 days       | <b>8,066</b>                                        | 13,666                                        |
|                    | <b>187,523</b>                                      | 148,077                                       |

### 13 Deferred income tax

Deferred income tax for the Group's temporary differences arising from operations in Hong Kong and overseas is calculated at 16.5% (2008: 16.5%) and the appropriate current tax rates ruling in the relevant countries respectively.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The amounts determined after appropriate offsetting, as shown in the condensed consolidated balance sheet are as follows:

|                                 | <b>Unaudited<br/>31 December<br/>2009<br/>\$000</b> | Audited<br>30 June<br>2009<br>\$000 |
|---------------------------------|-----------------------------------------------------|-------------------------------------|
| Deferred income tax liabilities | <b><u>37,335</u></b>                                | <u>97,650</u>                       |

The movements in the deferred income tax liabilities in relation to accelerated tax allowances are as follows:

|                                                                                             | Unaudited<br>\$000   |
|---------------------------------------------------------------------------------------------|----------------------|
| At 1 July 2009                                                                              | <u>97,650</u>        |
| Recognition of previously unrecognised deferred tax assets (i)                              | (55,315)             |
| Recognition of deferred tax assets in respect of fixed assets pending early retirement (ii) | (6,141)              |
| Other                                                                                       | <u>1,141</u>         |
| Recognised in the consolidated profit and loss account (note 8)                             | <u>(60,315)</u>      |
| <b>At 31 December 2009</b>                                                                  | <b><u>37,335</u></b> |

Notes:

- (i) The net amount of \$55,315,000 related to certain previously unrecognised deferred tax assets in respect of temporary differences arising from intangible assets, fixed assets and mobile licence fee liabilities, which were recognised upon the restructuring of business operations in Hong Kong when such deferred tax assets became recognisable.
- (ii) The amount of \$6,141,000 of deferred tax assets related to temporary differences arising from fixed assets as a result of the impending early retirement of certain 2G mobile network equipment for Macau operations.

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable.

The Group has not recognised deferred income tax assets of \$13,294,000 (30 June 2009: \$9,437,000) in respect of tax losses of \$80,567,000 (30 June 2009: \$57,192,000). The tax losses do not expire under current tax legislation.

#### **14 Other contingent assets and liabilities**

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

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

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

For the six months ended 31 December 2009, the Group issued invoices with a total amount of \$65,991,000 (2008: Nil) to the interconnecting FNOs for telephony traffic originated from their fixed networks to the Group’s mobile network. The FNOs rejected these invoices in writing on the ground that the commercial terms for interconnection had not been agreed upon.

For the six months ended 31 December 2009, the Group received invoices with a total amount of \$45,440,000 (2008: Nil) from certain interconnecting FNOs for telephony traffic delivered. The Group rejected these invoices in writing on the ground that the commercial terms for interconnection had not been agreed upon.

No income or charge in respect of fixed-mobile interconnection has been recognised for the period from 27 April 2009 to 31 December 2009 since it is impracticable to estimate the amount or timing of such income and charge. As at 31 December 2009, the Group had contingent assets and liabilities in respect of fixed-mobile interconnection charge of up to \$90,142,000 (30 June 2009: \$24,151,000) and \$61,356,000 (30 June 2009: \$15,916,000) respectively.

**15 Comparative figures**

Certain comparative figures have been reclassified to conform with the current period's presentation.

## **INTERIM DIVIDEND**

The directors declared an interim dividend of 17 cents per share for the six months ended 31 December 2009 (2008: nil) to shareholders whose names appear in the Register of Members of the Company on 31 March 2010. It is expected that the interim dividend warrants will be despatched to shareholders on or about 16 April 2010.

## **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members of the Company will be closed from Monday, 29 March 2010 to Wednesday, 31 March 2010, both days inclusive, during which period no transfer of shares will be registered. In order to establish entitlements to the aforesaid interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong by no later than 4:30 p.m. on Friday, 26 March 2010.

## **PURCHASE, SALE OR REDEMPTION OF SHARES**

During the six months ended 31 December 2009, the Company repurchased 6,651,500 shares of the Company on The Stock Exchange of Hong Kong Limited. Of these repurchased shares, 6,098,000 shares were cancelled prior to 31 December 2009 and the balance of 553,500 shares were cancelled subsequently in January 2010. Details of the repurchases were as follows:

| Month of repurchase | Number of shares<br>repurchased | Price per share |        | Aggregate<br>price paid |
|---------------------|---------------------------------|-----------------|--------|-------------------------|
|                     |                                 | Highest         | Lowest |                         |
|                     |                                 | \$              | \$     | \$                      |
| December 2009       | 6,651,500                       | 6.55            | 5.12   | 37,898,000              |

Save as disclosed above, at no time during the six months ended 31 December 2009 was there any purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's shares.

## **REVIEW OF INTERIM RESULTS**

The Audit Committee of the Company has reviewed the interim financial statements as well as the internal audit reports of the Group for the six months ended 31 December 2009. The Committee was satisfied that the accounting policies and methods of computation adopted by the Group are in accordance with the current best practices in Hong Kong. The Committee found no unusual items that were omitted from the financial statements and was satisfied with the disclosures of data and explanations shown in the financial statements. The Committee was also satisfied with the internal control measures adopted by the Group.

The interim financial statements for the six months ended 31 December 2009 have not been audited but have been reviewed by the Company's external auditors.

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

## **CORPORATE GOVERNANCE**

The Company is committed to building and maintaining high standards of corporate governance. Throughout the six months ended 31 December 2009, the Company has applied the principles and complied with the requirements set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Listing Rules, except for the following deviations:

Code Provision A.4.1 of the CG Code provides that non-executive directors should be appointed for a specific term. Non-executive directors of the Company are not appointed with specific term but they are required to retire from office by rotation and are subject to re-election by shareholders at annual general meeting once every three years in accordance with the Company's bye-laws. As such, no director has a term of appointment longer than three years.

Code Provision E.1.2 of the CG Code provides that the chairman of the board should attend the annual general meeting. The Chairman of the Board, Mr. Raymond Kwok, was unable to attend the annual general meeting of the Company held on 6 November 2009 due to his other business engagement. Dr. Eric Ka-Cheung Li, an independent non-executive director of the Company, took the chair pursuant to the bye-laws of the Company.

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

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

Hong Kong, 3 March 2010

*As at the date of this announcement, the Executive Directors of the Company are Mr. Douglas Li and Mr. Patrick Kai-lung Chan; Non-Executive Directors are Mr. Raymond Ping-luen Kwok, Mr. Wing-yui Cheung, Mr. David Norman Prince, Mr. Wing-chung Yung, Mr. Thomas Hon-wah Siu and Mr. Alfred Wing-kit Tsim; Independent Non-Executive Directors are Dr. Eric Ka-cheung Li, JP, Mr. Leung-sing Ng, JP, Mr. Xiang-dong Yang, Mr. Eric Fock-kin Gan and Mr. Peter David Sullivan.*