# SmarTone Telecommunications Holdings Limited

*(Incorporated in Bermuda with limited liability)*
**(Stock code: 315)**

## 2010 / 2011 INTERIM RESULTS ANNOUNCEMENT

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

- Service revenue increased 29%, driven by strong growth in both customer number and ARPU
- Margin expansion as costs scale less than revenues
- EBITDA increased 78% to $921 million
- Net profit, at $321 million, exceeded FY09/10 full year profit
- Accelerating momentum in the past 3 half-years in raising revenue, EBITDA and net profit
- Full payout of interim profits - $0.62 dividend per share
- Proposed 1 for 1 bonus issue

## CHAIRMAN'S STATEMENT

I am pleased to report the results of the Group for the six months ended 31 December 2010.

### Financial Highlights

The Group achieved substantial improvements in financial results in the period under review with strong growth in service revenue, driven by increase in both customer number and ARPU. The rate of growth in the period under review, in respect of revenue, EBITDA and net profit, exceeded the preceding six months, continuing the accelerating trend since the first half of the financial year FY09/10.

Total revenue increased by 52% to $2,759 million, compared with the same period last year, with a 29% growth in service revenue. EBITDA increased by 78% to $921 million. Earnings before interest and tax ("EBIT") was $409 million compared with $87 million in the same period last year. Interim profit attributable to equity holders, at $321 million, exceeded full year FY09/10 profit. Interim earnings per share increased to 61.6 cents, compared with 20.7 cents last year.

## Dividend

In line with the Company's dividend policy of full distribution of profit attributable to equity holders excluding extraordinary items, your Board declares an interim dividend of 62 cents per share.

## Proposed Bonus Issue

Due to the recent surge in the price of the shares of the Company, trading value per board lot has increased substantially. The Directors propose a bonus issue of 1 bonus share for every 1 existing share held. The Directors believe that the Bonus Issue will reduce trading value per board lot of the shares, thereby increasing trading liquidity of the shares as well as likely to enlarge the Company's shareholders' base. Full details of the Bonus Issue are set out in a separate announcement of the Company dated 23 February 2011 which is published on the websites of the Company and the Stock Exchange.

## Business Review

*Hong Kong*

SmarTone-Vodafone achieved strong growth in both customer number and ARPU, compared with same period last year, with accelerating growth rates in the past three half-years. The results reflected SmarTone-Vodafone's increased competitiveness through successful execution of its strategy, with leadership in network performance, proprietary services and customer care. This improvement has been achieved amidst fierce market conditions in Hong Kong throughout that time.

Customer number increased by 17% to 1.44 million, of which over 70% were postpaid. Average postpaid churn rate improved to 1.3% from 1.5% in the same period last year. Blended ARPU increased by 12% to $241, driven principally by data services. Postpaid ARPU registered an even bigger increase of 16%.

As a result, service revenue in the first half of FY10/11 grew by 30%, compared to same period in FY09/10. Data service revenue increased by 81%, and represents 46% of service revenue, driven by increasing customer adoption of data services with smartphones, mobile broadband including tablet computers, and wireless fixed broadband.

SmarTone-Vodafone's superior network performance, in terms of availability, stability and speed, is increasingly recognised in the market. We continue to invest in know-how and resources to constantly enhance the network for optimal wireless broadband and voice performance. Upgrade to a new generation of multi-mode multi-band base stations is well under way, anticipating the rollout of LTE at the appropriate time.

Customer subscription to SmarTone-Vodafone's proprietary services, including *X-Power*, FoneTV, and Latest News have risen substantially. For example, *X-Power* enables customers to enjoy more of the Internet than on all other networks - a unique proposition widely adopted by our smart device customers. SmarTone-Vodafone will continue to innovate and develop proprietary services and applications in order to appeal to our targeted customer segments.

Improvements to customer care are being made across all touch-points, powered by our proprietary customer relationship management system which will enable us to increasingly provide more personalised customer care.

*Macau*

SmarTone Macau launched 3G service in July 2010 with its latest 3G/HSPA network, offering unique and compelling multimedia services that Macau consumers have never seen before. Market response has been encouraging.

## Prospects

Your Company's long-held strategy in providing unbeatable and more valuable experiences is gaining customer and wider market recognition. This strategy and its successful execution have enhanced the Company's competitiveness and its appeal to an increasing number of customers who appreciate its service. Innovation and operational excellence will continue to be a key focus.

Consumers are increasingly familiar with, and have become comfortable with, the ever expanding plethora of data-driven services and applications which will drive usage. Your Company is well positioned to benefit from this trend. Additionally, your Company is successfully leveraging on its proprietary service innovations with each wave of industry development, like smartphones, wireless broadband, and an increasing variety of smart devices, to gain revenue market share.

Your Company maintains a robust balance sheet, permitting flexibility in meeting all conceivable challenges and enabling it to capture new opportunities, bringing value to both customers and shareholders.

## Appreciation

During the period, Mr. Peter David Sullivan resigned as Independent Non-Executive Director of your Company. The Board would like to take this opportunity to thank Mr. Sullivan for his valuable contributions to the Company over the past years. Mr. John Anthony Miller has been appointed as Non-Executive Director. I would like to welcome Mr. Miller 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, 23 February 2011

## MANAGEMENT DISCUSSION AND ANALYSIS

### Review of financial results

During the period under review, the Group reported strong revenue growth with increase in both customer number and ARPU across all business lines. There had been increasing momentum over the past 3 half-year periods in raising service revenue, EBITDA and net profit. Net profit for the period exceeded that for whole of the previous financial year. The encouraging results showed that the Group's long held proposition of unbeatable and more valuable experiences had gained traction in the market place.

Service revenue grew by 29% to $2,145 million (first half of 2009/10: $1,659 million). EBITDA increased by 78% to $921 million (first half of 2009/10: $517 million). Profit attributable to equity holders of the Company surged by 188% to $321 million (first half of 2009/10: $111 million), 9% higher than the full year results of 2009/10.

Revenues rose by $949 million or 52% to $2,759 million (first half of 2009/10: $1,810 million), with service revenue and device sales increasing by $486 million and $463 million respectively.

- Service revenue rose by $486 million or 29% to $2,145 million (first half of 2009/10: $1,659 million) driven by strong growth in both customer number and ARPU. Data service, outbound roaming, wireless fixed and prepaid revenue all grew strongly, offsetting the decline in inbound roaming revenue.

  Despite a very competitive market in Hong Kong, the Group achieved a 17% growth in its Hong Kong customer base. The Hong Kong blended ARPU rose by 12% to $241 (first half of 2009/10: $214) attributable to increasing subscriptions to high price point data bundled plans by both new and existing customers. The growth momentum in customer base and ARPU continued.

- Handset and accessory sales rose by $463 million or 307% to $614 million (first half of 2009/10: $151 million) attributable to higher sales volume and average unit selling price.

Cost of inventories sold and services provided rose by 96% to $866 million (first half of 2009/10: $442 million). Cost of inventories sold rose by 269% to $569 million (first half of 2009/10: $154 million) whereas cost of services provided rose by 3% to $297 million (first half of 2009/10: $288 million).

Operating expenses, excluding depreciation, amortisation, impairment loss and loss on disposal, rose by $121 million or 14% to $972 million (first half of 2009/10: $851 million). The rise in operating expenses was scaling less than the growth in service revenue. Network costs rose by 2% as the Group continued to enhance its network capacity, quality and coverage. Staff costs grew by 15% as a result of a higher provision for staff performance bonus and a moderate increase in headcount. Sales and marketing expenses increased by 46% due to higher marketing costs for a series of marketing campaigns, and higher sales commissions in line with higher customer acquisitions. Other operating expenses, including rental and utilities, and other operating expenses rose by 18% driven by cost increases to support the increase in business volume.

Depreciation, impairment loss and loss on disposal fell by 14% to $233 million (first half of 2009/10: $273 million) amid the recognition of accelerated depreciation and impairment loss of fixed assets of $51 million collectively in the first half of 2009/10 for the Macau operations.

Handset subsidy amortisation rose by $119 million to $242 million (first half of 2009/10: $123 million) due to substantial increase in customer acquisitions using subsidised handsets. Mobile licence fee amortisation rose by $2 million to $36 million (first half of 2009/10: $34 million).

Finance income rose by $2 million to $18 million (first half of 2009/10: $16 million) due to higher interest income from debt securities. Finance costs, comprising of accretion expenses or deemed interest on asset retirement obligations and mobile licence fee liabilities, were not attributable to bank or other borrowings. Finance costs rose by $3 million to $46 million (first half of 2009/10: $43 million).

Income tax expense amounted to $57 million (first half of 2009/10: income tax credit of $46 million).

Macau operations reported an operating profit of $16 million (first half of 2009/10: operating loss of $19 million). Revenues rose by 18% to $132 million (first half of 2009/10: $112 million) driven by customer growth and higher inbound roaming revenue. Cost of inventories sold and services provided rose by 34% whereas operating expenses rose by 61%, reflecting a new cost structure since the launch of 3G services in July 2010. EBITDA fell by 32% to $31 million (first half of 2009/10: $45 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 2010. The Group was financed by share capital and internally generated funds during the period. The Group's cash resources remained strong with cash and bank balances (including pledged bank deposits) and investments in held-to-maturity debt securities of $1,576 million at 31 December 2010 (30 June 2010: $1,441 million). As at 31 December 2010, the Group had no bank or other borrowings.

The Group's current liabilities exceeded its current assets by $69 million as at 31 December 2010, with a substantial increase in customer prepayments and deposits included in current liabilities. The significant growth in subscriptions of handset bundled plans resulted in corresponding increases in handset subsidies included in non-current assets, and non-refundable customer prepayments included in current and non-current liabilities. Both handset subsidy and non-refundable customer prepayment will reduce gradually over the contract term of each subscription. Excluding the non-refundable customer prepayments of $444 million (30 June 2010: $181 million) included in current liabilities, the Group would have net current assets of $375 million as at 31 December 2010 (30 June 2010: $447 million).

During the period ended 31 December 2010, the Group's net cash generated from operating activities and interest received amounted to $1,617 million and $22 million respectively. The Group's major outflows of funds during the period were payments for the purchase of fixed assets, handset subsidies, mobile licence fees, share repurchases and 2009/10 final dividend.

During the period ended 31 December 2010, the Company repurchased 17,302,500 shares of the Company at an aggregate price of $179 million on The Stock Exchange of Hong Kong Limited. The highest and lowest prices per share were $10.68 and $8.50 respectively. These repurchased shares were cancelled during the period.

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 2011 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 $357 million as at 31 December 2010 (30 June 2010: $340 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 for 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 gain or loss 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 2010, the Group had contingent assets and liabilities in respect of fixed-mobile interconnection charge of up to $220 million (30 June 2010: $153 million) and $152 million (30 June 2010: $105 million) respectively as disclosed in note 13 to this results announcement.

*Performance bonds*

Certain banks, on the Group's behalf, had 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 2010 under these performance bonds was $608 million (30 June 2010: $558 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 1,929 full-time employees as at 31 December 2010 (30 June 2010: 1,782), with the majority of them based in Hong Kong. Total staff costs were $253 million for the period ended 31 December 2010 (first half of 2009/10: $219 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 individual employee's performance. 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. 1,289,500 share options were exercised, and no share options were granted, cancelled or lapsed during the period ended 31 December 2010. 7,315,000 share options (30 June 2010: 8,604,500) were outstanding as at 31 December 2010.

## RESULTS

The Board of Directors of SmarTone Telecommunications Holdings Limited (the "Company") is pleased to present the consolidated profit and loss account and consolidated statement of comprehensive income for the six months ended 31 December 2010 and the consolidated balance sheet as at 31 December 2010 of the Company and its subsidiaries (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 2010

| | Note | Unaudited six months ended 31 December 2010 $000 | 2009 $000 |
|---|---|---|---|
| Service revenue | | **2,144,824** | 1,658,682 |
| Handset and accessory sales | | **614,100** | 150,877 |
| Revenues | 4 | **2,758,924** | 1,809,559 |
| Cost of inventories sold and services provided | | **(865,961)** | (442,099) |
| Network costs | | **(383,285)** | (374,277) |
| Staff costs | | **(252,784)** | (219,403) |
| Sales and marketing expenses | | **(168,154)** | (115,101) |
| Rental and utilities | | **(79,545)** | (78,241) |
| Other operating expenses | | **(88,425)** | (63,881) |
| Depreciation, amortisation, impairment loss and loss on disposal | | **(511,812)** | (429,059) |
| Operating profit | | **408,958** | 87,498 |
| Finance income | 5 | **17,893** | 15,906 |
| Finance costs | 6 | **(45,683)** | (43,173) |
| Profit before income tax | 7 | **381,168** | 60,231 |
| Income tax (expense)/credit | 8 | **(56,680)** | 46,072 |
| Profit after income tax | | **324,488** | 106,303 |
| Attributable to | | | |
| Equity holders of the Company | | **320,521** | 111,167 |
| Non-controlling interests | | **3,967** | (4,864) |
| | | **324,488** | 106,303 |
| Earnings per share for profit attributable to equity holders of the Company during the period (expressed in cents per share) | 9 | | |
| Basic | | **61.6** | 20.7 |
| Diluted | | **61.5** | 20.7 |
| Dividends | 10 | **496,180** | 132,936 |

**Condensed Consolidated Statement of Comprehensive Income**
For the six months ended 31 December 2010

| | Unaudited six months ended 31 December | |
|---|---|---|
| | **2010** | 2009 |
| | **$000** | $000 |
| Profit for the period | **324,488** | 106,303 |
| Other comprehensive income | | |
| Fair value (loss)/gain on financial investments, net of tax | **(992)** | 510 |
| Currency translation differences | **1,166** | 162 |
| Other comprehensive income for the period, net of tax | **174** | 672 |
| Total comprehensive income for the period | **324,662** | 106,975 |
| Total comprehensive income attributable to | | |
| Equity holders of the Company | **320,695** | 111,839 |
| Non-controlling interests | **3,967** | (4,864) |
| | **324,662** | 106,975 |

**Condensed Consolidated Balance Sheet**
As at 31 December 2010 and 30 June 2010

| | Note | **Unaudited 31 December 2010 $000** | Audited 30 June 2010 $000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Leasehold land | | **15,965** | 15,893 |
| Fixed assets | | **1,991,959** | 1,910,981 |
| Interest in an associate | | **3** | 3 |
| Financial investments | | **413,287** | 456,860 |
| Intangible assets | | **1,469,399** | 892,459 |
| Deposits and prepayments | | **92,697** | 95,547 |
| Deferred income tax assets | | **1,924** | 3,673 |
| | | **3,985,234** | 3,375,416 |
| **Current assets** | | | |
| Inventories | | **145,130** | 47,918 |
| Financial investments | | **276,634** | 313,535 |
| Trade receivables | 11 | **243,518** | 204,459 |
| Deposits and prepayments | | **144,490** | 141,035 |
| Other receivables | | **37,823** | 58,772 |
| Pledged bank deposits | | **357,260** | 339,830 |
| Cash and cash equivalents | | **557,536** | 360,182 |
| | | **1,762,391** | 1,465,731 |
| **Current liabilities** | | | |
| Trade payables | 12 | **470,644** | 184,895 |
| Other payables and accruals | | **540,477** | 552,533 |
| Current income tax liabilities | | **99,844** | 53,235 |
| Customer prepayments and deposits | | **492,062** | 212,962 |
| Deferred income | | **130,951** | 102,668 |
| Mobile licence fee liabilities | | **97,860** | 93,535 |
| | | **1,831,838** | 1,199,828 |
| **Net current (liabilities)/assets** | 2 | **(69,447)** | 265,903 |
| **Total assets less current liabilities** | | **3,915,787** | 3,641,319 |
| **Non-current liabilities** | | | |
| Customer prepayments and deposits | | **280,616** | 110,204 |
| Asset retirement and other obligations | | **113,561** | 78,444 |
| Mobile licence fee liabilities | | **758,818** | 660,660 |
| Deferred income tax liabilities | | **24,668** | 30,154 |
| **Net assets** | | **2,738,124** | 2,761,857 |
| **Capital and reserves** | | | |
| Share capital | | **50,939** | 52,567 |
| Reserves | | **2,648,360** | 2,674,432 |
| **Total equity attributable to equity holders of the Company** | | **2,699,299** | 2,726,999 |
| Non-controlling interests | | **38,825** | 34,858 |
| **Total equity** | | **2,738,124** | 2,761,857 |

## Notes to the Condensed Interim Financial Statements

### 1 General information

SmarTone Telecommunications Holdings Limited (the "Company") and its subsidiaries (together, the "Group") are 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.

These unaudited condensed consolidated interim financial information ("Interim Financial Statements") are presented in thousands of units of Hong Kong dollars ($000), unless otherwise stated. These Interim Financial Statements have been approved for issue by the board of directors on 23 February 2011.

### 2 Basis of preparation

These Interim Financial Statements for the six months ended 31 December 2010 have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting". These Interim Financial Statements should be read in conjunction with the annual financial statements for the year ended 30 June 2010, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The Group's current liabilities exceeded its current assets by $69,447,000 as at 31 December 2010, with a substantial increase in customer prepayments and deposits included in current liabilities. The significant growth in subscriptions of handset bundled plans resulted in corresponding increases in handset subsidies included in non-current assets, and non-refundable customer prepayments included in current and non-current liabilities. Both handset subsidy and non-refundable customer prepayment will reduce gradually over the contract term of each subscription. Excluding the non-refundable customer prepayments of $444,306,000 (30 June 2010: $181,126,000) included in current liabilities, the Group would have net current assets of $374,859,000 as at 31 December 2010 (30 June 2010: $447,029,000). Based on the Group's history of its operating performance and its expected future working capital requirements, there are sufficient financial resources available to the Group to meet its obligations as and when they fall due. Accordingly, these Interim Financial Statements have been prepared on a going concern basis.

### 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 2010, as described in those annual financial statements.

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 2011.

| | |
|---|---|
| HKFRS (Amendments) | Improvements to HKFRSs 2009 [1] |
| HKFRS (Amendments) | Improvements to HKFRSs 2010 [3] |

## 3 Accounting policies (Continued)

| | |
|---|---|
| HKAS 32 (Amendment) | Classification of Rights Issues [2] |
| HKFRS 1 (Amendment) | Additional Exemptions for First-time Adopters [1] |
| HKFRS 1 (Amendment) | Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters [4] |
| HKFRS 2 (Amendment) | Group Cash-settled Share-based Payment Transaction [1] |
| HK (IFRIC) – INT 19 | Extinguishing Financial Liabilities with Equity Instruments [4] |

[1] Effective for annual periods beginning on or after 1 January 2010.
[2] Effective for annual periods beginning on or after 1 February 2010.
[3] Effective for annual periods beginning on or after 1 July 2010, as appropriate.
[4] Effective for annual periods beginning on or after 1 July 2010.

The adoption of above new standards, amendments to standards and interpretations have no significant impact on these Interim Financial Statements.

The following new and revised 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 2011 or later periods but which the Group has not early adopted.

| | |
|---|---|
| HKFRS (Amendments) | Improvements to HKFRSs 2010 [1] |
| HKAS 24 (Revised) | Related Party Disclosure [2] |
| HKFRS 9 | Financial Instruments [3] |
| HK (IFRIC) – INT 14 (Amendment) | Prepayments of a Minimum Funding Requirement [2] |

[1] Effective for annual periods beginning on or after 1 January 2011, as appropriate.
[2] Effective for annual periods beginning on or after 1 January 2011.
[3] 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 2010** | | | |
|---|---|---|---|---|
| | **Hong Kong** | **Macau** | **Elimination** | **Consolidated** |
| | **$000** | **$000** | **$000** | **$000** |
| Revenues | **2,659,423** | **132,468** | **(32,967)** | **2,758,924** |
| EBITDA | **889,689** | **31,081** | **-** | **920,770** |
| Depreciation, amortisation, impairment loss and loss on disposal | **(496,658)** | **(15,215)** | **61** | **(511,812)** |
| Operating profit | **393,031** | **15,866** | **61** | **408,958** |
| Finance income | | | | **17,893** |
| Finance costs | | | | **(45,683)** |
| Profit before income tax | | | | **381,168** |

(a) Segment results (Continued)

| | Unaudited six months ended 31 December 2009 | | | |
|---|---|---|---|---|
| | Hong Kong | Macau | Elimination | Consolidated |
| | $000 | $000 | $000 | $000 |
| Revenues | 1,709,602 | 111,909 | (11,952) | 1,809,559 |
| EBITDA | 471,075 | 45,482 | - | 516,557 |
| Depreciation, amortisation, impairment loss and loss on disposal (i) | (364,150) | (64,909) | - | (429,059) |
| Operating profit/(loss) | 106,925 | (19,427) | - | 87,498 |
| Finance income | | | | 15,906 |
| Finance costs | | | | (43,173) |
| Profit before income tax | | | | 60,231 |

(i) 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 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 | Macau | Unallocated | Consolidated |
|---|---|---|---|---|
| | $000 | $000 | $000 | $000 |
| **At 31 December 2010 (Unaudited)** | **4,835,794** | **219,983** | **691,848** | **5,747,625** |
| At 30 June 2010 (Audited) | 3,840,656 | 226,420 | 774,071 | 4,841,147 |

## 5 Finance income

| | Unaudited six months ended 31 December | |
|---|---|---|
| | **2010** | 2009 |
| | **$000** | $000 |
| Interest income from listed debt securities | **14,689** | 13,435 |
| Interest income from unlisted debt securities | **1,976** | 1,672 |
| Interest income from bank deposits | **998** | 728 |
| Accretion income | **230** | 71 |
| | **17,893** | 15,906 |

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

## 6 Finance costs

| | Unaudited six months ended 31 December | |
|---|---|---|
| | **2010** | 2009 |
| | **$000** | $000 |
| Accretion expenses | | |
| Mobile licence fee liabilities | **44,421** | 41,896 |
| Asset retirement obligations | **1,262** | 1,277 |
| | **45,683** | 43,173 |

Finance costs, comprising of accretion expenses or deemed interest on mobile licence fee liabilities and asset retirement obligations, are not attributable to bank or other borrowings.

Accretion expenses represent 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 ended 31 December | |
|---|---|---|
| | **2010** | 2009 |
| | **$000** | $000 |
| Charging: | | |
| Cost of inventories sold | **569,815** | 149,657 |
| Impairment loss of inventories | **-** | 4,799 |
| Operating lease rentals for land and buildings, transmission sites and leased lines | **338,306** | 336,984 |
| Impairment loss of trade receivables (note 11) | **8,306** | 6,303 |
| Amortisation | | |
| Handset subsidies | **242,197** | 122,755 |
| Mobile licence fees | **36,047** | 33,646 |
| Leasehold land | **323** | 317 |
| Depreciation | | |
| Owned fixed assets | **225,076** | 220,994 |
| Leased fixed assets | **-** | 38,727 |
| Impairment loss of fixed assets | **-** | 10,700 |
| Loss on disposal of fixed assets | **8,169** | 1,920 |
| Crediting: | | |
| Net exchange gain | **917** | 120 |
| Reversal of impairment loss of inventories | **466** | - |

## 8 Income tax (expense)/credit

Hong Kong profits tax has been provided at the rate of 16.5% (2009: 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 (expense)/credit recognised in the condensed consolidated profit and loss account represents:

| | Unaudited six months ended 31 December | |
|---|---|---|
| | **2010** | 2009 |
| | **$000** | $000 |
| Current income tax | | |
| Hong Kong profits tax | **(59,922)** | (9,938) |
| Overseas tax | **(495)** | (4,305) |
| Deferred income tax | **3,737** | 60,315 |
| | **(56,680)** | 46,072 |

## 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 $320,521,000 (2009: $111,167,000).

The basic earnings per share is based on the weighted average number of shares in issue during the period of 520,070,738 (2009: 537,167,239). The diluted earnings per share is based on 520,888,838 (2009: 537,167,239) shares which is the weighted average number of shares in issue during the period plus the weighted average number of 818,100 (2009: nil) shares deemed to be issued at no consideration if all outstanding options had been exercised.

## 10 Dividends

| | Unaudited six months ended 31 December | |
|---|---|---|
| | **2010** | 2009 |
| | **$000** | $000 |
| In respect of the period | | |
| Interim dividend declared of 62 cents (2009: 17 cents) per share | **317,203** | 89,917 |
| Attributable to prior year paid in the period | | |
| Final dividend of 35 cents (2009: 8 cents) per share | **178,977** | 43,019 |
| | **496,180** | 132,936 |

At a meeting held on 23 February 2011, the directors declared an interim dividend of 62 cents per share for the year ending 30 June 2011. The interim dividend declared is not reflected as a dividend payable in these Interim Financial Statements, but will be reflected as an appropriation of retained profits for the year ending 30 June 2011.

At a meeting held on 7 September 2010, the directors declared a final dividend of 35 cents per share for the year ended 30 June 2010, which were paid on 12 November 2010 and have been reflected as an appropriation of retained profits for the six months ended 31 December 2010.

The interim dividend declared is calculated based on the number of shares in issue at the date of approval of these 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 provision for impairment, is as follows:

| | **Unaudited 31 December 2010 $000** | Audited 30 June 2010 $000 |
|---|---|---|
| Current to 30 days | **211,729** | 180,478 |
| 31 - 60 days | **22,750** | 16,174 |
| 61 - 90 days | **4,970** | 3,997 |
| Over 90 days | **4,069** | 3,810 |
| | **243,518** | 204,459 |

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 $8,306,000 (2009: $6,303,000) for the impairment of its trade receivables during the six months ended 31 December 2010. 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:

| | **Unaudited 31 December 2010 $000** | Audited 30 June 2010 $000 |
|---|---|---|
| Current to 30 days | **365,164** | 161,374 |
| 31 - 60 days | **62,283** | 11,038 |
| 61 - 90 days | **30,477** | 5,592 |
| Over 90 days | **12,720** | 6,891 |
| | **470,644** | 184,895 |

## 13 Other contingent assets and liabilities

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

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

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

For the six months ended 31 December 2010, the Group issued invoices with a total amount of $67,144,000 (2009: $65,991,000) to the interconnecting FNOs for telephony traffic originated from their fixed networks to the Group's mobile network. The FNOs rejected these invoices in writing on the ground that the commercial terms for interconnection had not been agreed upon.

For the six months ended 31 December 2010, the Group received invoices with a total amount of $46,392,000 (2009: $45,440,000) from some interconnecting FNOs for telephony traffic delivered. The Group rejected these invoices in writing on the ground that the commercial terms for interconnection had not been agreed upon.

No income or charge in respect of fixed-mobile interconnection has been recognised for the period from 27 April 2009 to 31 December 2010 since it is impracticable to estimate the amount or timing of such income and charge. As at 31 December 2010, the Group had contingent assets and liabilities in respect of fixed-mobile interconnection charge of up to $220,384,000 (30 June 2010: $153,240,000) and $151,753,000 (30 June 2010: $105,361,000) respectively.

## INTERIM DIVIDEND

The directors declared an interim dividend of 62 cents per share for the six months ended 31 December 2010 (2009: 17 cents) to shareholders whose names appear in the Register of Members of the Company on 29 March 2011. It is expected that the interim dividend warrants will be despatched to shareholders on or about 6 April 2011.

## CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Friday, 25 March 2011 to Tuesday, 29 March 2011, both days inclusive, during which period no transfer of shares will be registered. In order to establish entitlements to the aforesaid interim dividend and bonus shares, 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 Thursday, 24 March 2011.

## PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 31 December 2010, the Company repurchased 17,302,500 shares of the Company on The Stock Exchange of Hong Kong. These repurchased shares were cancelled prior to 31 December 2010. Details of the repurchases were as follows:

| Month of repurchase | Number of shares repurchased | Price per share Highest | Price per share Lowest | Aggregate price paid |
|---|---:|---:|---:|---:|
| | | $ | $ | $ |
| September 2010 | 2,012,000 | 10.10 | 8.50 | 19,128,000 |
| October 2010 | 12,874,000 | 10.48 | 10.18 | 134,413,000 |
| November 2010 | 2,416,500 | 10.68 | 10.36 | 25,320,000 |
| | 17,302,500 | | | 178,861,000 |

Save as disclosed above, at no time during the six months ended 31 December 2010 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 these interim financial statements as well as the internal audit reports of the Group for the six months ended 31 December 2010. The Committee was satisfied that the accounting polices 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.

These interim financial statements for the six months ended 31 December 2010 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 2010, the Company has applied the principles and complied with the requirements set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Listing Rules with the only deviation from code provision A.4.1 in respect of the service term of non-executive directors. Non-executive directors of the Company are not appointed with specific term but they are required to retire from office by rotation and are subject to re-election by shareholders at annual general meeting once every three years in accordance with the Company's bye-laws. As such, no director has a term of appointment longer than three years.

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

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

Hong Kong, 23 February 2011

*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, Mr. Alfred Wing-kit Tsim and Mr. John Anthony Miller; Independent Non-Executive Directors are Dr. Eric Ka-cheung Li, JP, Mr. Leung-sing Ng, JP, Mr. Xiang-dong Yang and Mr. Eric Fock-kin Gan.*