SmarTone Telecommunications Holdings Limited

Stock Code : 0315

INTERIM REPORT 2011/2012




Contents

CHAIRMAN'S STATEMENT

(Financial figures are expressed in Hong Kong dollars)

I am pleased to report the results of the Group for the six months ended 31 December 2011.

Financial Highlights

The Group achieved significant improvements in financial results in the period under review with continuing strong growth in service revenue, driven by increase in both customer number and ARPU, as well as increasing usage of data services. These drivers, together with improved operating leverage, resulted in an EBITDA growth of 52% and net profit growth of 48% over the same period last year.

Total revenue increased by 83% to $5,060 million, with a 31% growth in service revenue. EBITDA increased by 52% to $1,406 million. Interim profit attributable to equity holders increased by 48% to $475 million. Interim earnings per share increased to 46 cents, compared with 31 cents (adjusted for the bonus issue in April 2011) in the same period last year.

Dividend

In line with the Group's dividend policy of full distribution of profit attributable to equity holders excluding extraordinary items, your Board declares an interim dividend of 46 cents per share, which shareholders have the option to receive new and fully paid shares in lieu of cash under a scrip dividend scheme.

Business Review

Hong Kong

SmarTone continued to generate strong growth in service revenue, from both increased customer number and ARPU, in the period under review, reflecting our increased competitiveness through quality and innovation, and thereby providing better value for customers.

Service revenue grew 31%, compared to the same period last year, amidst a highly competitive market. Customer number increased by 12% to 1.62 million, of which 70% were higher value postpaid customers. Postpaid mobile churn rate maintained at a healthy level of 1.1%. Fully blended ARPU, defined as service revenue divided by number of SIM cards in issue across all service portfolios, increased by 15% to $277, driven by increasing customer adoption of data services using smart devices.

To maintain its leadership in providing a superior mobile broadband experience, the Company continued to invest to improve network quality and coverage. The 850 MHz HSPA+ network is being rolled out to further increase network capacity and enhance in-building coverage. The network modernisation program to upgrade to the new generation of multi-mode multi-band base stations is also well on its way to be completed by the middle of 2012. This modernisation program will enable a flexible and efficient implementation of LTE which the Company will implement on the 1800 MHz frequency band for its superior in-building penetration radio characteristics and cost effectiveness.

SmarTone continues to innovate through proprietary services to better engage customers, further differentiate in the market, and to generate additional revenue. Call Guard, a cloud service, enables our smartphone customers to easily collaborate through an app to screen out intrusive unsolicited marketing calls that have become increasingly prevalent in Hong Kong. Customers have come to value the dramatic reduction in these disturbances. Our HK Credit Card Privileges app enables a customer to find out instantly all the dining, shopping and lifestyle promotional offers available on the credit cards that the customer owns – this is proving to be a boon to the more value conscious customers. A new model of HomePhone+ telephone was introduced for our wireless fixed-line service, incorporating new service features including HelpNow. HelpNow provides 24x7 access to a trained HelpNow operator for instant advice and help in all household emergencies, including calling and assisting emergency services where required. Recently, SmarTone introduced its own PockeTab™ homescreen software to launch with the Samsung Galaxy Note. This has helped in selling SmarTone's services and apps, deepening engagement, and has generated favourable response from customers.

Your Company continues to invest in improving its customer care across all touch-points, including our stores, customer hotlines and online, further enhancing customer engagement and satisfaction.

Macau

With improving operations, SmarTone Macau registered growth in both revenue and profit in the period under review.

Prospects

Amidst the weak global economic environment, the Hong Kong economy is faced with increasing uncertainties and inflationary pressure.

The Group will continue to focus on delivering more valuable experiences to customers and further extending its leadership in network performance, proprietary services and customer care.

SmarTone is well positioned to capitalise on the increasing adoption of smart devices and data services. Your Group will continue to expand network capacity in a cost effective way through implementing 850 MHz HSPA+, re-allocating network resources from wireless fixed broadband to the higher margin mobile business, and launch LTE at the 1800 MHz frequency band.

The Group expects to launch its LTE network within 2012 when Release 9 LTE handsets become available.

Your Group's balance sheet remains strong, providing flexibility in a competitive market as well as allowing us to capture new opportunities, bringing value to both customers and shareholders.

Appreciation

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, 21 February 2012

MANAGEMENT DISCUSSION AND ANALYSIS

(Financial figures are expressed in Hong Kong dollars)

Review of financial results

During the period under review, the Group achieved continued growth in service revenue, EBITDA and net profit. Service revenue grew by 31% to $2,807 million (first half of 2010/11: $2,145 million). EBITDA rose by 52% to $1,406 million (first half of 2010/11: $927 million). Profit attributable to equity holders of the Company increased by 48% to $475 million (first half of 2010/11: $321 million).

Revenues rose by $2,301 million or 83% to $5,060 million (first half of 2010/11: $2,759 million).

- Service revenue rose by $662 million or 31% to $2,807 million (first half of 2010/11: $2,145 million) driven by customer growth and increase in ARPU.

  The Group achieved a 12% year-on-year growth in its Hong Kong customer base. Hong Kong blended ARPU rose by 15% to $277 (first half of 2010/11: $241) driven primarily by data services, with increasing subscriptions to high price point data bundled plans by both new and existing customers.

- Handset and accessory sales rose by $1,639 million or 2.7 times to $2,253 million (first half of 2010/11: $614 million) attributable to increased sales volume and average unit selling price.

Cost of inventories sold and services provided rose by $1,674 million or 1.9 times to $2,540 million (first half of 2010/11: $866 million) largely due to higher cost of inventories sold.

Operating expenses rose by $129 million or 13% to $1,095 million (first half of 2010/11: $966 million). The increase in operating expenses scaled less than the growth in service revenue, resulting in improved operating leverage. Network costs rose by 10% as the Group continued to enhance its network capacity, quality and coverage. Staff costs grew by 25% as a result of headcount growth, general salary inflation and share-based payments. Sales and marketing expenses remained broadly stable. Other operating expenses, including rental and utilities, rose by 15% collectively driven by cost increases to support the growth in business volume.

Impairment loss of financial investments of $20 million (first half of 2010/11: nil) arose from the decline in the fair value of the available-for-sale financial assets.

Depreciation and loss on disposal increased by $27 million or 12% to $261 million (first half of 2010/11: $233 million). Handset subsidy amortisation rose by $220 million to $463 million (first half of 2010/11: $242 million) as a result of increased customer acquisitions and upgrades using subsidised handsets, in particular smart devices. Mobile licence fee amortisation rose by $5 million to $41 million (first half of 2010/11: $36 million).

Finance income fell by $3 million to $15 million (first half of 2010/11: $18 million). Finance costs rose by $22 million to $74 million (first half of 2010/11: $52 million) mainly due to higher bank charges for credit card instalment in respect of handset bundle subscriptions. Accretion expenses or deemed interest on mobile licence fee liabilities and interest on bank borrowings increased by $8 million collectively.

Income tax expense amounted to $97 million (first half of 2010/11: $57 million).

Macau operations reported an operating profit of $42 million (first half of 2010/11: $16 million). Revenues rose by 35% to $179 million (first half of 2010/11: $132 million) driven by higher revenue from both local and roaming services. Cost of inventories sold and services provided rose by 22%. Operating expenses remained broadly stable. EBITDA rose by $40 million to $71 million (first half of 2010/11: $31 million).

Capital structure, liquidity and financial resources

During the period under review, the Group was financed by share capital, internally generated funds and short-term bank borrowings. The Group's cash resources remained robust with cash and bank balances (including pledged bank deposits) and investments in held-to-maturity debt securities of $1,878 million as at 31 December 2011 (30 June 2011: $1,653 million). The Group had short-term bank borrowings of $650 million as at 31 December 2011 (30 June 2011: $550 million).

The Group had arranged committed 12-month Hong Kong dollar denominated revolving credit facilities from certain banks totalling $650 million, of which a sum of $650 million was utilised as at 31 December 2011.

The Group had net cash generated from operating activities and interest received amounted to $1,671 million and $18 million respectively during the period ended 31 December 2011. The Group's major outflows of funds during the period were payments for additions of handset subsidies, purchase of fixed assets, mobile licence fees and 2011 final dividend.

The Group's current liabilities exceeded its current assets by $634 million as at 31 December 2011 (30 June 2011: $593 million). The 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 $796 million (30 June 2011: $641 million) included in current liabilities, the Group would have net current assets of $161 million as at 31 December 2011 (30 June 2011: $48 million).

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 2012 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 letter of credit on its behalf. The Group may partially or fully collateralise such instruments by cash deposits to lower the issuance costs. Pledged bank deposits amounted to $109 million as at 31 December 2011 (30 June 2011: $411 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.

MANAGEMENT DISCUSSION AND ANALYSIS

(Financial figures are expressed in Hong Kong dollars)

Contingent assets and liabilities

Fixed-mobile interconnection charge

As at 31 December 2011, the Group had contingent assets and liabilities in respect of fixed-mobile interconnection charge of up to $351 million (30 June 2011: $285 million) and $243 million (30 June 2011: $197 million) respectively as disclosed in note 21 to these interim financial statements.

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 mobile licences issued by those authorities. The total amount outstanding as at 31 December 2011 under these performance bonds was $709 million (30 June 2011: $658 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 2,024 full-time employees as at 31 December 2011 (30 June 2011: 1,951), with the majority of them based in Hong Kong. Total staff costs were $317 million for the period ended 31 December 2011 (first half of 2010/11: $253 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. During the period under review, 1,642,500 new share options were granted; 1,393,000 share options were exercised; and 675,000 share options were cancelled or lapsed. 38,766,000 (30 June 2011: 39,191,500) share options were outstanding as at 31 December 2011.

Raymond Ping-luen KWOK, *Chairman & Non-Executive Director*

Mr. Raymond Kwok has been with the Group since April 1992 and was appointed Director of the Company in October 1996. He holds a Master of Arts degree in Law from Cambridge University, a Master degree in Business Administration from Harvard University, an Honorary Doctorate degree in Business Administration from The Open University of Hong Kong and an Honorary Doctorate degree in Laws from The Chinese University of Hong Kong.

Mr. Kwok is Chairman and Managing Director of Sun Hung Kai Properties Limited ("SHKP") and a Member of its Executive Committee. He is also a Director of Cellular 8 Holdings Limited ("Cellular 8") and TFS Development Company Limited ("TFS"). SHKP, Cellular 8 and TFS are the substantial shareholders of the Company within the meaning of Part XV of the Securities and Futures Ordinance. Mr. Kwok is also Chairman of SUNeVision Holdings Ltd. (a subsidiary of SHKP), a Non-Executive Director of Transport International Holdings Limited (an associate of SHKP) and Wing Tai Properties Limited, and an Independent Non-Executive Director of Standard Chartered Bank (Hong Kong) Limited.

In civic activities, Mr. Kwok is a Director of The Real Estate Developers Association of Hong Kong, a Member of the General Committee of The Hong Kong General Chamber of Commerce and Vice-Chairman of the Council of The Chinese University of Hong Kong.

Mr. Kwok is also the director of certain subsidiaries of the Company.

For the financial year ended 30 June 2011, Mr. Kwok received a fee of HK$150,000. Except the above fee, Mr. Kwok did not receive any other emoluments during the said financial year.

Douglas LI, *Executive Director & Chief Executive Officer*

Mr. Douglas Li is Chief Executive Officer of the Group, which he helped founded in 1992. He spent the early part of his career as a Chartered Accountant with KPMG in both London and Hong Kong. He became a corporate finance investment banker with Morgan Grenfell, following which he joined Sun Hung Kai Properties to expand its telecom and other businesses. He left the Group in 1996 to join the Asia private equity business of the Suez Group as Managing Director. Mr. Li rejoined the Group in 2001.

Mr. Li is also the director of certain subsidiaries of the Company.

For the financial year ended 30 June 2011, Mr. Li received salaries (including allowances and retirement scheme contributions), bonus, share-based payment and director's fee of HK$9,480,000, HK$3,276,000, HK$734,000 and HK$120,000 respectively.

DIRECTORS' PROFILE

Patrick Kai-lung CHAN, *Executive Director*

Mr. Patrick Chan was appointed Director of the Group in October 1996. Mr. Chan was the manager of the Strategic Development Department of Sun Hung Kai Properties Limited ("SHKP") before his appointment as Executive Director of the Company in March 2002. Prior to joining SHKP in 1990, he held various positions in the areas of research and investment at leading international banking groups. From December 1994 to May 1996, he was seconded as a full-time member to the Central Policy Unit of the Hong Kong Government. Mr. Chan has over 20 years' experience in finance, investment, planning and investor relations. Mr. Chan holds a Bachelor of Economics (Hon.) degree from the University of Sydney, Australia and a Master of Economics degree from the Australian National University.

Mr. Chan is also the director of certain subsidiaries of the Company.

For the financial year ended 30 June 2011, Mr. Chan received salaries (including allowances and retirement scheme contributions), bonus, share-based payment and director's fee of HK$4,247,000, HK$472,000, HK$147,000 and HK$120,000 respectively.

Wing-yui CHEUNG, *Non-Executive Director*

Mr. Wing-yui Cheung was appointed Director of the Company in March 2003. Mr. Cheung is a director of a number of other publicly listed companies, namely being non-executive director of Tai Sang Land Development Limited, SUNeVision Holdings Ltd., Tianjin Development Holdings Limited and SRE Group Limited (formerly Shanghai Real Estate Limited), and being independent non-executive director of Hop Hing Group Holdings Limited and Agile Property Holdings Limited. Mr. Cheung previously held directorships in Taifook Securities Group Limited (resigned on 1 October 2007), Ching Hing (Holdings) Limited (resigned on 25 July 2007) and Ping An Insurance (Group) Company of China, Limited (resigned on 3 June 2009).

Mr. Cheung was the Vice-Chairman of the Mainland Legal Affairs Committee of the Law Society of Hong Kong until January 2006 and was a director of Po Leung Kuk, a member of the Board of Review (Inland Revenue) and past Deputy Chairman of the Hong Kong Institute of Directors and he is currently a director of the Community Chest and Deputy Chairman of The Open University of Hong Kong. Mr. Cheung received a Bachelor of Commerce degree in accountancy from the University of New South Wales, Australia and is a member of the Australian Society of CPAs. Mr. Cheung has been a practicing solicitor in Hong Kong since 1979 and is a consultant of the law firm Woo, Kwan, Lee & Lo. He was admitted as a solicitor in the United Kingdom and as an advocate and solicitor in Singapore.

For the financial year ended 30 June 2011, Mr. Cheung received a fee of HK$120,000. Except the above fee, Mr. Cheung did not receive any other emoluments during the said financial year.

David Norman PRINCE, *Non-Executive Director*

Mr. David Prince was appointed Director of the Company in July 2005. Mr. Prince has over 15 years' experience of operating at board level in an international environment.

Mr. Prince is a member of the Chartered Institute of Management Accountants (UK) and the Chartered Institute of Purchasing and Supply (UK).

He was Group Finance Director of Cable and Wireless plc. until December 2003 and prior to this, spent some 12 years working in the telecommunications industry in Hong Kong, Mainland China and Asia. From 1994 to 2000 he was Finance Director and latterly Deputy Chief Executive Officer of Hong Kong Telecommunications Limited until it was acquired by PCCW in 2000. He went on to join PCCW plc.

as Group Chief Financial Officer primarily focused on the integration of the companies following the acquisition. In 2002, he left PCCW to join Cable and Wireless as Group Finance Director. Prior to his time in Hong Kong he held senior management roles for Cable and Wireless in the USA and Europe. His early career was spent in the Gas, Oil and Electronic industries within Europe and the USA.

Mr. Prince is currently a non-executive director and chairman of the audit committee for Ark Therapeutics plc. – a UK based specialist healthcare group and a non-executive director and member of the audit committee of Adecco SA which is the global leader in human resources services.

Mr. Prince is a Consultant of Sun Hung Kai Real Estate Agency Ltd. (a company within the Sun Hung Kai Properties Group).

Mr. Prince is also a member of the Nomination Committee of the Company.

For the financial year ended 30 June 2011, Mr. Prince received a fee of HK$120,000. Except the above fee, Mr. Prince did not receive any other emoluments during the said financial year.

Wing-chung YUNG, *Non-Executive Director*

Mr. Wing-chung Yung was appointed Director of the Company in April 2007. Mr. Yung is the Corporate Advisor of Sun Hung Kai Properties Limited ("SHKP"). He is a director of River Trade Terminal Co. Ltd., Hung Kai Finance Company Limited, YATA Limited, Hong Kong Business Aviation Centre Limited and Airport Freight Forwarding Centre Company Limited. Mr. Yung is also Deputy Chairman and a Non-Executive Director of RoadShow Holdings Limited and an alternate director to Mr. Raymond Ping-luen Kwok of Transport International Holdings Limited. He has been appointed as a Non-Executive Director and an alternate director to Mr. Raymond Ping-luen Kwok of Wing Tai Properties Limited with effect from 24 February 2010. Prior to his joining SHKP in 1995, Mr. Yung had many years of working experience with a U.S. Bank in various managerial positions in Hong Kong and the United States.

Mr. Yung is also a member of the Remuneration Committee of the Company.

For the financial year ended 30 June 2011, Mr. Yung received a fee of HK$120,000. Except the above fee, Mr. Yung did not receive any other emoluments during the said financial year.

Thomas Hon-wah SIU, *Non-Executive Director*

Mr. Thomas Siu was appointed Director of the Company in July 2008. Mr. Siu is the Managing Director of Wilson Group which is a major transport infrastructure services provider in Hong Kong. Wilson Group is a wholly-owned subsidiary of Sun Hung Kai Properties Limited ("SHKP"). Prior to joining Wilson Group, Mr. Siu had more than 25 years experience in telecommunications and IT sectors. His experience covers finance, business operations and development. On 7 May 2010, Mr. Siu was appointed a Non-Executive Director of SUNeVision Holdings Ltd. (a subsidiary of SHKP).

Mr. Siu holds a MPhil degree from University of Cambridge and a PhD degree in Information Systems. He is a Certified Public Accountant and is a member of the British Computer Society.

For the financial year ended 30 June 2011, Mr. Siu received a fee of HK$120,000. Except the above fee, Mr. Siu did not receive any other emoluments during the said financial year.

DIRECTORS' PROFILE

Alfred Wing-kit TSIM, *Non-Executive Director*

Mr. Alfred Tsim was appointed Director of the Company in November 2009. Mr. Tsim is an Executive Director and the Chief Executive Officer of SUNeVision Holdings Ltd. ("SUNeVision"), a company listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. SUNeVision is a subsidiary of Sun Hung Kai Properties Limited, the controlling shareholder of the Company. Prior to joining SUNeVision in February 2000, Mr. Tsim worked for international accounting firms, financial institution and major telecommunication operators in Hong Kong. He is a member of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants, United Kingdom, CPA Australia, CMA Canada and The Institute of Chartered Accountants in England and Wales. Mr. Tsim holds a Bachelor of Arts degree from the City University of Hong Kong, a Master of Business Administration degree from The University of Sydney, a Master of Laws degree from the University of Wolverhampton, United Kingdom, and a Diploma in Management Accounting from The Chinese University of Hong Kong.

Mr. Tsim is also a member of the Audit Committee of the Company.

For the financial year ended 30 June 2011, Mr. Tsim received a fee of HK$240,000 including the fee for acting as a member of the Audit Committee of the Company. Except the above fee, Mr. Tsim did not receive any other emoluments during the said financial year.

John Anthony MILLER, *Non-Executive Director*

Mr. John Anthony Miller, SBS, OBE, was appointed Director of the Company in November 2010. Mr. Miller has been a Director of Transport International Holdings Limited and The Kowloon Motor Bus Company (1933) Limited since 1 March 2008, and a Director of RoadShow Holdings Limited since 20 March 2008. He is also Chairman of Hong Kong Business Aviation Centre Limited, a partly-owned subsidiary of Sun Hung Kai Properties Limited. Mr. Miller retired from the Civil Service in February 2007 as Permanent Representative of the Hong Kong Special Administrative Region of China to the World Trade Organisation in Geneva. Key positions held over a career spanning 35 years prior to Mr. Miller's retirement include Permanent Secretary for Financial Services and the Treasury (2002-2004), Director of Housing and Chief Executive of the Housing Authority (1996-2002), Director-General of Trade (1993-1996), Director of Marine (1991-1993), Information Coordinator in the Chief Secretary's Office (1989-1991) and Private Secretary to the Governor (1979-1982). Mr. Miller holds an MPA degree from Harvard University and a BA degree from London University.

For the financial year ended 30 June 2011, Mr. Miller received a fee of HK$60,000. Except the above fee, Mr. Miller did not receive any other emoluments during the said financial year.

Eric Ka-cheung LI, JP, *Independent Non-Executive Director*

Dr. Eric Li, GBS, OBE, JP, LLD, DSocSc., B.A., FCPA (Practising), FCA, FCPA (Aust.), FCIS, was appointed Director of the Company in October 1996. Dr. Li is the senior partner of Li, Tang, Chen & Co., Certified Public Accountants, an independent non-executive director of Transport International Holdings Limited, Wong's International (Holdings) Limited, Hang Seng Bank Limited, China Resources Enterprise Limited, Roadshow Holdings Limited and Bank of Communications Co., Ltd.. Dr. Li was a non-executive director of Sun Hung Kai Properties Limited ("SHKP") and has been re-designated as an independent non-executive director of SHKP with effect from 19 March 2009. Dr. Li previously held directorships in CATIC International Holdings Limited, Sinofert Holdings Limited (formerly Sinochem Hong Kong Holdings Limited), Strategic Global Investments plc. and Meadville Holdings Limited. Meadville Holdings Limited had withdrawn its listing status with The Stock Exchange of Hong Kong Limited with effect from 19 April 2010.

Dr. Li is a member of the 11th National Committee of Chinese People's Political Consultative Conference, an advisor to Ministry of Finance on international accounting standards, a convenor cum member of the Financial Reporting Review Panel, a member of the Commission on Strategic Development, a former member of the Legislative Council of Hong Kong and Chairman of its Public Accounts Committee. He was also a past president of the Hong Kong Institute of Certified Public Accountants (formerly Hong Kong Society of Accountants).

Dr. Li is also the chairman of the Remuneration Committee and the Audit Committee of the Company.

For the financial year ended 30 June 2011, Dr. Li received a fee of HK$240,000 including the fee for acting as the chairman of the Audit Committee of the Company. Except the above fee, Dr. Li did not receive any other emoluments during the said financial year.

Leung-sing NG, JP, *Independent Non-Executive Director*

Mr. Leung-sing Ng was appointed Director of the Company in June 1997. Mr. Ng is a Hong Kong Deputy to the 10th and 11th National People's Congress, P.R.C., the Chairman of Bank of China (Hong Kong) Trustees Limited, the Vice Chairman of The Chiyu Banking Corporation Limited and a director of Bank of China Group Charitable Foundation Limited. Mr. Ng was the General Manager of Bank-wide Operation Department of Bank of China (Hong Kong) Limited from August 2005 to July 2009, the executive director and general manager of The China and South Sea Bank Limited, Hong Kong from 1990 to 1998. Mr. Ng has been appointed a member of the board of Management of the Chinese Permanent Cemeteries since June 2009 and a member of the Board of MTR Corporation Limited, Hong Kong since December 2007, he was previously a member of the managing board of The Kowloon-Canton Railway Corporation, Hong Kong.

Mr. Ng had been appointed as the Chinese Representative of the Sino-British Land Commission and the trustee of Hong Kong Government Land Fund from 1988 to 1997. He was a member of the Corporate Contribution Programme Organisation Committee of the Hong Kong Community Chest from 1992 to 1996 and a member of the Hong Kong Housing Authority from 1996 to 2004. Mr. Ng was also a member of the Legislative Council of Hong Kong from 1996 to 2004 and a member of The Court of The Lingnan University since 1999. Mr. Ng was appointed as the Justice of the Peace in 2001, and was awarded the Silver Bauhinia Star by the HKSAR government in 2004.

Mr. Ng is also a member of the Remuneration Committee, the Nomination Committee and the Audit Committee of the Company.

For the financial year ended 30 June 2011, Mr. Ng received a fee of HK$240,000 including the fee for acting as member of the Audit Committee of the Company. Except the above fee, Mr. Ng did not receive any other emoluments during the said financial year.

DIRECTORS' PROFILE

Xiang-dong YANG, *Independent Non-Executive Director*

Mr. Xiang-dong Yang was appointed Director of the Company in December 2003.

Mr. Yang has been Managing Director and Co-Head of Carlyle Asia Partners of The Carlyle Group since 2001. Prior to joining Carlyle, Mr. Yang spent 9 years at Goldman Sachs, where he was a Managing Director and Co-Head of Goldman's private equity investment for Asia ex-Japan.

Mr. Yang serves on the board of China Pacific Insurance (Group) Company Limited.

Mr. Yang received his B.A. in economics from Harvard University and M.B.A. from Harvard Business School.

For the financial year ended 30 June 2011, Mr. Yang received a fee of HK$120,000. Except the above fee, Mr. Yang did not receive any other emoluments during the said financial year.

Eric Fock-kin GAN, *Independent Non-Executive Director*

Mr. Eric Gan was appointed Director of the Company in December 2005. Mr. Gan is the President and Chief Operating Officer of EMOBILE Limited, the fourth 3G mobile operator in Japan. During the start-up stage of EMOBILE in 2005, Mr. Gan was the Representative Director and Chief Financial Officer of EMOBILE when he was responsible for the equity and debt financing of 390 billion yen for EMOBILE after the fourth 3G license was granted in November 2005. Following the completion of the financing project, EMOBILE has successfully launched the 3G mobile data services on March 2007.

Mr. Gan is also a co-founder of eAccess Limited with Dr. Sachio Semmoto (Chairman of eAccess Limited, Founder, Chairman & CEO of EMOBILE Limited). During the first 3 years after the establishment of eAccess, Mr. Gan served as the Representative Director and Chief Operating Officer from 1999 to 2003. Prior to the IPO of eAccess, Mr. Gan took up the position of Representative Director and Chief Financial Officer from 2003 to 2007. eAccess has achieved the listing of the Tokyo Stock Exchange First Section (TSE1) in 2004, the fastest listing on the TSE1 ever in history. Mr. Gan was also involved in several successful M&A transactions including the acquisitions of Japan Telecom's ADSL (JDSL) business and the American On-line (AOL) business in Japan. Today, Mr. Gan still serves as a Director of the Board of eAccess.

Prior to the establishment of eAccess, Mr. Gan worked as a telecom analyst & Managing Director for Goldman Sachs Japan when he was involved in many telecommunication financing deals in Japan/Asia, including the listing of SmarTone, NTT DoCoMo (one of the world's largest IPOs), NTT equity tranches and many other telecom related IPO and advisory projects.

Mr. Gan was born in Hong Kong and graduated from Imperial College, University of London. Mr. Gan now lives in Japan (since 1990).

Mr. Gan is also the chairman of the Nomination Committee and a member of the Audit Committee of the Company.

For the financial year ended 30 June 2011, Mr. Gan received a fee of HK$240,000 including the fee for acting as member of the Audit Committee of the Company. Except the above fee, Mr. Gan did not receive any other emoluments during the said financial year.

Notes:

Saved as disclosed in the Directors' respective biographical details under this section, the Directors (1) have not held any directorships in other public listed companies, whether in Hong Kong or overseas, during the last three years; (2) do not hold any other positions in the Company and its subsidiaries; and (3) do not have any other relationship with any Directors, senior management or substantial or controlling shareholders of the Company.

No service contracts have been signed between the Company and the Directors (except Executive Directors) and there is no fixed term of their service with the Company. Their appointments are subject to retirement by rotation and re-election at annual general meetings in accordance with the Bye-laws of the Company and the Listing Rules. They are entitled to directors' fees which are determined by the Board under the authority granted by shareholders at annual general meetings. The fees are subject to annual assessment based on prevailing market rate of directors' fees for companies listed in Hong Kong.

The Company and Mr. Douglas Li, Executive Director, entered into an employment contract dated 31 May 2001 under which Mr. Li has been appointed to act as Executive Director and Chief Executive Officer of the Group with effect from 17 July 2001 with no fixed term of service. He is entitled to a basic salary which is subject to review by the Board from time to time with reference to his responsibility and performance. He is also entitled to an annual bonus, the computation of which is based on the profitability of the Group. Mr. Li's appointment as Executive Director is subject to retirement by rotation and re-election at annual general meetings in accordance with the Bye-laws of the Company and the Listing Rules. Mr. Li is entitled to a director's fee which is determined by the Board under the authority granted by shareholders at annual general meetings. The fee is subject to annual assessment based on prevailing market rate of directors' fees for companies listed in Hong Kong.

The Company and Mr. Patrick Chan, Executive Director, entered into an employment contract dated 1 May 2002 under which Mr. Chan has been appointed to act as Executive Director of the Group with effect from 15 May 2002 with no fixed term of service. He is entitled to a basic salary which is subject to review by the Board from time to time with reference to his responsibility and performance. He is also entitled to discretionary bonus, the computation of which is based on his performance and profitability of the Group. Mr. Chan's appointment as Executive Director is subject to retirement by rotation and re-election at annual general meetings in accordance with the Bye-laws of the Company and the Listing Rules. Mr. Chan is entitled to a director's fee which is determined by the Board under the authority granted by shareholders at annual general meetings. The fee is subject to annual assessment based on prevailing market rate of directors' fees for companies listed in Hong Kong.

The Directors' interests in shares of the Company or any of its associated corporations, if any, within the meaning of Part XV of the Securities and Futures Ordinance as at 31 December 2011 are disclosed in "Directors' and chief executive's interests" section on pages 40 to 42 of this Interim Report.

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

羅兵咸永道

TO THE BOARD OF DIRECTORS OF
SMARTONE TELECOMMUNICATIONS HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

Introduction

We have reviewed the condensed consolidated interim financial information set out on pages 15 to 39, which comprises the condensed consolidated balance sheet of SmarTone Telecommunications Holdings Limited (the "Company") and its subsidiaries (together, the "Group") as at 31 December 2011 and the related condensed consolidated profit and loss account, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial information is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 21 February 2012

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 31 December 2011
(Expressed in Hong Kong dollars)

	Note	Unaudited six months ended 31 December 2011 $000	2010 $000 (Note 24)
Service revenue		**2,806,754**	2,144,824
Handset and accessory sales		**2,253,267**	614,100
Revenues	6	**5,060,021**	2,758,924
Cost of inventories sold and services provided		**(2,539,781)**	(865,961)
Network costs		**(422,260)**	(383,285)
Staff costs		**(316,510)**	(252,784)
Sales and marketing expenses		**(169,964)**	(168,154)
Rental and utilities		**(84,203)**	(79,545)
Other operating expenses		**(101,939)**	(82,339)
Impairment loss of financial investments	14	**(19,591)**	–
Depreciation, amortisation and loss on disposal		**(764,316)**	(511,812)
Operating profit		**641,457**	415,044
Finance income	7	**15,020**	17,893
Finance costs	8	**(73,690)**	(51,769)
Profit before income tax	9	**582,787**	381,168
Income tax expense	10	**(97,032)**	(56,680)
Profit after income tax		**485,755**	324,488
Attributable to			
Equity holders of the Company		**475,342**	320,521
Non-controlling interests		**10,413**	3,967
		485,755	324,488
Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in cents per share)	11		
Basic		**46.2**	30.8
Diluted		**46.1**	30.8
Interim dividend declared	12	**473,702**	317,203

The notes on pages 22 to 39 are an integral part of these condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 December 2011
(Expressed in Hong Kong dollars)

	Unaudited six months ended 31 December	
	2011	2010
	$000	$000
Profit for the period	**485,755**	324,488
Other comprehensive income		
Fair value loss on financial investments, net of tax	**(400)**	(992)
Currency translation differences	**1,966**	1,166
Other comprehensive income for the period, net of tax	**1,566**	174
Total comprehensive income for the period	**487,321**	324,662
Total comprehensive income attributable to		
Equity holders of the Company	**476,908**	320,695
Non-controlling interests	**10,413**	3,967
	487,321	324,662

The notes on pages 22 to 39 are an integral part of these condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED BALANCE SHEET

As at 31 December 2011 and 30 June 2011
(Expressed in Hong Kong dollars)

	Note	Unaudited 31 December 2011 $000	Audited 30 June 2011 $000
Non-current assets			
Leasehold land and land use rights		**16,046**	16,007
Fixed assets	13	**2,147,682**	2,110,483
Interest in an associate		**3**	3
Financial investments	14	**–**	108,068
Intangible assets	15	**2,694,243**	2,520,571
Deposits and prepayments	16	**95,034**	63,164
		4,953,008	4,818,296
Current assets			
Inventories		**289,125**	311,506
Financial investments	14	**386,214**	341,252
Trade receivables	16	**359,541**	293,201
Deposits and prepayments	16	**140,771**	135,538
Other receivables	16	**98,783**	106,341
Pledged bank deposits		**108,602**	410,977
Short-term bank deposits		**52,963**	–
Cash and cash equivalents		**1,337,758**	819,781
		2,773,757	2,418,596
Current liabilities			
Trade payables	17	**730,171**	698,032
Other payables and accruals		**720,529**	718,856
Current income tax liabilities		**84,715**	41,170
Bank borrowings	18	**650,000**	550,000
Customer prepayments and deposits		**861,289**	688,885
Deferred income		**200,870**	190,874
Mobile licence fee liabilities		**160,456**	123,830
		3,408,030	3,011,647
Net current liabilities	2	**(634,273)**	(593,051)
Total assets less current liabilities		**4,318,735**	4,225,245
Non-current liabilities			
Customer prepayments and deposits		**400,363**	318,571
Asset retirement obligations		**59,132**	58,150
Mobile licence fee liabilities		**689,444**	780,654
Deferred income tax liabilities		**173,960**	159,186
		1,322,899	1,316,561
Net assets		**2,995,836**	2,908,684

CONDENSED CONSOLIDATED BALANCE SHEET

As at 31 December 2011 and 30 June 2011
(Expressed in Hong Kong dollars)

	Note	Unaudited 31 December 2011 $000	Audited 30 June 2011 $000
Capital and reserves			
Share capital	19	**102,979**	102,839
Reserves		**2,836,636**	2,760,037
Total equity attributable to equity holders of the Company		**2,939,615**	2,862,876
Non-controlling interests		**56,221**	45,808
Total equity		**2,995,836**	2,908,684

The notes on pages 22 to 39 are an integral part of these condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 31 December 2011
(Expressed in Hong Kong dollars)

	Unaudited six months ended 31 December	
	2011	2010
	$000	$000
Net cash generated from operating activities	**1,671,472**	1,616,734
Net cash used in investing activities	**(1,129,307)**	(1,053,510)
Net cash used in financing activities	**(24,067)**	(365,839)
Net increase in cash and cash equivalents	**518,098**	197,385
Effect of foreign exchange rate change	**(121)**	(31)
Cash and cash equivalents at 1 July	**819,781**	360,182
Cash and cash equivalents at 31 December	**1,337,758**	557,536

The notes on pages 22 to 39 are an integral part of these condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2011
(Expressed in Hong Kong dollars)

	Unaudited										
	Attributable to equity holders of the Company										
	Share capital $000	Share premium $000	Revaluation reserve $000	Capital redemption reserve $000	Contributed surplus $000	Employee share-based compensation reserve $000	Exchange reserve $000	Retained profits $000	Total $000	Non-controlling interests $000	Total $000
At 1 July 2010	52,567	10,912	1,228	8,503	2,017,925	13,797	2,758	619,309	2,726,999	34,858	2,761,857
Comprehensive income											
Profit for the period	–	–	–	–	–	–	–	320,521	320,521	3,967	324,488
Other comprehensive income/(losses)											
Fair value loss on financial investments, net of tax	–	–	(992)	–	–	–	–	–	(992)	–	(992)
Currency translation differences	–	–	–	–	–	–	1,166	–	1,166	–	1,166
Total comprehensive income	–	–	(992)	–	–	–	1,166	320,521	320,695	3,967	324,662
Transactions with owners											
Issue of shares	129	14,017	–	–	–	(2,540)	–	–	11,606	–	11,606
Repurchase of shares	(1,757)	–	–	1,757	(179,267)	–	–	(1,757)	(181,024)	–	(181,024)
Payment of 2010 final dividend	–	–	–	–	–	–	–	(178,977)	(178,977)	–	(178,977)
Total transactions with owners	(1,628)	14,017	–	1,757	(179,267)	(2,540)	–	(180,734)	(348,395)	–	(348,395)
At 31 December 2010	50,939	24,929	236	10,260	1,838,658	11,257	3,924	759,096	2,699,299	38,825	2,738,124

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2011
(Expressed in Hong Kong dollars)

	Unaudited										
	Attributable to equity holders of the Company										
	Share capital $000	Share premium $000	Revaluation reserve $000	Capital redemption reserve $000	Contributed surplus $000	Employee share-based compensation reserve $000	Exchange reserve $000	Retained profits $000	Total $000	Non-controlling interests $000	Total $000
At 1 July 2011	102,839	78,894	400	10,260	1,787,364	3,357	5,112	874,650	2,862,876	45,808	2,908,684
Comprehensive income											
Profit for the period	–	–	–	–	–	–	–	475,342	475,342	10,413	485,755
Other comprehensive income/(losses)											
Fair value loss on financial investments, net of tax	–	–	(400)	–	–	–	–	–	(400)	–	(400)
Currency translation differences	–	–	–	–	–	–	1,966	–	1,966	–	1,966
Total comprehensive income	–	–	(400)	–	–	–	1,966	475,342	476,908	10,413	487,321
Transactions with owners											
Issue of shares	140	7,502	–	–	–	(1,373)	–	–	6,269	–	6,269
Share-based payments	–	–	–	–	–	26,073	–	–	26,073	–	26,073
Payment of 2011 final dividend	–	–	–	–	–	–	–	(432,511)	(432,511)	–	(432,511)
Total transactions with owners	140	7,502	–	–	–	24,700	–	(432,511)	(400,169)	–	(400,169)
At 31 December 2011	102,979	86,396	–	10,260	1,787,364	28,057	7,078	917,481	2,939,615	56,221	2,995,836

The notes on pages 22 to 39 are an integral part of these condensed consolidated interim financial statements.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

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 (the "HKSE").

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 21 February 2012.

2 Basis of preparation

These Interim Financial Statements for the six months ended 31 December 2011 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 2011, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The Group's current liabilities exceeded its current assets by $634,273,000 as at 31 December 2011 (30 June 2011: $593,051,000). The 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 $795,607,000 (30 June 2011: $641,376,000) included in current liabilities, the Group would have net current assets of $161,334,000 as at 31 December 2011 (30 June 2011: $48,325,000). 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 2011, 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.

(Expressed in Hong Kong dollars)

3 Accounting policies *(continued)*

The following revised standards, amendments to standards and interpretations to existing standards are mandatory for the financial year ending 30 June 2012.

HKFRS (Amendments)	Improvements to HKFRSs 2010[1]
HKAS 24 (Revised)	Related Party Disclosures[2]
HKFRS 1 (Amendment)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[3]
HKFRS 7 (Amendment)	Disclosures – Transfers of Financial Assets[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 July 2011.

The adoption of above amendments and interpretations to existing standards has 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 2012 or later periods but which the Group has not early adopted.

HKAS 1 (Amendment)	Presentation of Financial Statements[2]
HKAS 12 (Amendment)	Deferred Tax-Recovery of Underlying Assets[1]
HKAS 19 (Amendment)	Employee Benefits[3]
HKAS 27 (Revised 2011)	Separate Financial Statements[3]
HKAS 28	Investments in Associates and Joint Ventures[3]
HKFRS 9	Financial Instruments[4]
HKFRS 7 and HKFRS 9 (Amendments)	Mandatory Effective Date and Transition Disclosures[4]
HKFRS 10	Consolidated Financial Statements[3]
HKFRS 11	Joint Arrangements[3]
HKFRS 12	Disclosure of Interests in Other Entities[3]
HKFRS 13	Fair Value Measurements[3]
HK (IFRIC) – Int 20	Stripping costs in the Production Phase of a Surface Mine[3]

[1] Effective for annual periods beginning on or after 1 January 2012.
[2] Effective for annual periods beginning on or after 1 July 2012.
[3] Effective for annual periods beginning on or after 1 January 2013.
[4] Effective for annual periods beginning on or after 1 January 2015.

4 Critical accounting estimates and judgements

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimates uncertainty were the same as those that applied to the consolidated financial statements for the year ended 30 June 2011.

5 Financial risk management

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks, including market risk, credit risk and liquidity risk.

The condensed consolidated interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 30 June 2011.

There have been no changes in the risk management policies since year end.

(b) Liquidity risk

Compared to year end, there was no material change in the contractual undiscounted cash out flow of financial liabilities.

(c) Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's assets that are measured at fair value at 31 December 2011 and 30 June 2011.

	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Available-for-sale financial assets (note 14(a))				
At 31 December 2011 (Unaudited)	**–**	**7,275**	**–**	**7,275**
At 30 June 2011 (Audited)	–	27,266	–	27,266

6 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 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 2011			
	Hong Kong	**Macau**	**Elimination**	**Consolidated**
	$000	**$000**	**$000**	**$000**
Revenues	**4,925,684**	**179,290**	**(44,953)**	**5,060,021**
EBITDA	**1,334,375**	**71,398**	**–**	**1,405,773**
Depreciation, amortisation and loss on disposal	**(735,556)**	**(29,040)**	**280**	**(764,316)**
Operating profit	**598,819**	**42,358**	**280**	**641,457**
Finance income				**15,020**
Finance costs				**(73,690)**
Profit before income tax				**582,787**

	Unaudited six months ended 31 December 2010			
	Hong Kong	Macau	Elimination	Consolidated
	$000	$000	$000	$000
				(Note 24)
Revenues	2,659,423	132,468	(32,967)	2,758,924
EBITDA	895,775	31,081	–	926,856
Depreciation, amortisation and loss on disposal	(496,658)	(15,215)	61	(511,812)
Operating profit	399,117	15,866	61	415,044
Finance income				17,893
Finance costs				(51,769)
Profit before income tax				381,168

6 Segment information *(continued)*

(b) Segment assets

	Hong Kong $000	Macau $000	Unallocated $000	Consolidated $000
At 31 December 2011 (Unaudited)	**7,030,060**	**310,488**	**386,217**	**7,726,765**
At 30 June 2011 (Audited)	6,512,182	275,387	449,323	7,236,892

7 Finance income

	Unaudited six months ended 31 December **2011** **$000**	 2010 $000
Interest income from listed debt securities	**6,384**	14,689
Interest income from unlisted debt securities	**1,961**	1,976
Interest income from bank deposits	**6,564**	998
Accretion income	**111**	230
	15,020	17,893

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.

8 Finance costs

	Unaudited six months ended 31 December **2011** **$000**	 2010 $000 (Note 24)
Interest expense on bank borrowings	**2,188**	–
Bank charges for credit card instalment	**20,417**	6,086
Accretion expenses		
Mobile licence fee liabilities	**49,865**	44,421
Asset retirement obligations	**1,220**	1,262
	73,690	51,769

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.

9 Profit before income tax

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

	Unaudited six months ended 31 December	
	2011	2010
	$000	$000
Charging:		
Cost of inventories sold	**2,231,638**	569,815
Impairment loss of inventories	**2,180**	–
Operating lease rentals for land and buildings, transmission sites and leased lines	**375,823**	338,306
Impairment loss of trade receivables (note 16)	**10,505**	8,306
Amortisation		
Handset subsidies (note 15)	**462,554**	242,197
Mobile licence fees (note 15)	**40,850**	36,047
Leasehold land and land use rights	**342**	323
Depreciation (note 13)	**257,264**	225,076
Loss on disposal of fixed assets	**3,306**	8,169
Share-based payments	**26,073**	–
Crediting:		
Net exchange gain	**524**	917
Reversal of impairment loss of inventories	**–**	466

10 Income tax expense

Hong Kong profits tax has been provided at the rate of 16.5% (2010: 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 recognised in the condensed consolidated profit and loss account represents:

	Unaudited six months ended 31 December	
	2011	2010
	$000	$000
Current income tax		
Hong Kong profits tax	**76,806**	59,922
Overseas tax	**5,452**	495
Deferred income tax	**14,774**	(3,737)
	97,032	56,680

11 Earnings per share

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue, after taking into account the effect of the Bonus Issue as referred to in note (*) below.

	Unaudited six months ended 31 December	
	2011	2010
Profit attributable to equity holders of the Company ($000)	**475,342**	320,521
Weighted average number of ordinary shares in issue	**1,029,166,351**	1,040,141,476*
Basic earnings per share (cents per share)	**46.2**	30.8

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares and adjusting for the Bonus Issue as referred to in note (*) below. For dilutive share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	Unaudited six months ended 31 December	
	2011	2010
Profit attributable to equity holders of the Company ($000)	**475,342**	320,521
Weighted average number of ordinary shares in issue	**1,029,166,351**	1,040,141,476*
Adjustment for dilutive share options	**2,833,490**	1,636,200
Weighted average number of ordinary shares for diluted earnings per share	**1,031,999,841**	1,041,777,676
Diluted earnings per share (cents per share)	**46.1**	30.8

* Pursuant to the resolution passed at the special general meeting held on 29 March 2011, 512,940,428 bonus shares were issued at nil consideration on the basis of one bonus share for every existing share in issue on 22 March 2011 (the "Bonus Issue"). The Bonus Issue was allotted on 6 April 2011. The issued and fully paid capital increased by $51,294,000 with the creation of an additional 512,940,428 shares of $0.1 each. Weighted average number of ordinary shares in issue was restated on the assumption that the Bonus Issue had been in place in prior period.

12 Dividends

(a) In respect of the period

	Unaudited six months ended 31 December	
	2011	2010
	$000	$000
Interim dividend declared of 46 cents (2010: 31 cents, as restated*) per share	**473,702**	317,203

At a meeting held on 21 February 2012, the directors declared an interim dividend of 46 cents per share for the year ending 30 June 2012. 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 2012.

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

(b) Attributable to prior year paid in the period

	Unaudited six months ended 31 December	
	2011	2010
	$000	$000
Final dividend of 42 cents (2010: 17.5 cents, as restated*) per share	**432,511**	178,977

* As restated on the assumption that the Bonus Issue had been in place in prior period.

13 Fixed assets

	Unaudited $000
Opening net book amount at 1 July 2011	**2,110,483**
Additions	**299,923**
Disposals	**(5,804)**
Exchange differences	**344**
Depreciation	**(257,264)**
Closing net book amount at 31 December 2011	**2,147,682**
Opening net book amount at 1 July 2010	1,910,981
Additions	314,058
Disposals	(8,374)
Exchange differences	370
Depreciation	(225,076)
Closing net book amount at 31 December 2010	1,991,959

During the six months ended 31 December 2011, major fixed assets acquired by the Group included network and testing equipment, including network under construction amounting to $244,758,000.

At 31 December 2011 and 30 June 2011, the fixed assets held by the Group under finance leases were fully depreciated.

14 Financial investments

	Unaudited 31 December 2011 $000	Audited 30 June 2011 $000
Available-for-sale financial assets (a)	**7,275**	27,266
Held-to-maturity debt securities (b)	**378,939**	422,054
	386,214	449,320
Less: held-to-maturity debt securities maturing after 1 year included under non-current assets	–	(108,068)
Total current financial investments	**386,214**	341,252

14 Financial investments *(continued)*

(a) Available-for-sale financial assets

	Unaudited $000
At 1 July 2011	27,266
Fair value loss transferred to equity	(400)
Impairment loss	(19,591)
At 31 December 2011	**7,275**

The available-for-sale financial assets are denominated in United States ("US") dollars, unlisted and traded on inactive markets and of private issuers.

The carrying amounts approximate their fair values.

(b) Held-to-maturity debt securities

	Unaudited $000
At 1 July 2011	422,054
Amortisation	(3,463)
Redemption upon maturity	(38,910)
Exchange differences	(742)
At 31 December 2011	**378,939**

The held-to-maturity debt securities are denominated in US dollars with a minimum credit rating of A- as rated by Standard & Poor's (30 June 2011: A-).

The carrying amounts approximate their fair values.

During the six months ended 31 December 2011, no gain or loss arose on the disposal of held-to-maturity debt securities (2010: same).

None of these financial assets is either past due or impaired.

15 Intangible assets

	Unaudited		
	Handset subsidies $000	Mobile licence fees $000	Total $000
Opening net book amount at 1 July 2011	**1,096,253**	**1,424,318**	**2,520,571**
Additions	**687,652**	**–**	**687,652**
Amortisation	**(462,554)**	**(40,850)**	**(503,404)**
Disposal	**(10,576)**	**–**	**(10,576)**
Closing net book amount at 31 December 2011	**1,310,775**	**1,383,468**	**2,694,243**
Opening net book amount at 1 July 2010	418,631	473,828	892,459
Additions	702,797	152,387	855,184
Amortisation	(242,197)	(36,047)	(278,244)
Closing net book amount at 31 December 2010	879,231	590,168	1,469,399

16 Trade and other receivables

	Unaudited 31 December 2011 $000	Audited 30 June 2011 $000
Trade receivables	**379,132**	313,737
Less: provision for impairment of trade receivables	**(19,591)**	(20,536)
Trade receivables – net	**359,541**	293,201
Deposits and prepayments	**235,805**	198,702
Other receivables	**98,783**	106,341
	694,129	598,244
Less: deposits and prepayments included under non-current assets	**(95,034)**	(63,164)
Current assets	**599,095**	535,080

16 Trade and other receivables *(continued)*

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 based on invoice date is as follows:

	Unaudited 31 December 2011 $000	Audited 30 June 2011 $000
Current to 30 days	**310,254**	257,348
31 – 60 days	**30,428**	21,242
61 – 90 days	**7,087**	5,820
Over 90 days	**11,772**	8,791
	359,541	293,201

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 $10,505,000 (2010: $8,306,000) for the impairment of its trade receivables during the six months ended 31 December 2011. The loss has been included in other operating expenses in the condensed consolidated profit and loss account.

17 Trade payables

An ageing analysis of trade payables based on invoice date is as follows:

	Unaudited 31 December 2011 $000	Audited 30 June 2011 $000
Current to 30 days	**573,405**	508,422
31 – 60 days	**121,877**	162,253
61 – 90 days	**12,634**	12,564
Over 90 days	**22,255**	14,793
	730,171	698,032

18 Bank borrowings

	Unaudited 31 December 2011 $000	Audited 30 June 2011 $000
Current		
Unsecured bank borrowings	**650,000**	550,000

During the six months ended 31 December 2011, the Group had drawdown and repayment of bank borrowings of $150,000,000 and $50,000,000 respectively.

At 31 December 2011, the Group's bank borrowings are fully repayable within one year and denominated in Hong Kong Dollars.

19 Share capital

	Unaudited	
	Shares of $0.1 each	$000
Authorised		
At 1 July 2011 and 31 December 2011	**2,000,000,000**	**200,000**
Issued and fully paid		
At 1 July 2011	**1,028,393,856**	**102,839**
Issue of new shares upon exercise of share options (a)	**1,393,000**	**140**
At 31 December 2011	**1,029,786,856**	**102,979**

(a) During the six months ended 31 December 2011, options were exercised to subscribe for 1,393,000 shares in the Company at a consideration of $6,269,000, of which $140,000 was credited to share capital and the balance of $6,129,000 was credited to the share premium account. In respect of the options exercised, an amount of $1,373,000 was reversed from the employee share-based compensation reserve and credited to the share premium account.

(Expressed in Hong Kong dollars)

20 Share option scheme

Movements of the share options granted to the participants pursuant to the Company's share option scheme during the six months ended 31 December 2011 are as follows:

(a) Movements in share options

	Unaudited Average exercise price per share	Unaudited Number of share options
At 1 July 2011	**$11.72**	**39,191,500**
Exercised	**$4.50**	**(1,393,000)**
Granted	**$13.36**	**1,642,500**
Cancelled or lapsed	**$12.78**	**(675,000)**
At 31 December 2011	**$12.03**	**38,766,000**
Share options fully vested and exercisable at 31 December 2011	**$4.50**	**3,621,000**

(b) Terms of unexpired and unexercised share options at balance sheet date

Date of grant	Exercise period	Exercise price per share	**Unaudited 31 December 2011 Number of share options**	Audited 30 June 2011 Number of share options
10 February 2003	2 May 2003 to 1 May 2012	$4.60	**167,000**	167,000
5 February 2004	5 February 2005 to 4 February 2014	$4.50	**3,454,000**	4,847,000
13 June 2011	13 June 2012 to 12 June 2016	$12.78	**33,502,500**	34,177,500
30 September 2011	30 September 2012 to 29 September 2016	$13.12	**840,000**	–
31 October 2011	31 October 2012 to 30 October 2016	$14.96	**150,000**	–
30 November 2011	30 November 2012 to 29 November 2016	$13.02	**277,500**	–
30 December 2011	30 December 2012 to 29 December 2016	$13.52	**375,000**	–
			38,766,000	39,191,500

(c) Details of share options exercised

Share options exercised during the period resulted in 1,393,000 shares (six months ended 31 December 2010: 1,289,500 shares) being issued. The related weighted average share price at the time of exercise was $15.36 per share (six months ended 31 December 2010: $11.01 per share).

21 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. Since then, FMIC was to be settled by commercial agreements between fixed and mobile operators. The Group adopts the Calling Party's Network Pay ("CPNP") principle when negotiating FMIC with the fixed network operators in Hong Kong ("FNOs"). CPNP is a fair and reasonable regime as FMIC is payable by the call originating network.

During the six months ended 31 December 2011, the Group issued invoices for FMIC with a total amount of $65,852,000 (2010: $67,144,000) to the interconnecting FNOs and received invoices for FMIC with a total amount of $45,806,000 (2010: $46,392,000) from some interconnecting FNOs. All these invoices were in dispute since the commercial terms for interconnection had not been agreed upon. 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).

No income or charge in respect of fixed-mobile interconnection has been recognised for the period from 27 April 2009 to 31 December 2011 since it is impracticable to estimate the amount or timing of such income and charge. As at 31 December 2011, the Group had contingent assets and liabilities in respect of FMIC of up to $350,680,000 (30 June 2011: $284,828,000) and $242,785,000 (30 June 2011: $196,979,000) respectively.

22 Commitments and contingent liabilities

(a) Capital commitments

	Unaudited 31 December 2011 $000	Audited 30 June 2011 $000
Contracted for		
Fixed assets	**122,388**	165,581
Equity securities	**–**	1,829
Authorised but not contracted for	**380,313**	605,096
	502,701	772,506

(b) Operating lease commitments

The Group leases various retail stores, offices, warehouses, transmission sites and leased lines under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

22 Commitments and contingent liabilities *(continued)*

(b) Operating lease commitments *(continued)*

At 31 December 2011, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	Unaudited 31 December 2011 $000	Audited 30 June 2011 $000
Land and buildings and transmission sites		
No later than 1 year	**417,938**	397,701
Later than 1 year and no later than 5 years	**332,884**	207,904
Later than 5 years	**21,069**	358
	771,891	605,963
Leased lines		
No later than 1 year	**132,391**	114,025
Later than 1 year and no later than 5 years	**382,396**	360,118
Later than 5 years	**245,840**	251,046
	760,627	725,189

(c) Performance bonds

	Unaudited 31 December 2011 $000	Audited 30 June 2011 $000
Hong Kong	**704,973**	654,352
Other	**4,005**	4,005
	708,978	658,357

The performance bonds were issued by certain banks in favour of the Telecommunications Authorities of Hong Kong and Macau in accordance with various telecommunications licences issued by those authorities to the Group. The banks' obligations under the performance bonds are guaranteed by the Company and various subsidiaries of the Company.

(d) Lease out, lease back agreement

Under certain lease out, lease back agreement entered into during the year ended 30 June 1999, a subsidiary of the Company has undertaken to guarantee the obligations of the intermediary lessees to the lessors as agreed at the inception of the lease for a period of 16 years. The directors are of the opinion that the risk of the subsidiary company being called upon to honour this guarantee is remote and accordingly the directors do not consider that an estimate of the potential financial effect of these contingencies can practically be made.

22 Commitments and contingent liabilities *(continued)*

(e) The Company has provided corporate guarantee for general banking facilities granted to a wholly-owned subsidiary of $650,000,000 (30 June 2011: $650,000,000). As at 31 December 2011, $650,000,000 of the banking facilities were utilised by the subsidiary (30 June 2011: $550,000,000).

23 Related party transactions

The Group is controlled by Cellular 8 Holdings Limited, which owns 64.21% of the Company's shares as at 31 December 2011. The remaining 35.79% of the shares are widely held, of which 2.75% is held by another subsidiary of Sun Hung Kai Properties Limited ("SHKP"). The ultimate holding company of the Group is SHKP, a company incorporated in Hong Kong.

(a) During the six months ended 31 December 2011, the Group had significant transactions with certain fellow subsidiaries and associates of SHKP in the ordinary course of business as set out below. All related party transactions are carried out in accordance with the terms of the relevant agreements governing the transactions.

	Unaudited six months ended 31 December	
	2011	2010
	$000	$000
Operating lease rentals for land and buildings and transmission sites (i)	**44,991**	39,196
Insurance expenses (ii)	**2,411**	2,243

(i) Operating lease rentals for land and buildings and transmission sites

Certain subsidiaries and associated companies of SHKP have leased premises to the Group for use as offices, retail stores and warehouses and have granted licences to the Group for the installation of base stations, antennae and telephone cables on certain premises owned by them.

For the six months ended 31 December 2011, rental and licence fees paid and payable to subsidiaries and associated companies of SHKP totalled $44,991,000 (2010: $39,196,000).

(ii) Insurance expenses

Sun Hung Kai Properties Insurance Limited, a wholly owned subsidiary of SHKP, provides general insurance services to the Group. For the six months ended 31 December 2011, insurance premiums paid and payable were $2,411,000 (2010: $2,243,000).

(b) At 31 December 2011, the Group has an interest in an associate, the major shareholder of which is a subsidiary of SHKP. The principal activity of the associate is to invest in an equity fund which primarily invests in technology related companies in the People's Republic of China.

23 Related party transactions *(continued)*

(c) Key management compensation

Key management includes directors and senior management. The compensation paid or payable to key management for employee services is shown below:

	Unaudited six months ended 31 December	
	2011	2010
	$000	$000
Salaries, bonuses and other short-term employee benefits	**23,072**	14,769
Share-based payments	**11,109**	–
	34,181	14,769

(d) The trading balances set out below with SHKP and its subsidiaries (the "SHKP Group"), including buildings and estates managed by the SHKP Group are included within the relevant balance sheet items:

	Unaudited 31 December 2011 $000	Audited 30 June 2011 $000
Trade receivables (note 16)	**1,142**	854
Deposits and prepayments (note 16)	**10,163**	7,260
Trade payables (note 17)	**77**	381
Other payables and accruals	**2,891**	2,170

The trading balances are unsecured, interest-free and repayable on similar terms to those offered to unrelated parties.

24 Comparative figures

Certain comparative figures have been reclassified to conform to the current period's presentation. These reclassifications have no impact on the Group's total equity as at both 31 December 2011 and 30 June 2011, or on the Group's profit for the periods ended 31 December 2011 and 2010.

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(Financial figures are expressed in Hong Kong dollars)

Interim dividend

The Directors declared an interim dividend of 46 cents per share for the six months ended 31 December 2011 (2010: 31 cents, adjusted for the 1:1 bonus issue in April 2011). The interim dividend will be payable in cash, with an option to receive new and fully paid shares in lieu of cash under a scrip dividend scheme (the "Scrip Dividend Scheme"). The Directors may, after having made enquiry regarding the legal restrictions under the laws of the relevant place and the requirements of the relevant regulatory body or stock exchange in relation to the Scrip Dividend Scheme, exclude any shareholder outside Hong Kong from the Scrip Dividend Scheme provided that the Directors consider such exclusion to be necessary or expedient on account either of the legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place. Such shareholders will receive the interim dividend in cash. A circular containing details of the Scrip Dividend Scheme and the relevant election form are expected to be sent to shareholders on or about Thursday, 15 March 2012.

The interim dividend will be distributed, and the share certificates issued under the Scrip Dividend Scheme will be sent on or about Friday, 13 April 2012 to shareholders whose names appear on the Register of Members of the Company as at the close of business on Friday, 9 March 2012.

Closure of register of members

For determining the entitlement to the interim dividend, the Register of Members of the Company will be closed from Wednesday, 7 March 2012 to Friday, 9 March 2012, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the 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 for registration no later than 4:30 p.m. on Tuesday, 6 March 2012.

Directors' and chief executive's interests

As at 31 December 2011, the interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and The Stock Exchange of Hong Kong Limited (the "HKSE") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under section 352 of the SFO, or which were required, pursuant to the required standard of dealings by Directors as referred to in the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules, to be notified to the Company and the HKSE, were as follows:

1. Long positions in shares and underlying shares of the Company

	Number of shares held					
Name of Director	Personal interests (held as beneficial owner)	Other interests	Total	Number of underlying shares held under equity derivatives	Total	% of shares in issue
Raymond Ping-luen Kwok	–	4,475,534[1]	4,475,534	–	4,475,534	0.43
Douglas Li	500,000	–	500,000	10,000,000[2]	10,500,000	1.02
Patrick Kai-lung Chan	–	–	–	4,107,000[2]	4,107,000	0.40

(Financial figures are expressed in Hong Kong dollars)

Notes:

1. Mr. Raymond Ping-luen Kwok was deemed to be interested in these shares by virtue of being a beneficiary of a discretionary trust for the purpose of Part XV of the SFO.

2. These represented the interests in the underlying shares of the Company in respect of the share options (being regarded for the time being as unlisted physically settled equity derivatives) granted by the Company, the details of which are set out in the section entitled "Share option scheme".

2. Long positions in shares and underlying shares of the associated corporations of the Company

(a) Sun Hung Kai Properties Limited ("SHKP")

Name of Director	Number of shares held: Personal interests (held as beneficial owner)	Number of shares held: Other interests	Number of shares held: Total	Number of underlying shares held under equity derivatives	Total	% of shares in issue
Raymond Ping-luen Kwok	75,000	406,459,978[1]	406,534,978	100,000[2]	406,634,978	15.82
David Norman Prince	2,000	–	2,000	–	2,000	0
Wing-chung Yung	–	–	–	45,000[2]	45,000	0
Thomas Hon-wah Siu	–	7,000[3]	7,000	–	7,000	0
Eric Ka-cheung Li	–	4,028[4]	4,028	–	4,028	0

Notes:

1. Mr. Raymond Ping-luen Kwok was deemed to be interested in these shares in SHKP by virtue of being a beneficiary of certain discretionary trusts for the purpose of Part XV of the SFO.

2. These represented the interests in the underlying shares of SHKP in respect of the share options (being regarded for the time being as unlisted and physically settled equity derivatives) granted by SHKP under its share option scheme. The outstanding options granted by SHKP to the Directors of the Company under the scheme as at 31 December 2011 were as follows:

Name of Director	Date of grant	Exercise price $	Exercise period	Outstanding at 1 July 2011	Granted during the period	Exercised during the period	Cancelled/ Lapsed during the period	Outstanding at 31 December 2011
Raymond Ping-luen Kwok	12 July 2010	111.40	12 July 2011 to 11 July 2015	100,000*	–	–	–	100,000
Wing-chung Yung	12 July 2010	111.40	12 July 2011 to 11 July 2015	45,000*	–	–	–	45,000

* The share options can be exercised up to 30% of the grant during the period from 12 July 2011 to 11 July 2012, up to 60% of the grant during the period from 12 July 2012 to 11 July 2013 and in whole or in part of the grant during the period from 12 July 2013 to 11 July 2015.

(Financial figures are expressed in Hong Kong dollars)

3. These shares in SHKP were held jointly by Mr. Thomas Hon-wah Siu and his spouse.

4. These shares in SHKP were held by the spouse of Dr. Eric Ka-cheung Li.

(b) SUNeVision Holdings Ltd. ("SUNeVision")

	Number of shares held				
Name of Director	Other interests	Total	Number of underlying shares held under equity derivatives	Total	% of shares in issue
Raymond Ping-luen Kwok	3,485,000[1]	3,485,000	–	3,485,000	0.15

Note:

1. Mr. Raymond Ping-luen Kwok was deemed to be interested in these shares in SUNeVision by virtue of being a beneficiary of certain discretionary trusts for the purpose of Part XV of the SFO.

(c) Mr. Raymond Ping-luen Kwok had the following interests in shares of the following associated corporations:

Name of associated corporation	Attributable holding through corporation	Attributable % of shares in issue through corporation	Actual Holding through corporation	Actual % interests in issued shares
Splendid Kai Limited	2,500	25	1,500[1]	15
Hung Carom Company Limited	25	25	15[1]	15
Tinyau Company Limited	1	50	1[1]	50
Open Step Limited	8	80	4[1]	40

Note:

1. Mr. Raymond Ping-luen Kwok was deemed to be interested in these shares by virtue of being a beneficiary of a discretionary trust for the purpose of Part XV of the SFO.

Save as disclosed above, at 31 December 2011, none of the Directors and chief executive (including their spouses and children under 18 years of age) and their respective associates had or deemed to have any interests or short positions in shares, underlying shares or debentures of the Company, its subsidiaries or any of its associated corporations that were required to be entered into the register kept by the Company pursuant to section 352 of the SFO or were required to be notified to the Company and the HKSE pursuant to Part XV of the SFO or pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules.

(Financial figures are expressed in Hong Kong dollars)

Share option scheme

The Company operates two share option schemes, which are:

(1) share option scheme adopted and become effective on 15 November 2002 and terminated on 8 December 2011 (the "Old Scheme"); and

(2) share option scheme adopted on 2 November 2011 and become effective on 8 December 2011 (the "New Scheme").

Pursuant to the schemes, the Company granted/may grant options to participants, including Directors and employees of the Group, to subscribe for the shares of the Company. No further options can be granted under the Old Scheme upon its termination. However, for the outstanding options granted and yet to be exercised under the Old Scheme, the existing rights of the grantees are not affected.

Movements of the share options granted to the participants pursuant to the Old Scheme and the New Scheme during the six months ended 31 December 2011 are as follows:

Grantee	Date of grant	Exercise price $	Exercise period	Outstanding at 1 July 2011	Granted during the period	Exercised during the period	Cancelled/ Lapsed during the period	Outstanding at 31 December 2011
Share options granted under the Old Scheme								
Directors								
Douglas Li	13 June 2011	12.78	13 June 2012 to 12 June 2016	10,000,000[3]	–	–	–	10,000,000
Patrick Kai-lung Chan	10 February 2003	4.60	2 May 2003 to 1 May 2012	167,000[1]	–	–	–	167,000
	5 February 2004	4.50	5 February 2005 to 4 February 2014	1,940,000[2]	–	–	–	1,940,000
	13 June 2011	12.78	13 June 2012 to 12 June 2016	2,000,000[3]	–	–	–	2,000,000
Employees under continuous contracts	5 February 2004	4.50	5 February 2005 to 4 February 2014	2,907,000[2]	–	(1,393,000)[8]	–	1,514,000
	13 June 2011	12.78	13 June 2012 to 12 June 2016	22,177,500[3]	–	–	(675,000)	21,502,500
	30 September 2011	13.12	30 September 2012 to 29 September 2016	N/A	840,000[4]	–	–	840,000
	31 October 2011	14.96	31 October 2012 to 30 October 2016	N/A	150,000[5]	–	–	150,000
	30 November 2011	13.02	30 November 2012 to 29 November 2016	N/A	277,500[6]	–	–	277,500
Share options granted under the New Scheme								
Employees under continuous contracts	30 December 2011	13.52	30 December 2012 to 29 December 2016	N/A	375,000[7]	–	–	375,000

Notes:

1. The options can be exercised up to one-third from 2 May 2003, up to two-thirds from 2 May 2004 and in whole from 2 May 2005.

2. The options can be exercised up to one-third from 5 February 2005, up to two-thirds from 5 February 2006 and in whole from 5 February 2007.

3. The options can be exercised up to one-third from 13 June 2012, up to two-thirds from 13 June 2013 and in whole from 13 June 2014.

4. The options can be exercised up to one-third from 30 September 2012, up to two-thirds from 30 September 2013 and in whole from 30 September 2014. The closing price of the shares of the Company immediately before the date on which the options were granted was $12.40 per share.

5. The options can be exercised up to one-third from 31 October 2012, up to two-thirds from 31 October 2013 and in whole from 31 October 2014. The closing price of the shares of the Company immediately before the date on which the options were granted was $14.76 per share.

6. The options can be exercised up to one-third from 30 November 2012, up to two-thirds from 30 November 2013 and in whole from 30 November 2014. The closing price of the shares of the Company immediately before the date on which the options were granted was $13.32 per share.

7. The options can be exercised up to one-third from 30 December 2012, up to two-thirds from 30 December 2013 and in whole from 30 December 2014. The closing price of the shares of the Company immediately before the date on which the options were granted was $13.46 per share.

8. The weighted average closing price of the shares of the Company immediately before the date on which the share options were exercised by the employees under continuous contracts was $14.94 per share.

Other than the share options stated above, no share options had been granted by the Company to other participants pursuant to the Old Scheme or the New Scheme. Save as disclosed above, no other share options were granted, exercised, cancelled or lapsed during the period.

(Financial figures are expressed in Hong Kong dollars)

Valuation of share options granted during the period

During the six months ended 31 December 2011, the Company granted share options to various employees of the Company under continuous contracts pursuant to the Old Scheme and the New Scheme to subscribe for a total of 1,642,500 shares in the capital of the Company. The value of these share options, as calculated by using Binominal option pricing model, was $4,686,000.

The Binominal model is one of the generally accepted methodologies to calculate the value of an option. The significant inputs into the model in respect of the various grants of share options during the period were:

	Date of grant			
	30 September 2011	**31 October 2011**	**30 November 2011**	**30 December 2011**
Annual risk-free interest rate [1]	0.757%	0.887%	0.813%	0.957%
Expected option life [2]	5 Years	5 Years	5 Years	5 Years
Volatility [3]	38.21%	40.26%	40.74%	40.87%
Dividend yield [4]	5.5%	5.5%	5.5%	5.5%
Exercise price	$13.12	$14.96	$13.02	$13.52
Share price at date of grant	$11.84	$14.60	$13.02	$13.44
Option value	***$2.38***	***$3.50***	***$3.25***	***$3.36***

Notes:

1. This represents the weighted average yield of the relevant Hong Kong Exchange Fund Notes corresponding to the expected life of the share options as at the date of grant.

2. This represents the life of the share options as measured from the date of grant.

3. This represents the standard deviation of continuously compounded share returns based on statistical analysis of daily share prices over the last 5 years from the date of grant.

4. This represents the yield of expected dividend which is determined by reference to the historical dividend yield of the shares of the Company.

The value of the share options is subject to a number of assumptions and with regard to the limitation of model. Therefore, the value may be subjective and would change should any of the assumptions change.

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(Financial figures are expressed in Hong Kong dollars)

Discloseable interests and short positions of shareholders under the SFO

As at 31 December 2011, the long positions of persons, other than Directors or chief executive of the Company, being 5% or more in the interest in shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO, were as follows:

Name	Total number of shares	% of shares in issue
Sun Hung Kai Properties Limited ("SHKP") [1]	689,612,794	66.96%
HSBC Trustee (C.I.) Limited ("HSBC") [2]	689,612,794	66.96%
Marathon Asset Management LLP	91,540,698	8.88%

Notes:

1. TFS Development Company Limited ("TFS") and Cellular 8 Holdings Limited ("Cellular 8", a wholly owned subsidiary of TFS) held 28,335,850 shares and 661,276,944 shares in the Company respectively. For the purpose of Part XV of the SFO, TFS was deemed to be interested in 661,276,944 shares in the Company held by Cellular 8. Accordingly, TFS had interests and deemed interests in an aggregate of 689,612,794 shares in the Company.

   In addition, TFS is a wholly-owned subsidiary of Fourseas Investments Limited ("Fourseas") which in turn is a wholly-owned subsidiary of SHKP. For the purpose of Part XV of the SFO, SHKP and Fourseas were also deemed to be interested in the above-mentioned 689,612,794 shares in the Company.

2. For the purpose of Part XV of the SFO, the interest of SHKP noted above against its name (and the interest of each of its subsidiaries noted above) was also attributed to HSBC by reference to the interests in shares which HSBC held (or was deemed to hold) in SHKP. The number of shares noted above against the name of HSBC therefore duplicates the interest of SHKP.

Save as disclosed above, as at 31 December 2011, no other parties had registered as having an interest of 5% or more in the shares or underlying shares of the Company or having short positions as recorded in the register kept under section 336 of the SFO.

Purchase, sale or redemption of shares

At no time during the six months ended 31 December 2011 was there any purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's shares.

Review of interim results

An Audit Committee has been established by the Company to provide advice and recommendations to the Board. The Audit Committee is currently chaired by Dr. Eric Ka-cheung Li, an Independent Non-Executive Director with professional accounting expertise, and the other members are Mr. Leung-sing Ng, Mr. Eric Fock-kin Gan and Mr. Alfred Wing-kit Tsim, with the majority being Independent Non-Executive Directors of the Company. The Committee members possess appropriate business or financial expertise and experience to provide relevant advice and recommendations to the Company.

The Audit Committee held a meeting on 14 February 2012 and reviewed these interim financial statements as well as the internal audit reports of the Group for the six months ended 31 December 2011. 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 2011 have not been audited but have been reviewed by the Company's external auditors.

The financial information disclosed in this interim report complies with the disclosure requirements of Appendix 16 of 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 2011, 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.

OTHER INFORMATION

(Financial figures are expressed in Hong Kong dollars)

Compliance with Model Code for Securities Transactions

The Group adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 of the Listing Rules as the code of conduct regarding Directors' transactions in the securities of the Company. Similar code has also been adopted for relevant employees, who may be in possession of unpublished price-sensitive information, in dealing with the Company's securities. Upon specific enquiry, each Director had confirmed that during the six months ended 31 December 2011, they had fully complied with the required standard set out in the Model Code regarding securities transactions and there was no event of non-compliance.

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

Hong Kong, 21 February 2012

As at the date of this report, 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.