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SmarTone Telecommunications Holdings Limited

(the “Company”)

(Incorporated in Bermuda with limited liability)

(Stock Code: 00315)

**PUBLICATION OF
UNAUDITED CONDENSED CONSOLIDATED
INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2012**

We refer to the Company’s announcement dated 21 March 2013 relating to the proposed issue of US\$ guaranteed notes (the “**Proposed Notes Issue**”). SmarTone Telecommunications Holdings Limited wishes to publish its unaudited condensed consolidated interim financial statements for the six months ended 31 December 2012, which will also be included in the offering circular relating to the Proposed Notes Issue. The said statements are herewith attached.

By order of the Board
SmarTone Telecommunications Holdings Limited
Mak Yau-hing, Alvin
Company Secretary

Hong Kong, 21 March 2013

As at the date of this announcement, the Executive Directors of the Company are Mr. Douglas LI and Mr. CHAN Kai-lung, Patrick; Non-Executive Directors are Mr. KWOK Ping-luen, Raymond, Mr. CHEUNG Wing-yui, Mr. David Norman PRINCE, Mr. YUNG Wing-chung, Mr. SIU Hon-wah, Thomas, Mr. TSIM Wing-kit, Alfred and Mr. John Anthony MILLER; Independent Non-Executive Directors are Dr. LI Ka-cheung, Eric, JP, Mr. NG Leung-sing, JP, Mr. YANG Xiang-dong, Mr. GAN Fock-kin, Eric and Mrs. IP YEUNG See-ming, Christine.

**SMARTONE TELECOMMUNICATIONS HOLDINGS LIMITED
UNAUDITED CONDENSED CONSOLIDATED
INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2012**

The following is the reproduction of the condensed consolidated interim financial statements of SmarTone Telecommunications Holdings Limited for the six months ended 31 December 2012 together with the independent auditor's report on review of interim financial information.

**REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION
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 2 to 27, which comprises the condensed consolidated balance sheet of SmarTone Telecommunications Holdings Limited (the "Company") and its subsidiaries (together, the "Group") as at 31 December 2012 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, 18 February 2013

SMARTONE TELECOMMUNICATIONS HOLDINGS LIMITED

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2012

(Expressed in Hong Kong dollars)

		Unaudited six months ended 31 December	
	Note	2012 \$000	2011 \$000 (Note 23)
Service revenue		2,869,028	2,806,754
Handset and accessory sales		3,019,059	2,253,267
		<hr/>	<hr/>
Revenues	6	5,888,087	5,060,021
Cost of inventories sold		(2,927,251)	(2,231,638)
Staff costs		(345,699)	(316,510)
Other operating expenses		(1,078,116)	(1,106,100)
Depreciation, amortisation and loss on disposal		(921,561)	(764,316)
		<hr/>	<hr/>
Operating profit		615,460	641,457
Finance income	7	6,889	15,020
Finance costs	8	(65,897)	(73,690)
		<hr/>	<hr/>
Profit before income tax	9	556,452	582,787
Income tax expense	10	(90,441)	(97,032)
		<hr/>	<hr/>
Profit after income tax		466,011	485,755
		<hr/>	<hr/>
Attributable to			
Equity holders of the Company		459,399	475,342
Non-controlling interests		6,612	10,413
		<hr/>	<hr/>
		466,011	485,755
		<hr/>	<hr/>
Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in cents per share)	11		
Basic		44.3	46.2
Diluted		44.1	46.1
		<hr/>	<hr/>
Interim dividend declared	12	456,506	473,702
		<hr/>	<hr/>

The notes on pages 9 to 27 are an integral part of these condensed consolidated interim financial statements.

SMARTONE TELECOMMUNICATIONS HOLDINGS LIMITED**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

FOR THE SIX MONTHS ENDED 31 DECEMBER 2012

(Expressed in Hong Kong dollars)

	Unaudited six months ended 31 December	
	2012	2011
	\$000	\$000
Profit for the period	466,011	485,755
Other comprehensive income		
Items that may be reclassified subsequently to profit and loss:		
Fair value gain/(loss) on financial investments, net of tax	3,006	(400)
Currency translation differences	267	1,966
Other comprehensive income for the period, net of tax	3,273	1,566
Total comprehensive income for the period	469,284	487,321
Total comprehensive income attributable to		
Equity holders of the Company	462,672	476,908
Non-controlling interests	6,612	10,413
	469,284	487,321

The notes on pages 9 to 27 are an integral part of these condensed consolidated interim financial statements.

SMARTONE TELECOMMUNICATIONS HOLDINGS LIMITED

CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2012 AND 30 JUNE 2012

(Expressed in Hong Kong dollars)

	Note	Unaudited 31 December 2012 \$000	Audited 30 June 2012 \$000
Non-current assets			
Leasehold land and land use rights		15,354	15,650
Fixed assets	13	2,894,451	2,529,922
Interest in an associate		3	3
Intangible assets	14	2,690,429	2,601,660
Deposits and prepayments	15	99,014	70,084
Deferred income tax assets		5,392	3,670
		<u>5,704,643</u>	<u>5,220,989</u>
Current assets			
Inventories		183,406	255,236
Financial investments	16	4,904	82,678
Trade receivables	15	384,091	341,311
Deposits and prepayments	15	168,313	157,665
Other receivables	15	68,896	77,380
Pledged bank deposits		6,269	8,727
Short-term bank deposits		68,518	56,469
Cash and cash equivalents		1,507,009	1,268,400
		<u>2,391,406</u>	<u>2,247,866</u>
Current liabilities			
Trade payables	17	927,508	615,533
Other payables and accruals		757,982	892,104
Current income tax liabilities		224,021	174,094
Bank borrowings	18	30,477	-
Customer prepayments and deposits		915,102	866,982
Deferred income		242,416	192,731
Mobile licence fee liabilities		169,710	167,156
		<u>3,267,216</u>	<u>2,908,600</u>
Net current liabilities	2	<u>(875,810)</u>	<u>(660,734)</u>
Total assets less current liabilities		<u>4,828,833</u>	<u>4,560,255</u>
Non-current liabilities			
Customer prepayments and deposits		454,688	347,856
Asset retirement obligations		62,082	61,296
Bank borrowings	18	358,937	66,000
Mobile licence fee liabilities		602,468	707,187
Deferred income tax liabilities		235,699	203,355
		<u>1,713,874</u>	<u>1,385,694</u>
Net assets		<u>3,114,959</u>	<u>3,174,561</u>

SMARTONE TELECOMMUNICATIONS HOLDINGS LIMITED**CONDENSED CONSOLIDATED BALANCE SHEET**

AS AT 31 DECEMBER 2012 AND 30 JUNE 2012

(Expressed in Hong Kong dollars)

	Note	Unaudited 31 December 2012 \$000	Audited 30 June 2012 \$000
Capital and reserves			
Share capital	19	103,751	103,672
Reserves		2,940,973	3,007,266
Total equity attributable to equity holders of the Company		3,044,724	3,110,938
Non-controlling interests		70,235	63,623
Total equity		3,114,959	3,174,561

The notes on pages 9 to 27 are an integral part of these condensed consolidated interim financial statements.

SMARTONE TELECOMMUNICATIONS HOLDINGS LIMITED

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2012

(Expressed in Hong Kong dollars)

	Unaudited six months ended 31 December	
	2012	2011
	\$000	\$000
Net cash generated from operating activities	1,976,845	1,671,472
Net cash used in investing activities	(1,523,323)	(1,129,307)
Net cash used in financing activities	(214,851)	(24,067)
Net increase in cash and cash equivalents	238,671	518,098
Effect of foreign exchange rate change	(62)	(121)
Cash and cash equivalents at 1 July	1,268,400	819,781
Cash and cash equivalents at 31 December	1,507,009	1,337,758

The notes on pages 9 to 27 are an integral part of these condensed consolidated interim financial statements.

SMARTONE TELECOMMUNICATIONS HOLDINGS LIMITED

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 31 DECEMBER 2012
 (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 for the period ended 31 December 2011	-	-	(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

SMARTONE TELECOMMUNICATIONS HOLDINGS LIMITED

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 31 DECEMBER 2012

(Expressed in Hong Kong dollars)

	Unaudited										
	Attributable to equity holders of the Company										
	Share capital	Share premium	Revaluation reserve	Capital redemption reserve	Contributed surplus	Employee share-based compensation reserve	Exchange reserve	Retained profits	Total	Non-controlling interests	Total
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
At 1 July 2012	103,672	161,239	-	10,260	1,313,533	50,434	6,781	1,465,019	3,110,938	63,623	3,174,561
Comprehensive income											
Profit for the period	-	-	-	-	-	-	-	459,399	459,399	6,612	466,011
Other comprehensive income											
Fair value gain on financial investments, net of tax	-	-	3,006	-	-	-	-	-	3,006	-	3,006
Currency translation differences	-	-	-	-	-	-	267	-	267	-	267
Total comprehensive income for the period ended 31 December 2012	-	-	3,006	-	-	-	267	459,399	462,672	6,612	469,284
Transactions with owners											
Issue of shares	47	6,445	-	-	-	(1,052)	-	-	5,440	-	5,440
Share-based payments	-	-	-	-	-	10,773	-	-	10,773	-	10,773
Payment of 2012 final dividend	32	4,583	-	-	(549,714)	-	-	-	(545,099)	-	(545,099)
Total transactions with owners	79	11,028	-	-	(549,714)	9,721	-	-	(528,886)	-	(528,886)
At 31 December 2012	103,751	172,267	3,006	10,260	763,819	60,155	7,048	1,924,418	3,044,724	70,235	3,114,959

The notes on pages 9 to 27 are an integral part of these condensed consolidated interim financial statements.

SMARTONE TELECOMMUNICATIONS HOLDINGS LIMITED

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 units of Hong Kong dollars, unless otherwise stated. These Interim Financial Statements have been approved for issue by the board of directors on 18 February 2013.

2 Basis of preparation

These Interim Financial Statements for the six months ended 31 December 2012 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 2012, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

The Group’s current liabilities exceeded its current assets by \$875,810,000 as at 31 December 2012 (30 June 2012: \$660,734,000). 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 \$846,210,000 (30 June 2012: \$788,373,000) included in current liabilities, the Group would have net current liabilities of \$29,600,000 as at 31 December 2012 (30 June 2012: net current assets of \$127,639,000). The future funding requirements of the Group are expected to be met through the internal cash resources and available banking facilities. 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 2012, as described in those annual financial statements.

The Hong Kong Institute of Certified Public Accountants amended HKAS 1 “Presentation of Financial Statements”. This amendment requires entities to group items presented in other comprehensive income on the basis of whether they are potentially reclassified to profit or loss subsequently. The amendment is applicable retrospectively to annual periods beginning on or after 1 July 2012. The Group has adopted this amendment for the period ended 31 December 2012.

SMARTONE TELECOMMUNICATIONS HOLDINGS LIMITED

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

3 Accounting policies (continued)

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

There are no other amended standards or interpretations that are effective for the first time of this interim period that are relevant to the Group and could be expected to have a material impact on the Group.

The following new and revised standards, amendments to standards and interpretations to existing standards have been published and are not effective for the financial year beginning 1 July 2012 and have not been early adopted by the Group:

Annual Improvements Project	Annual Improvements 2009-2011 Cycle ¹
HKAS 19 (Amendment)	Employee Benefits ¹
HKAS 27 (Revised 2011)	Separate Financial Statements ¹
HKAS 28 (Revised 2011)	Investments in Associates and Joint Ventures ¹
HKAS 32 (Amendment)	Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities ²
HKFRS 1 (Amendment)	First Time Adoption on Government Loans ¹
HKFRS 7 (Amendment)	Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities ¹
HKFRS 9	Financial Instruments ³
HKFRS 7 and HKFRS 9 (Amendments)	Mandatory Effective Date and Transition Disclosures ³
HKFRS 10	Consolidated Financial Statements ¹
HKFRS 11	Joint Arrangements ¹
HKFRS 12	Disclosure of Interests in Other Entities ¹
HKFRS 10, HKFRS 11 and HKFRS 12 (Amendment)	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance ¹
HKFRS 13	Fair Value Measurements ¹
HK (IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine ¹

¹ Effective for annual periods beginning on or after 1 January 2013.

² Effective for annual periods beginning on or after 1 January 2014.

³ Effective for annual periods beginning on or after 1 January 2015.

4 Estimates

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 interim financial statements, the significant judgement made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended 30 June 2012.

SMARTONE TELECOMMUNICATIONS HOLDINGS LIMITED

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

5 Financial risk management

The Group's activities expose it to a variety of financial risks, market risk (including currency risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The 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 2012.

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

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 segments is set out as follows:

(a) Segment results

	Unaudited six months ended 31 December 2012			
	Hong Kong	Macau	Elimination	Consolidated
	\$000	\$000	\$000	\$000
Revenues	5,766,697	277,044	(155,654)	5,888,087
EBITDA	1,478,161	58,860	-	1,537,021
Depreciation, amortisation and loss on disposal	(890,227)	(31,447)	113	(921,561)
Operating profit	587,934	27,413	113	615,460
Finance income				6,889
Finance costs				(65,897)
Profit before income tax				556,452

SMARTONE TELECOMMUNICATIONS HOLDINGS LIMITED

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

6 Segment information (continued)

(a) Segment results (continued)

	Unaudited six months ended 31 December 2011			
	Hong Kong \$000	Macau \$000	Elimination \$000	Consolidated \$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

(b) Segment assets

	Hong Kong \$000	Macau \$000	Unallocated \$000	Consolidated \$000
At 31 December 2012 (Unaudited)	7,607,914	477,836	10,299	8,096,049
At 30 June 2012 (Audited)	6,977,768	404,736	86,351	7,468,855

There are no differences from the last annual financial statements in the basis of segmentation or in the basis of measurement of segment results.

SMARTONE TELECOMMUNICATIONS HOLDINGS LIMITED

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

7 Finance income

	Unaudited six months ended 31 December	
	2012	2011
	\$000	\$000
Interest income from listed debt securities	443	6,384
Interest income from unlisted debt securities	-	1,961
Interest income from bank deposits	6,125	6,564
Accretion income	321	111
	<u>6,889</u>	<u>15,020</u>

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	
	2012	2011
	\$000	\$000
Interest expense on bank borrowings	2,411	2,188
Bank charges for credit card instalment	15,328	20,417
Accretion expenses		
Mobile licence fee liabilities	46,861	49,865
Asset retirement obligations	1,297	1,220
	<u>65,897</u>	<u>73,690</u>

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.

SMARTONE TELECOMMUNICATIONS HOLDINGS LIMITED

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

9 Profit before income tax

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

	Unaudited six months ended 31 December	
	2012	2011
	\$000	\$000
Charging:		
Cost of services provided	235,821	308,143
Operating lease rentals for land and buildings, transmission sites and leased lines	431,807	375,823
Impairment loss of financial investments	-	19,591
Impairment loss of trade receivables (note 15)	8,306	10,505
Impairment loss of inventories	10,880	2,180
Loss on disposal of fixed assets	1,325	3,306
Share-based payments	10,773	26,073
Crediting:		
Net exchange gain	644	524

10 Income tax expense

Hong Kong profits tax has been provided at the rate of 16.5% (2011: 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 rate prevailing in the country 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	
	2012	2011
	\$000	\$000
Current income tax		
Hong Kong profits tax	55,954	76,806
Overseas tax	3,865	5,452
Deferred income tax	30,622	14,774
	<u>90,441</u>	<u>97,032</u>

SMARTONE TELECOMMUNICATIONS HOLDINGS LIMITED

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

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.

	Unaudited six months ended 31 December	
	2012	2011
Profit attributable to equity holders of the Company (\$000)	<u>459,399</u>	<u>475,342</u>
Weighted average number of ordinary shares in issue	<u>1,037,049,769</u>	<u>1,029,166,351</u>
Basic earnings per share (cents per share)	<u>44.3</u>	<u>46.2</u>

(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.

	Unaudited six months ended 31 December	
	2012	2011
Profit attributable to equity holders of the Company (\$000)	<u>459,399</u>	<u>475,342</u>
Weighted average number of ordinary shares in issue	<u>1,037,049,769</u>	<u>1,029,166,351</u>
Adjustment for dilutive share options	<u>4,712,434</u>	<u>2,833,490</u>
Weighted average number of ordinary shares for diluted earnings per share	<u>1,041,762,203</u>	<u>1,031,999,841</u>
Diluted earnings per share (cents per share)	<u>44.1</u>	<u>46.1</u>

SMARTONE TELECOMMUNICATIONS HOLDINGS LIMITED

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

12 Dividends

- (a) In respect of the period

	Unaudited six months ended 31 December	
	2012	2011
	\$000	\$000
Interim dividend declared of 44 cents (2011: 46 cents) per share	456,506	473,702

At a meeting held on 18 February 2013, the directors declared an interim dividend of 44 cents per share for the year ending 30 June 2013. The interim dividend declared is not reflected as a dividend payable in these Interim Financial Statements, but will be reflected as an appropriation of contributed surplus for the year ending 30 June 2013.

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	
	2012	2011
	\$000	\$000
Final dividend of 53 cents (2011: 42 cents) per share	549,714	432,511

SMARTONE TELECOMMUNICATIONS HOLDINGS LIMITED

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

13 Fixed assets

	Unaudited \$000
Opening net book amount at 1 July 2012	2,529,922
Additions	637,461
Disposals	(3,426)
Exchange differences	52
Depreciation	(269,558)
Closing net book amount at 31 December 2012	2,894,451
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

During the six months ended 31 December 2012, major fixed assets acquired by the Group included network and testing equipment, including network under construction amounting to \$515,983,000.

At 31 December 2012, buildings with carrying amount of \$91,031,000 (30 June 2012: \$92,250,000) were pledged as security for bank borrowings of the Group (note 18).

SMARTONE TELECOMMUNICATIONS HOLDINGS LIMITED

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

14 Intangible assets

	Unaudited		Total \$000
	Handset subsidies \$000	Mobile licence fees \$000	
Opening net book amount at 1 July 2012	1,269,398	1,332,262	2,601,660
Additions	764,930	-	764,930
Amortisation	(578,421)	(71,915)	(650,336)
Disposal	(25,825)	-	(25,825)
Closing net book amount at 31 December 2012	<u>1,430,082</u>	<u>1,260,347</u>	<u>2,690,429</u>
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	<u>1,310,775</u>	<u>1,383,468</u>	<u>2,694,243</u>

15 Trade and other receivables

	Unaudited 31 December 2012 \$000	Audited 30 June 2012 \$000
Trade receivables	402,411	362,396
Less: provision for impairment of trade receivables	(18,320)	(21,085)
Trade receivables - net	384,091	341,311
Deposits and prepayments	267,327	227,749
Other receivables	68,896	77,380
	<u>720,314</u>	<u>646,440</u>
Less: deposits and prepayments included under non-current assets	(99,014)	(70,084)
Current assets	<u>621,300</u>	<u>576,356</u>

SMARTONE TELECOMMUNICATIONS HOLDINGS LIMITED

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

15 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 2012 \$000	Audited 30 June 2012 \$000
Current to 30 days	356,803	300,119
31 - 60 days	16,740	13,834
61 - 90 days	2,876	8,977
Over 90 days	7,672	18,381
	384,091	341,311

There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of customers.

The Group has recognised a loss of \$8,306,000 (2011: \$10,505,000) for the impairment of its trade receivables during the six months ended 31 December 2012. The loss has been included in "other operating expenses" in the condensed consolidated profit and loss account.

16 Financial investments

	Unaudited 31 December 2012 \$000	Audited 30 June 2012 \$000
Available-for-sale financial assets (a)	4,904	3,485
Held-to-maturity debt securities (b)	-	79,193
	4,904	82,678

(a) Available-for-sale financial assets

	Unaudited \$000
At 1 July 2012	3,485
Distributions	(1,587)
Change in fair value	3,006
At 31 December 2012	4,904

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

The available-for-sale financial assets are stated at fair values based on the net asset value per unit of the respective funds as determined by the managers of the relevant funds.

SMARTONE TELECOMMUNICATIONS HOLDINGS LIMITED

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

16 Financial investments (continued)

(b) Held-to-maturity debt securities

	Unaudited \$000
At 1 July 2012	79,193
Amortisation	(1,618)
Redemption upon maturity	(77,560)
Exchange differences	(15)
	<hr/>
At 31 December 2012	-
	<hr/> <hr/>

During the six months ended 31 December 2012, no gain or loss arose on the disposal of held-to-maturity debt securities (2011: same).

17 Trade payables

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

	Unaudited 31 December 2012 \$000	Audited 30 June 2012 \$000
Current to 30 days	802,104	472,264
31 - 60 days	67,055	121,304
61 - 90 days	35,039	3,016
Over 90 days	23,310	18,949
	<hr/>	<hr/>
	927,508	615,533
	<hr/> <hr/>	<hr/> <hr/>

18 Bank borrowings

	Unaudited 31 December 2012 \$000	Audited 30 June 2012 \$000
Current		
Unsecured bank borrowings	30,477	-
	<hr/>	<hr/>
Non-current		
Secured bank borrowings	66,000	66,000
Unsecured bank borrowings	292,937	-
	<hr/>	<hr/>
	358,937	66,000
	<hr/>	<hr/>
	389,414	66,000
	<hr/> <hr/>	<hr/> <hr/>

SMARTONE TELECOMMUNICATIONS HOLDINGS LIMITED

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

18 Bank borrowings (continued)

The maturity of bank borrowings are as follows:

	Unaudited 31 December 2012 \$000	Audited 30 June 2012 \$000
Unsecured bank borrowings repayable		
Within 1 year	30,477	-
Between 2 and 5 years	155,462	-
Over 5 years	137,475	-
	<u>323,414</u>	<u>-</u>
Secured bank borrowings repayable		
Within 1 year	-	-
Between 2 and 5 years	12,420	9,947
Over 5 years	53,580	56,053
	<u>66,000</u>	<u>66,000</u>

At 31 December 2012, bank borrowings of \$66,000,000 are secured by certain buildings of the Group (note 13) (30 June 2012: same).

Movements in bank borrowings are analysed as follows:

	Unaudited \$000
Six months ended 31 December 2012	
Opening amount as at 1 July 2012	66,000
Drawdown	352,481
Payment of transaction costs	(29,067)
	<u>389,414</u>
Closing amount as at 31 December 2012	
	Unaudited \$000
Six months ended 31 December 2011	
Opening amount as at 1 July 2011	550,000
Drawdown	150,000
Repayment	(50,000)
	<u>650,000</u>
Closing amount as at 31 December 2011	

SMARTONE TELECOMMUNICATIONS HOLDINGS LIMITED

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

19 Share capital

	Unaudited	
	Shares of \$0.1 each	\$000
Authorised		
At 1 July 2012 and 31 December 2012	2,000,000,000	200,000
Issued and fully paid		
At 1 July 2012	1,036,721,142	103,672
Issue of new shares upon exercise of share options (a)	475,000	47
Issue of shares in lieu of cash dividends (b)	317,878	32
At 31 December 2012	1,037,514,020	103,751

- (a) During the six months ended 31 December 2012, options were exercised to subscribe for 475,000 shares in the Company at a consideration of \$5,440,000, of which \$47,000 was credited to share capital and the balance of \$5,393,000 was credited to the share premium account. In respect of the options exercised, an amount of \$1,052,000 was reversed from the employee share-based compensation reserve and credited to the share premium account.
- (b) On 6 November 2012, the shareholders approved a final dividend of 53 cents per share for the year ended 30 June 2012. The shareholders were provided with an option to receive the final dividend in form of scrip dividend. On 17 December 2012, 317,878 shares were issued at \$14.516 per share in respect of the final dividend.

20 Share option scheme

Movements of the share options granted to the participants pursuant to the Company's share option schemes during the six months ended 31 December 2012 are as follows:

- (a) Movements in share options

	Unaudited	
	Average exercise price per share	Number of share options
At 1 July 2012	\$12.71	34,497,500
Exercised	\$11.46	(475,000)
Cancelled or lapsed	\$13.04	(600,000)
At 31 December 2012	\$12.72	33,422,500
Share options fully vested and exercisable at 31 December 2012	\$12.45	10,989,000

SMARTONE TELECOMMUNICATIONS HOLDINGS LIMITED

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

20 Share option scheme (continued)

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

Date of grant	Exercise period	Exercise price per share	Unaudited 31 December 2012 Number of share options	Audited 30 June 2012 Number of share options
5 February 2004	5 February 2005 to 4 February 2014	\$4.50	470,000	546,000
13 June 2011	13 June 2012 to 12 June 2016	\$12.78	31,535,000	32,084,000
30 September 2011	30 September 2012 to 29 September 2016	\$13.12	315,000	765,000
31 October 2011	31 October 2012 to 30 October 2016	\$14.96	150,000	150,000
30 November 2011	30 November 2012 to 29 November 2016	\$13.02	277,500	277,500
30 December 2011	30 December 2012 to 29 December 2016	\$13.52	375,000	375,000
29 February 2012	1 March 2013 to 28 February 2017	\$16.56	300,000	300,000
			33,422,500	34,497,500

(c) Details of share options exercised

Share options exercised during the period resulted in 475,000 shares (six months ended 31 December 2011: 1,393,000 shares) being issued. The related weighted average share price at the time of exercise was \$15.26 per share (six months ended 31 December 2011: \$15.36 per share).

21 Commitments and contingent liabilities

(a) Capital commitments

	Unaudited 31 December 2012 \$000	Audited 30 June 2012 \$000
Contracted for		
Fixed assets	363,523	417,148
Authorised but not contracted for	343,627	881,167
	707,150	1,298,315

SMARTONE TELECOMMUNICATIONS HOLDINGS LIMITED

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

21 Commitments and contingent liabilities (continued)

(b) Operating lease commitments

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

At 31 December 2012, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	Unaudited 31 December 2012 \$000	Audited 30 June 2012 \$000
Land and buildings and transmission sites		
No later than 1 year	483,665	475,539
Later than 1 year and no later than 5 years	391,810	368,988
Later than 5 years	71	10,587
	875,546	855,114
Leased lines		
No later than 1 year	167,717	136,113
Later than 1 year and no later than 5 years	688,413	468,685
Later than 5 years	951,018	412,751
	1,807,148	1,017,549
Equipment		
No later than 1 year	3,996	4,000
Later than 1 year and no later than 5 years	5,928	7,934
	9,924	11,934

(c) Performance bonds

	Unaudited 31 December 2012 \$000	Audited 30 June 2012 \$000
Hong Kong	544,227	704,973
Macau	3,883	3,883
	548,110	708,856

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.

SMARTONE TELECOMMUNICATIONS HOLDINGS LIMITED

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

21 Commitments and contingent liabilities (continued)

- (d) Lease out, lease back agreement

Under the 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. During the six months ended 31 December 2012, the subsidiary company entered into termination agreements whereby the lessees exercise its option to purchase the lease assets. As a result, there are no contingent liabilities as at 31 December 2012.

- (e) At 31 December 2012, the Company and certain of its subsidiaries have provided corporate guarantee for general banking facilities granted to a wholly owned subsidiary of US\$85,110,000 (approximately \$659,770,000), of which US\$45,470,000 (approximately \$352,481,000) of the banking facilities were utilised by the subsidiary.

22 Related party transactions

The Group is controlled by Cellular 8 Holdings Limited, which owns 63.73% of the Company's shares as at 31 December 2012. The remaining 36.27% of the shares are widely held, of which 2.73% 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 2012, 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	
	2012	2011
	\$000	\$000
Operating lease rentals for land and buildings and transmission sites (i)	49,597	44,991
Insurance expenses (ii)	3,196	2,411

- (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 2012, rental and licence fees paid and payable to subsidiaries and associated companies of SHKP totalled \$49,597,000 (2011: \$44,991,000).

SMARTONE TELECOMMUNICATIONS HOLDINGS LIMITED

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

22 Related party transactions (continued)

- (a) (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 2012, insurance premiums paid and payable were \$3,196,000 (2011: \$2,411,000).

- (b) At 31 December 2012, 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.

- (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	
	2012	2011
	\$000	\$000
Salaries, bonuses and other short-term employee benefits	28,118	23,072
Share-based payments	5,059	11,109
	<u>33,177</u>	<u>34,181</u>

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

	Unaudited 31 December 2012 \$000	Audited 30 June 2012 \$000
Trade receivables (note 15)	1,169	1,200
Deposits and prepayments (note 15)	10,043	8,762
Other receivables (note 15)	173	154
Trade payables (note 17)	459	54
Other payables and accruals	3,413	2,470
	<u>15,257</u>	<u>12,640</u>

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

SMARTONE TELECOMMUNICATIONS HOLDINGS LIMITED

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

23 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 2012 and 30 June 2012, or on the Group's profit for the periods ended 31 December 2012 and 2011.