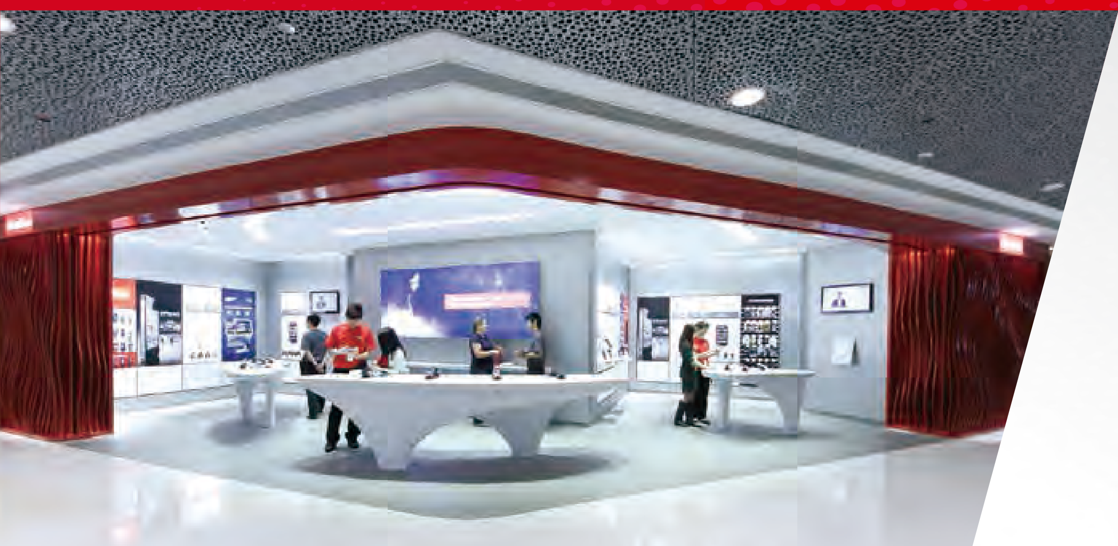
SmarTone Telecommunications Holdings Limited

Annual Report **2012/13**

Stock Code : 0315



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ABOUT US

SmarTone Telecommunications Holdings Limited is a leader in wireless communications in Hong Kong. It provides voice, multimedia and broadband services through its territory wide 4G and 3G HSPA+ networks, and the use of unique X-celerator engine which speeds up the internet experience.

The company's goal is to deliver unmatched experiences to customers through its powerful network, purposeful apps and passionate customer care.

SmarTone Telecommunications Holdings Limited (0315.HK) has been listed in Hong Kong since 1996. It is a subsidiary of Sun Hung Kai Properties Limited (0016.HK).

DIRECTORS AND CORPORATE INFORMATION

Board of Directors

* Mr. KWOK Ping-luen, Raymond
Chairman
Mr. Douglas LI
Chief Executive Officer
Mr. CHAN Kai-lung, Patrick
* Mr. CHEUNG Wing-yui
* Mr. David Norman PRINCE
* Mr. SIU Hon-wah, Thomas
* Mr. TSIM Wing-kit, Alfred
* Mr. John Anthony MILLER
** Dr. LI Ka-cheung, Eric, *JP*
** Mr. NG Leung-sing, *JP*
** Mr. YANG Xiang-dong
** Mr. GAN Fock-kin, Eric
** Mrs. IP YEUNG See-ming, Christine

* *Non-Executive Director*
** *Independent Non-Executive Director*

Company Secretary

Mr. MAK Yau-hing, Alvin

Authorised Representatives

Mr. Douglas LI
Mr. MAK Yau-hing, Alvin

Registered Office

Clarendon House, 2 Church Street,
Hamilton HM 11, Bermuda

Head Office and Principal Place of Business

31st Floor, Millennium City 2,
378 Kwun Tong Road, Kwun Tong,
Kowloon, Hong Kong

Auditor

PricewaterhouseCoopers
Certified Public Accountants
22nd Floor, Prince's Building, 10 Chater Road,
Hong Kong

Hong Kong Share Registrar

Computershare Hong Kong Investor Services Limited
Rooms 1712-1716, 17th Floor, Hopewell Centre,
183 Queen's Road East, Hong Kong

Principal Share Registrar

Butterfield Fulcrum Group (Bermuda) Limited
26 Burnaby Street,
Hamilton HM 11, Bermuda

Principal Bankers

Standard Chartered Bank (Hong Kong) Limited
The Hongkong and Shanghai Banking
Corporation Limited

Legal Advisors to the Company

As to Hong Kong law
Slaughter and May

As to Bermuda law
Conyers, Dill & Pearman

Bermuda Resident Representative

Codan Services Limited
Clarendon House, 2 Church Street,
Hamilton HM 11, Bermuda

FINANCIAL HIGHLIGHTS

(Expressed in Hong Kong dollars in millions except per share amounts)

	Year ended or as at 30 June	
	2013	2012
Consolidated profit and loss account		
Revenues	**12,067**	9,952
Profit attributable to equity holders of the Company	**843**	1,023
Basic earnings per share ($)	**0.81**	0.99
Total dividends per share ($)	**0.66**	0.99
Consolidated balance sheet		
Total assets	**9,628**	7,469
Current liabilities	**(2,696)**	(2,909)
Total assets less current liabilities	**6,932**	4,560
Non-current liabilities	**(3,884)**	(1,385)
Non-controlling interests	**(62)**	(64)
Net assets	**2,986**	3,111
Share capital	**104**	104
Reserves	**2,882**	3,007
Total equity attributable to equity holders of the Company	**2,986**	3,111
Consolidated cash flow		
Net cash generated from operating activities	**2,658**	3,184
Interest received	**11**	34
Payment for purchase of fixed assets	**(1,255)**	(809)
Proceeds from disposal of held-to-maturity debt securities	**78**	334
Payment of mobile licence fees	**(813)**	(129)
Additions of handset subsidies	**(1,060)**	(1,208)
Dividends paid	**(1,005)**	(852)
Proceeds from/(repayment of) bank borrowings (net)	**1,040**	(484)
Proceeds from issuance of guaranteed notes	**1,536**	–
Others	**(13)**	33
Net increase in pledged bank deposits, short-term bank deposits, and cash and cash equivalents	**1,177**	103

CHAIRMAN'S STATEMENT

(Financial figures are expressed in Hong Kong dollars)

I am pleased to report the results of the Group for the year ended 30 June 2013.

Financial Highlights

Group total revenue increased 21% to $12,067 million. Handset and accessories sales increased 52% while service revenue dropped 1%. This was attributed to a 4% growth in local mobile service revenue offset by an 18% decline in roaming. The local mobile business registered EBITDA growth of 9%, compensating for the lower EBITDA from roaming and scaling down of the wireless fixed broadband business. With effective cost control, group EBITDA remained unchanged at $2,989 million. Investment in 3G and 4G was increased to meet rising data usage, but this data usage has not been adequately monetised. The higher depreciation and amortisation arising from the increased investment resulted in a net profit decline of 18% to $843 million.

Dividend

Your Board proposes a final dividend of 22 cents per share, representing 60% of net profit in the second-half of the financial year. Together with the interim dividend of 44 cents, full year dividend amounts to 66 cents per share. In light of regulatory and market uncertainties, the Company will reduce its dividend payout ratio in future to 60% to help maintain a prudent gearing level. Shareholders will have the option to receive new and fully paid shares in lieu of cash under a scrip dividend scheme.

Business Review

Hong Kong local mobile service revenue grew 4%, reflecting increased revenues from both 3G speed-capped plans and higher tier plans. Revenue growth of high tier plans can be attributed to a modest rise in related ARPU. The 3G speed-capped plan is revenue accretive with 60% of subscribers being new customers and 20% customers upgrading from lower priced plans.

Hong Kong customer numbers grew 11% to 1.82 million, reflecting a 13% increase in mobile customer numbers and partly offset by a decline in wireless fixed broadband customers. The Company's 3G speed-capped plan, created to serve previously untapped customer segments, has increased our market share. Postpaid mobile churn rate improved further from 1.4% to 1.0%. Reflecting a reduction in roaming and dilution from the 3G speed-capped plan, fully blended ARPU declined 5% to $262.

SmarTone has long believed the power of differentiation and has striven to stand out in terms of proprietary services, network performance and customer care. In the year under review it has brought a number of services and apps to market, each offering distinctive propositions and benefits designed to appeal to selected customer segments. These proprietary services and apps have increased revenue and customer loyalty.

Leadership in network performance was further consolidated by the Company through improving the quality, coverage and speed of its 3G and 4G networks. The 1800MHz 4G service launched in the year under review provides customers with territory-wide coverage and superior in-building penetration. The Company acquired 2600MHz spectrum, which will be rolled out at high traffic locations in due course to expand 4G network capacity in those areas. In parallel, the Company has accelerated the migration of 2G customers to 3G and 4G networks to free up spectrum for further re-farming. All these initiatives reflect the Company's focus on constantly improving its customers' mobile broadband experience.

CHAIRMAN'S STATEMENT

(Financial figures are expressed in Hong Kong dollars)

The Company has continued to improve on all aspects of the customer experience, from online, to hotline and in stores. SmarTone has recently been recognised as the city's preferred mobile telecom provider in public polls run by a leading weekly magazine and a widely-followed Internet forum in Hong Kong.

Data usage has continued to rise inexorably as consumers use more applications on smart mobile devices. The Company has invested heavily in both 3G and 4G to meet these demands. Investment, combined with other cost pressures, has affected profitability.

In Macau, local service revenues were stable but overall performance was adversely impacted by roaming revenue decline.

Prospects

The industry continues to face challenges in adequately monetising increasing data usage as we invest heavily in 3G and 4G. The Government's proposed 3G spectrum renewal policy is likely to further increase spectrum fees, capital expenditures and operating expenses. The Company will conserve cash by reducing the dividend payout ratio to 60%, to ensure it has the financial resources to make the investment required to support the increasing data usage and improve network performance.

The Company maintained its EBITDA despite strong competition and rising cost pressures. The Company's business strategy of focusing on offering customers the highest level of service has proven effective. Its powerful network, exclusive apps and outstanding customer care stand it in good stead to capture opportunities in the future.

Appreciation

During the year under review, Mrs. Ip Yeung See-ming, Christine was appointed as Independent Non-Executive Director and Mr. Yung Wing-chung resigned as Non-Executive Director of your Company. I would like to welcome Mrs. Ip to the Board and thank Mr. Yung for his valuable contributions to the Group over the past years.

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.

Kwok Ping-luen, Raymond
Chairman

Hong Kong, 11 September 2013

MANAGEMENT DISCUSSION AND ANALYSIS

(Financial figures are expressed in Hong Kong dollars)

Review of financial results

The Group's service revenue fell marginally by 1% to $5,657 million (2011/12: $5,723 million) affected by a weak roaming business and the scaling down of wireless fixed broadband business. EBITDA remained broadly stable at $2,989 million (2011/12: $2,992 million). Excluding both roaming and wireless fixed broadband, the Group's local mobile business reported steady growth, with revenue and EBITDA growth at 4% and 9% respectively. Profit attributable to equity holders of the Company decreased by 18% to $843 million (2011/12: $1,023 million) as depreciation and amortisation was higher amid heavy investments in spectrum and network infrastructure.

Revenues rose by $2,115 million or 21% to $12,067 million (2011/12: $9,952 million).

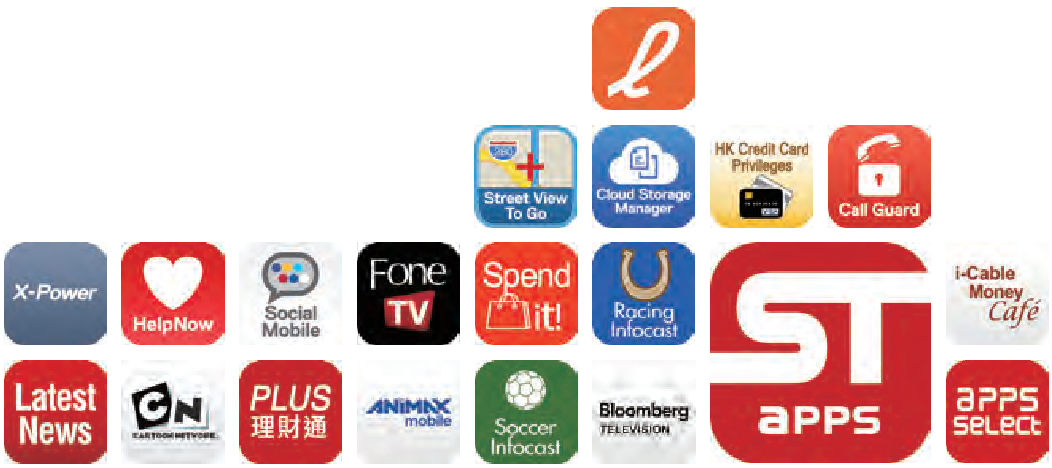
- The Group's service revenue fell by $66 million or 1% to $5,657 million (2011/12: $5,723 million) due to decline in roaming revenue and the scaling down of wireless fixed broadband business, which was partly offset by a 4% growth in local mobile service revenue.

  The Group achieved an 11% year-on-year growth in its Hong Kong customer base, reflecting a 13% growth in mobile customer numbers partly offset by a reduction in wireless fixed broadband customers. Fully blended ARPU decreased by 5% to $262 (2011/12: $277) amidst the decline in roaming revenue and dilution from our 3G speed-capped plan.

- Handset and accessory sales rose by $2,181 million or 52% to $6,410 million (2011/12: $4,229 million) driven by popularity of smart devices. Both sales volume and average unit selling price increased.

Cost of inventories sold rose by $2,025 million or 48% to $6,214 million (2011/12: $4,189 million) broadly in line with the increase in handset and accessory sales.

Staff costs grew by $53 million or 8% to $698 million (2011/12: $645 million) driven by increase in headcount and annual salary adjustment.



MANAGEMENT DISCUSSION AND ANALYSIS

(Financial figures are expressed in Hong Kong dollars)

Other operating expenses rose by $39 million or 2% to $2,165 million (2011/12: $2,126 million). Higher network operating costs, rental and utilities and general administrative expenses were partly offset by lower cost of services provided, and sales and marketing expenses.

Depreciation and gain or loss on disposal increased by $52 million or 10% to $567 million (2011/12: $515 million). Handset subsidy amortisation rose by $119 million or 12% to $1,142 million (2011/12: $1,023 million) as a result of increase in customer acquisitions and retentions using subsidised smartphone devices during first half of the financial year. Mobile licence fee amortisation rose by $52 million or 57% to $144 million (2011/12: $92 million) mainly due to the full 12 month impact of the amortisation charge of licence fee for 850MHz radio spectrum which commence amortisation in May 2012.

Finance income fell by $8 million to $19 million (2011/12: $27 million) due to lower return on surplus fund. Finance costs rose by $5 million to $140 million (2011/12: $135 million). Increase in interest on bank and other borrowings of $22 million was partly offset by lower bank charges for credit card instalment of handset bundle subscriptions and accretion expenses on mobile licence fee liabilities.

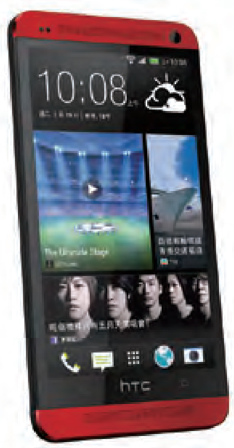
Income tax expense amounted to $167 million (2011/12: $212 million).

Macau operations reported an operating profit of $23 million (2011/12: $72 million) amid lower contribution from roaming business.

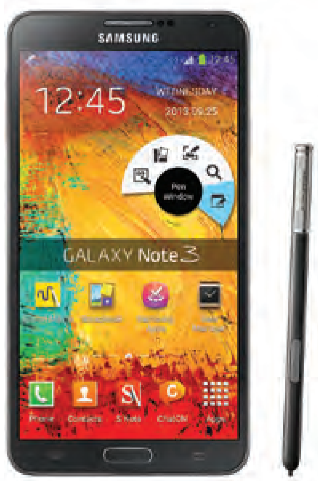
Capital structure, liquidity and financial resources

During the year under review, the Group was financed by share capital, internally generated funds and external borrowings. As at 30 June 2013, the Group recorded share capital of $104 million, total equity of $3,048 million and total borrowings of $2,595 million.

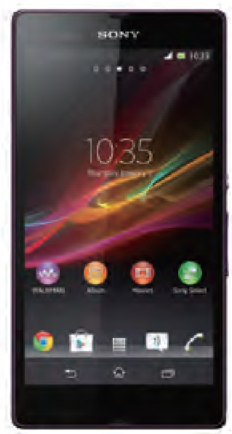
The Group increased long-term borrowings, tenor range from 5 to 10 years, to take advantage of the historically low US Treasury yields during the year under review. These borrowings provided the Group with the flexibility for future investment in spectrum and network infrastructure at low funding costs.



HTC New One



SAMSUNG GALAXY Note 3



SONY Xperia Z

MANAGEMENT DISCUSSION AND ANALYSIS

(Financial figures are expressed in Hong Kong dollars)

As at 30 June 2013, the Group had cash and bank balances (including pledged bank deposits and short-term bank deposits) amounted to $2,510 million (30 June 2012: $1,334 million). The Group had bank and other borrowings of $2,595 million as at 30 June 2013 (30 June 2012: $66 million), of which 78% were denominated in United States dollars and were arranged on a fixed rate basis. Net debt, after deducting cash and bank balances, amounted to $85 million as at 30 June 2013 (30 June 2012: net cash of $1,268 million). The gearing ratio, calculated by dividing net debt with total equity, was 3% as at 30 June 2013.

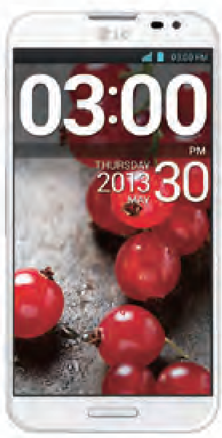
The Group had net cash generated from operating activities and interest received amounted to $2,658 million and $11 million respectively during the year ended 30 June 2013. The Group's major outflows of funds during the year were payments for additions of handset subsidies, purchase of fixed assets, mobile licence fees and dividends.

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 2014 with internal cash resources and available banking facilities.

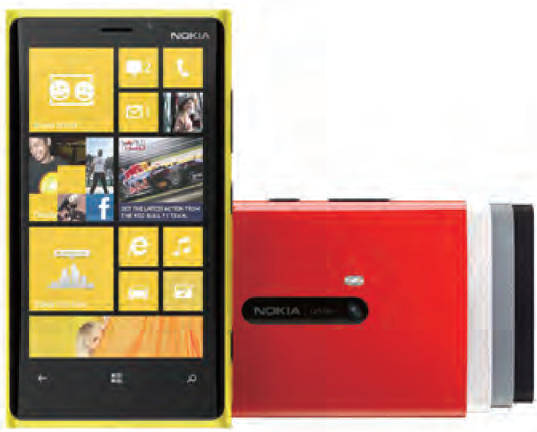
Treasury policy

The Group invests its surplus funds in accordance with a treasury policy approved from time to time by the board of directors. Surplus funds are placed in bank deposits or invested in investment grade debt securities. Bank deposits are predominantly maintained in Hong Kong dollars, United States dollars and Renminbi. Investments in debt securities are denominated in Hong Kong dollar, United States dollar or Renminbi, 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 bank deposits to lower the issuance costs.



LG OptimusG Pro



NOKIA Lumia 920

MANAGEMENT DISCUSSION AND ANALYSIS

(Financial figures are expressed in Hong Kong dollars)

Charges on assets

As at 30 June 2013, certain bank deposits of the Group, in aggregate amount of $6 million (30 June 2012: $9 million), were pledged for securing guarantees issued by the banks. In addition, certain Hong Kong dollars denominated bank borrowings are secured by certain assets of the Group and the carrying amount of the pledged assets amounted to $90 million (30 June 2012: $92 million) as at 30 June 2013.

Interest rate exposure

The Group is exposed to interest rate changes that affect bank borrowings denominated in Hong Kong dollars which accounted for 22% of the Group's total borrowings at 30 June 2013. The Group does not currently undertake any interest rate hedging.

Functional currency and foreign exchange exposure

The functional currency of the Company is the Hong Kong dollar. The Group is exposed to other currency movements, principally in terms of certain trade receivables, trade payables, bank deposits, bank and other borrowings denominated in United States dollars and Renminbi. The Group does not currently undertake any foreign exchange hedging.

Contingent liabilities

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 30 June 2013 under these performance bonds was $648 million (30 June 2012: $709 million).

Employees and share option scheme

The Group had 2,184 full-time employees as at 30 June 2013 (30 June 2012: 2,116), with the majority of them based in Hong Kong. Total staff costs were $698 million for the year ended 30 June 2013 (2011/12: $645 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 share option schemes under which the Company may grant options to participants, including directors and employees, to subscribe for shares of the Company. During the year under review, no new share options were granted; 607,000 share options were exercised; and 650,000 share options were cancelled or lapsed. 33,240,500 (30 June 2012: 34,497,500) share options were outstanding as at 30 June 2013.

REPORT OF THE DIRECTORS

(Financial figures are expressed in Hong Kong dollars)

The Directors submit their report together with the audited financial statements for the year ended 30 June 2013.

Principal activities

The principal activity of the Company is investment holding. The activities of its principal subsidiaries are shown in note 20 to the consolidated financial statements.

Results

The results of the Group for the year ended 30 June 2013 are set out in the consolidated profit and loss account on page 43.

Dividend

An interim dividend of $0.44 per share (2011/12: $0.46 per share) was paid on 15 April 2013. Shareholders had the option of receiving the interim dividend in cash, or in the form of new fully paid share(s) of nominal value of $0.10 each in the share capital of the Company in lieu of cash, or partly in cash and partly in shares (the "Scrip Dividend Alternative"). The Directors recommended a final dividend of $0.22 per share (2011/12: $0.53 per share), making a total dividend of $0.66 per share for the full year ended 30 June 2013 (2011/12: $0.99 per share). The proposed final dividend, if approved at the forthcoming annual general meeting of the Company, will be payable in cash, with an option for the shareholders to elect for Scrip Dividend Alternative.

Five year financial summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is shown on page 40.

Reserves

Movements in the reserves of the Group and the Company during the year are set out on pages 50 to 51 and note 33 to the consolidated financial statements respectively.

Distributable reserves

The reserves available for distribution to the shareholders of the Company amounted to $2,129,703,000 at 30 June 2013 (30 June 2012: $2,155,738,000).

Donations

During the year, charitable and other donations made by the Group amounted to $46,000 (2011/12: $18,000).

Fixed assets

Details of the movements in fixed assets are shown in note 19 to the consolidated financial statements.

REPORT OF THE DIRECTORS

(Financial figures are expressed in Hong Kong dollars)

Share capital

Details of the movements in share capital of the Company are shown in note 31 to the consolidated financial statements.

Directors

The Directors of the Company during the year and up to the date of this report were:

* Mr. Kwok Ping-luen, Raymond
Chairman

Mr. Douglas Li
Chief Executive Officer

Mr. Chan Kai-lung, Patrick

* Mr. Cheung Wing-yui

* Mr. David Norman Prince

* Mr. Yung Wing-chung
(Resigned on 30 April 2013)

* Mr. Siu Hon-wah, Thomas

* Mr. Tsim Wing-kit, Alfred

* Mr. John Anthony Miller

** Dr. Li Ka-cheung, Eric, *JP*

** Mr. Ng Leung-sing, *JP*

** Mr. Yang Xiang-dong

** Mr. Gan Fock-kin, Eric

** Mrs. Ip Yeung See-ming, Christine
(Appointed on 16 November 2012)

* *Non-Executive Director*
** *Independent Non-Executive Director*

In accordance with Bye-law No. 110(A) of the Company's Bye-laws, Mr. Kwok Ping-luen, Raymond, Mr. Chan Kai-lung, Patrick, Mr. John Anthony Miller and Dr. Li Ka-cheung, Eric retire by rotation at the forthcoming annual general meeting. In accordance with Bye-law No. 101, Mrs. Ip Yeung See-ming, Christine also retires at the forthcoming annual general meeting. All retiring Directors, being eligible, offer themselves for re-election. All remaining Directors shall continue in office.

The term of office of the Non-Executive Directors shall be governed by the provisions of Bye-laws No. 110 and No. 111 of the Company.

The Board has received from each Independent Non-Executive Director a written annual confirmation of their independence and is satisfied with their independence in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

REPORT OF THE DIRECTORS

(Financial figures are expressed in Hong Kong dollars)

Directors' service contracts

Under an employment contract between the Company and Mr. Douglas Li dated 31 May 2001, Mr. Douglas Li has been appointed to act as Executive Director and Chief Executive Officer of the Group with effect from 17 July 2001. The contract can be terminated by the Company by not less than 6 calendar months' notice (or payment in lieu of notice).

Under an employment contract between the Company and Mr. Chan Kai-lung, Patrick dated 1 May 2002, Mr. Chan Kai-lung, Patrick has been appointed to act as Executive Director of the Group with effect from 15 May 2002. The contract can be terminated by the Company by not less than 6 calendar months' notice (or payment in lieu of notice).

Apart from the above, none of the Directors has a service contract with the Company with a term of more than 3 years and which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Directors' emoluments

The emoluments payable to the Directors of the Company are based on terms of the respective service contracts, if any. The director's fee payable is subject to annual assessment, approval and authorisation by shareholders at annual general meetings. Details of the emoluments paid and payable to the Directors of the Company for the financial year ended 30 June 2013 are shown in note 12 to the consolidated financial statements.

Directors' interests in contracts of significance

Apart from the connected transactions referred to in this report, no other contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Biographical details of Directors

Brief biographical details of the Directors are set out on pages 33 to 38.

REPORT OF THE DIRECTORS

(Financial figures are expressed in Hong Kong dollars)

Directors' and chief executive's interests

As at 30 June 2013, 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	Other interests	Total	Number of underlying shares held under equity derivatives	Total	% of shares in issue
Kwok Ping-luen, Raymond	4,475,534[1]	4,475,534	–	4,475,534	0.43
Douglas Li	–	–	10,000,000[2]	10,000,000	0.96
Chan Kai-lung, Patrick	–	–	2,000,000[2]	2,000,000	0.19

Notes:

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

2. These underlying shares of the Company represented the share options (being regarded for the time being as unlisted physically settled equity derivatives) granted by the Company. Details of these share options are shown in the section entitled "Share Option Schemes".

(Financial figures are expressed in Hong Kong dollars)

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)	Other interests	Total	Number of underlying shares held under equity derivatives	Total	% of shares in issue
Kwok Ping-luen, Raymond	79,235	433,040,622[1]	433,119,857	100,000[2]	433,219,857	16.22
David Norman Prince	2,000	–	2,000	–	2,000	0
Siu Hon-wah, Thomas	–	7,000[3]	7,000	–	7,000	0
Li Ka-cheung, Eric	–	4,028[4]	4,028	–	4,028	0

Notes:

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

2. These underlying shares of SHKP represented the share options (being regarded for the time being as unlisted physically settled equity derivatives) granted by SHKP under its share option scheme. Details of these share options are shown below:

Date of grant	Exercise price $	Exercise period*	Number of share options: Outstanding at 1 July 2012	Granted during the year	Exercised during the year	Cancelled/ Lapsed during the year	Outstanding at 30 June 2013
12 July 2010	111.40	12 July 2011 to 11 July 2015	100,000	–	–	–	100,000

* The share options can be exercised up to 30% of the grant from the first anniversary of the date of grant, up to 60% of the grant from the second anniversary of the date of grant, and in whole or in part of the grant from the third anniversary of the date of grant.

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

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

(Financial figures are expressed in Hong Kong dollars)

(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
Kwok Ping-luen, Raymond	3,485,000[1]	3,485,000	–	3,485,000	0.15

Note:

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

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

Save as disclosed above, at 30 June 2013, 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.

Share Option Schemes

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 Old Scheme and the New Scheme (collectively 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.

1. Principal terms of Share Option Schemes

A summary of the principal terms of the Schemes is set out below pursuant to the requirements as contained in Chapter 17 of the Listing Rules:

(a) Purpose

The purpose of the Schemes is to reward participants who have made a valuable contribution to the growth of the Group and to enable the Group to recruit and/or to retain employees who are regarded as valuable to the Group or are expected to be able to contribute to the business development of the Group.

(b) Participants

Any employee, agent, consultant or representative of the Company or any of the subsidiaries, including any director of the Company or any of the subsidiaries who has made valuable contribution to the growth of the Group based on his work experience, industry knowledge, performance, business connections or other relevant factors, will be eligible to participate in the schemes at the invitation of the Directors.

(c) Maximum number of shares available for issue

The Company can issue options so that the total number of shares that may be issued upon exercise of all options to be granted under all the share option schemes of the Company does not in aggregate exceed 10% of the shares in issue on the respective date of adoption of each of the Schemes. In respect of the New Scheme, the Company may renew this limit at any time, subject to shareholders' approval and the issue of a circular and in accordance with the Listing Rules provided that the number of shares to be issued upon exercise of all outstanding options granted and yet to be exercised under all the share option schemes of the Company does not exceed 30% of the shares in issue from time to time. At 11 September 2013, the number of shares available for issue in respect thereof is 102,948,685 shares which represents approximately 9.92% of the issued ordinary shares of the Company.

(d) Maximum entitlement of each participant

The maximum entitlement for any participant is that the total number of shares issued and to be issued upon exercise of options granted and to be granted in any 12-month period up to the date of the latest grant does not exceed 1% of the relevant class of shares in issue.

(e) Time of exercise of option

The exercise period of any option granted under the schemes shall be determined by the Board but such period must not exceed 10 years from the date of grant of the relevant option.

The Schemes do not specify any minimum holding period before the option can be exercised but the Board has the authority to determine the minimum holding period when the options are granted.

(f) Payment on acceptance of option

Acceptance of offer to grant an option shall be sent in writing together with a remittance in favour of the Company of $1.00 by way of consideration for the grant and must be received by the Secretary of the Company within 28 days from the date of the making of such offer.

(g) Basis of determining the exercise price

The option price per share payable upon the exercise of any option will be determined by the Directors upon the grant of such option. It will be at least the higher of (i) the average closing price of a share as stated in the daily quotations sheets issued by the HKSE for the 5 business days immediately preceding the day of offer of such option; (ii) the closing price of a share as stated in the HKSE's daily quotations sheet on the day of offer of such option, which must be a business day; and (iii) the nominal value of a share.

(h) Remaining life

The New Scheme shall be valid and effective for a period of 10 years commencing from the adoption of the New Scheme on 2 November 2011.

(Financial figures are expressed in Hong Kong dollars)

2. Movements of share options

Movements of the share options granted to the participants pursuant to the Schemes during the year ended 30 June 2013 are as follows:

				Number of share options				
Grantee	Date of grant	Exercise price $	Exercise period[1]	Outstanding at 1 July 2012	Granted during the year	Exercised during the year	Cancelled/ Lapsed during the year	Outstanding at 30 June 2013
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	–	–	–	10,000,000
Chan Kai-lung, Patrick	13 June 2011	12.78	13 June 2012 to 12 June 2016	2,000,000	–	–	–	2,000,000
Employees under continuous contracts	5 February 2004	4.50	5 February 2005 to 4 February 2014	546,000	–	(148,000)[2]	–	398,000
	13 June 2011	12.78	13 June 2012 to 12 June 2016	20,084,000	–	(459,000)[3]	(200,000)	19,425,000
	30 September 2011	13.12	30 September 2012 to 29 September 2016	765,000	–	–	(450,000)	315,000
	31 October 2011	14.96	31 October 2012 to 30 October 2016	150,000	–	–	–	150,000
	30 November 2011	13.02	30 November 2012 to 29 November 2016	277,500	–	–	–	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	375,000	–	–	–	375,000
	29 February 2012	16.56	1 March 2013 to 28 February 2017	300,000	–	–	–	300,000

Notes:

1. The share options can be exercised up to one-third of the grant from the first anniversary of the date of grant, up to two-thirds of the grant from the second anniversary of the date of grant, and in whole or in part of the grant from the third anniversary of the date of grant.

2. 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 $14.87 per share.

3. 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 $15.11 per share.

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

(Financial figures are expressed in Hong Kong dollars)

Discloseable interests and short positions of shareholders under the SFO

As at 30 June 2013, 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	66.44%
HSBC Trustee (C.I.) Limited ("HSBC")[2]	690,452,794	66.52%

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 30 June 2013, 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.

Arrangement to purchase shares or debentures

Other than the share options as mentioned above, at no time during the year was the Company or any of its subsidiaries or the Company's holding company or any subsidiaries of the holding company a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or of any other body corporate.

Directors' interests in competing business

None of the Directors of the Company has interest in any business which may compete with the business of the Group.

(Financial figures are expressed in Hong Kong dollars)

Sufficiency of public float

Based on the information that is publicly available to the Company and within the knowledge of its Directors, it is confirmed that there is sufficient public float of the Company's shares in the market at the date of this report.

Purchase, sale or redemption of shares

At no time during the year ended 30 June 2013 was there any purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's shares.

Pre-emptive rights

There is no provision for pre-emptive rights under either the Company's Bye-laws or the laws in Bermuda.

Management contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Major suppliers and customers

The percentages of the Group's purchases and revenues attributable to major suppliers and customers are as follows:

Percentage of purchases attributable to the Group's largest supplier	58%
Percentage of purchases attributable to the Group's five largest suppliers	67%
Percentage of revenues attributable to the Group's largest customer	28%
Percentage of revenues attributable to the Group's five largest customers	44%

None of the Directors, their associates and shareholders of the Company (which to the knowledge of the Directors own more than 5% of the issued share capital of the Company) had an interest in the major suppliers or customers noted above.

Connected transactions

1. Certain related party transactions as disclosed in note 35 to the consolidated financial statements also constituted connected transactions. The following transactions between certain connected persons (as defined in the Listing Rules) and the Group have been entered into and/or are continuing for which relevant announcements, if necessary, had been made by the Company in accordance with the requirements of the Listing Rules.

    (a) Certain subsidiaries and associated companies of Sun Hung Kai Properties Limited ("SHKP"), the controlling shareholder of the Company, 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 year ended 30 June 2013, rental and licence fees paid and payable to subsidiaries and associated companies of SHKP totalled $100,991,000.

(b) Sun Hung Kai Properties Insurance Limited, a wholly-owned subsidiary of SHKP, provided general insurance services to the Group. For the year ended 30 June 2013, insurance premiums paid and payable were $6,954,000.

The above transactions have been reviewed by the Company's Independent Non-Executive Directors. The Independent Non-Executive Directors confirmed that these continuing connected transactions were entered into by the Group in the ordinary and usual course of business and on normal commercial terms or on terms no less favourable than terms available from independent third parties.

The Independent Non-Executive Directors also confirmed that the transactions were entered into in accordance with the agreements governing such transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules", issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued a report containing the findings and conclusions in respect of the continuing connected transactions disclosed by the Group under this section in accordance with paragraph 14A.38 of the Listing Rules. A copy of the auditor's report has been provided by the Company to the HKSE.

2. At 30 June 2013, the Group had 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.

The above disclosure of the continuing connected transactions of the Group has complied with the disclosure requirements in accordance with the Listing Rules.

Auditor

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment. As recommended by the Audit Committee, a resolution for their re-appointment as auditor of the Company will be proposed at the forthcoming Annual General Meeting.

On behalf of the Board
Kwok Ping-luen, Raymond
Chairman

Hong Kong, 11 September 2013

CORPORATE GOVERNANCE REPORT

Corporate Governance

The Company is committed to building and maintaining high standards of corporate governance. Throughout the year ended 30 June 2013, the Company has applied the principles and complied with the requirements set out in the "Corporate Governance Code and Corporate Governance Report" (the "Corporate Governance Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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 Corporate Governance Code.

The Board

Roles of Directors

The Board assumes responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising the Company's affairs.

The Board has delegated the day-to-day operation responsibility to the management under the supervision of the Chief Executive Officer and various Board Committees.

Corporate governance function

The Board is responsible for performing the corporate governance duties, which include (i) developing and reviewing policies and practices on corporate governance; (ii) reviewing and monitoring the training and continuous professional development of Directors and senior management; (iii) reviewing and monitoring policies and practices on compliance with legal and regulatory requirements; (iv) developing, reviewing and monitoring the code of conduct applicable to employees and Directors; and (v) reviewing the Company's compliance with the Corporate Governance Code and disclosure in the Corporate Governance Report.

Composition

The Board of Directors is responsible for supervising the management of the Group.

During the year ended 30 June 2013, Mrs. Ip Yeung See-ming, Christine was appointed as Independent Non-Executive Director with effect from 16 November 2012 and Mr. Yung Wing-chung resigned as Non-Executive Director with effect from 30 April 2013.

As at 30 June 2013, the Board comprises two Executive Directors, six Non-Executive Directors and five Independent Non-Executive Directors. The presence of eleven Non-Executive Directors, of whom five are independent, is considered by the Board to be a reasonable balance between Executive and Non-Executive Directors.

CORPORATE GOVERNANCE REPORT

The Non-Executive Directors, who offer diversified expertise and experience, contribute significantly to the important function of advising management on strategy and policy development. They also serve to ensure that the Board maintains high standards of financial and other mandatory reporting as well as to provide adequate checks and balances for safeguarding the interests of the Company and the shareholders as a whole.

Except for those relationships disclosed in the biographical details of the Directors set out on pages 33 to 38 of this Annual Report, the Directors have no other financial, business, family or other material/relevant relationships with each other.

The Board has received from each Independent Non-Executive Director a written annual confirmation of their independence and is satisfied with their independence in accordance with the Listing Rules.

The Company maintains appropriate liability insurance to indemnify its Directors for their liabilities arising out of corporate activities. The insurance coverage is reviewed on an annual basis.

Appointment and re-election of Directors

All Directors, including the Chairman and the Chief Executive Officer, are required to retire from office by rotation and are subject to re-election by shareholders at annual general meeting once every three years.

One-third of the Directors, who have served longest on the Board, must retire and be eligible for re-election at each annual general meeting. As such, no director has a term of appointment longer than three years. To further enhance accountability, any further appointment of an Independent Non-Executive Director who has served the Company's Board for more than nine years will be subject to separate resolution to be approved by shareholders.

Directors appointed to fill casual vacancy shall hold office only until the first general meeting after their appointment, and shall be subject to re-election by shareholders.

Directors' training

All Directors must keep abreast of their collective responsibilities as Directors and of the business and activities of the Group. As such, briefing materials are provided to newly appointed Directors to ensure that they are familiar with the role of the Board, their legal and other duties and responsibilities as Director as well as the business and corporate governance practices of the Group. The Company Secretary will continuously update all Directors on latest developments in applicable legal and regulatory requirements as and when necessary.

Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. The Company organised a training seminar for the Directors in April 2013 which was presented by representatives from a renowned professional firm covering topics of disclosure of inside information, review of internal control system and risk management practices. All Directors have attended this training seminar.

All Directors have provided to the Company a record of the training they received during the year ended 30 June 2013, which includes attending seminars, giving talks at seminars and/or reading materials relevant to the Company's business or to the Directors' duties and responsibilities.

CORPORATE GOVERNANCE REPORT

Chairman and Chief Executive Officer

In order to reinforce their respective independence, accountability and responsibility, and to avoid power being concentrated in any one individual, the role of the Chairman is separate from that of the Chief Executive Officer. The Chairman of the Group is Mr. Kwok Ping-luen, Raymond and the Chief Executive Officer of the Group is Mr. Douglas Li. Their respective responsibilities are clearly established and defined by the Board in writing. The Chairman is responsible for ensuring that the Board is functioning properly, with good corporate governance practices and procedures, whilst the Chief Executive Officer, supported by the Executive Director and the management team, is responsible for managing the Group's businesses, including the implementation of major strategies and initiatives adopted by the Board.

Board process

The Board of Directors meets regularly at least four times a year. The Directors participate in person or through electronic means of communication. To facilitate maximum attendance of Directors, a tentative schedule for regular Board meetings for each calendar year is fixed prior to the commencement of the year. The Directors are given the opportunity to include matters in the agenda for discussion. The finalised agenda and accompanying board papers are sent to all Directors at least three days prior to the meeting.

During regular meetings of the Board, the Directors discuss the overall strategy as well as the operation and financial performance of the Group. The Board has reserved for its decision or consideration matters covering overall Group strategy, major acquisitions and disposals, annual budgets, annual and interim results, approval of major capital transactions and other significant operational and financial matters. All Directors are kept informed on a timely basis of major changes that may affect the Group's businesses, including relevant rules and regulations. Directors can also seek independent professional advice in performing their duties at the Company's expense, if necessary.

The Company Secretary records the proceedings of each Board meeting in detail by keeping detailed minutes, including all decisions by the Board together with concerns raised and dissenting views expressed (if any). All minutes are open for inspection at any reasonable time on request by any Director.

Directors' attendance at Board meetings and general meeting

Six Board meetings (comprising four regular meetings and two non-regular meetings) and a general meeting were held during the year ended 30 June 2013. The attendance record of the Directors at the meetings is set out below:

Directors	Meetings attended/held during the term of office Board Meetings	General Meeting
Executive Directors		
Mr. Douglas Li *(Chief Executive Officer)*	6/6	1/1
Mr. Chan Kai-lung, Patrick	6/6	1/1
Non-Executive Directors		
Mr. Kwok Ping-luen, Raymond *(Chairman)*[1]	4/6	1/1
Mr. Cheung Wing-yui	6/6	1/1
Mr. David Norman Prince	6/6	1/1
Mr. Yung Wing-chung	6/6	1/1
Mr. Siu Hon-wah, Thomas	6/6	1/1
Mr. Tsim Wing-kit, Alfred	5/6	1/1
Mr. John Anthony Miller	6/6	1/1
Independent Non-Executive Directors		
Dr. Li Ka-cheung, Eric	6/6	1/1
Mr. Ng Leung-sing	3/6	1/1
Mr. Yang Xiang-dong	4/6	0/1
Mr. Gan Fock-kin, Eric	6/6	0/1
Mrs. Ip Yeung See-ming, Christine[2]	3/3	0/0

Notes:

1. Mr. Kwok Ping-luen, Raymond did not participate in two of the six Board meetings held during the year due to potential conflict of interests.

2. Mrs. Ip Yeung See-ming, Christine was appointed Independent Non-Executive Director of the Company with effect from 16 November 2012.

Board Committees

The Board has established the following committees with defined terms of reference, which are of no less exacting terms than those set out in the Corporate Governance Code (if applicable).

Board Supervisory Committee (the "BSC")

The Board has delegated the duties of overseeing management performance, monitoring execution of business plans and initiatives, and ensuring adherence to corporate objectives to the BSC. Members of the BSC include the Chairman of the Board, the Chief Executive Officer, the Executive Director and senior executives of the Company. Non-Executive Directors are welcomed to join the BSC at their discretion.

The BSC meets regularly throughout the year to review and monitor the overall strategy implementation as well as the business operation and financial performance of the Group and to properly inform the Board of the status of such operations and performance. To facilitate maximum attendance of Directors and members, a tentative schedule for regular BSC meetings for each calendar year is fixed prior to the commencement of the year.

Remuneration Committee

The chairman of the Committee is Dr. Li Ka-cheung, Eric (Independent Non-Executive Director) and the other members are Mr. Ng Leung-sing (Independent Non-Executive Director) and Mr. Yung Wing-chung (Non-Executive Director, resigned with effect from 30 April 2013). The majority of the members of the Remuneration Committee are Independent Non-Executive Directors of the Company.

The Remuneration Committee is responsible for formulating and recommending to the Board the remuneration policy for all Directors and members of senior management of the Group, as well as reviewing and making recommendations on the Company's share option scheme, bonus structure and other compensation-related issues. The Committee consults with the Chairman and/or the Chief Executive Officer on its proposals and recommendations, and also has access to professional advice if deemed necessary by the Committee. The Committee is also provided with other resources enabling it to discharge its duties.

The Remuneration Committee has the delegated responsibility to determine the remuneration packages of individual Executive Directors and senior management. The Committee also has the responsibility to make recommendations to the Board on the remuneration of Non-Executive Directors.

The specific terms of reference of the Remuneration Committee is available on the Company's website.

The Remuneration Committee held a meeting and passed two written resolutions during the year ended 30 June 2013 for reviewing the Directors' fees and approving the emoluments of Executive Directors and senior management. The attendance record of the members at the Committee meeting is set out below:

Directors	**Meeting attended/held during the term of office**
Dr. Li Ka-cheung, Eric *(Chairman)*	1/1
Mr. Ng Leung-sing	1/1
Mr. Yung Wing-chung	1/1

<u>Remuneration policy for Directors and senior management</u>

The primary goal of the remuneration policy for Executive Directors and senior management is to enable the Company to retain and motivate Executive Directors and senior management by linking their compensation with performance as measured against corporate objectives.

The principal elements of the Company's remuneration package for Executive Directors and senior management include basic salary, discretionary bonus and share option. In determining guidelines for each compensation element, the Company will make reference to market remuneration surveys on companies operating in similar businesses.

The remuneration of Non-Executive Directors, mainly comprising directors' fees, is subject to annual assessment with reference to the market standard. Reimbursement is allowed for out-of-pocket expenses incurred in connection with the performance of their duties including attendance at Company meetings.

CORPORATE GOVERNANCE REPORT

Nomination Committee

The chairman of the Committee is Mr. Gan Fock-kin, Eric (Independent Non-Executive Director) and the other members are Mr. Ng Leung-sing (Independent Non-Executive Director) and Mr. David Norman Prince (Non-Executive Director). The majority of the members of the Nomination Committee are Independent Non-Executive Directors of the Company.

The Nomination Committee is responsible for formulating nomination policy, and making recommendations to the Board on nomination and appointment of Directors and board succession. The Committee will also review the size, structure and composition of the Board. The Committee is provided with sufficient resources enabling it to discharge its duties. The specific terms of reference of the Nomination Committee is available on the Company's website.

The Nomination Committee held a meeting and passed two written resolutions during the year ended 30 June 2013 for reviewing the size, structure and composition of the Board and recommending new appointment and re-election of Directors. The attendance record of the members at the Committee meeting is set out below:

Directors	**Meeting attended/held during the term of office**
Mr. Gan Fock-kin, Eric *(Chairman)*	1/1
Mr. Ng Leung-sing	1/1
Mr. David Norman Prince	1/1

The Nomination Committee has reviewed and recommended the re-election of those Directors who are retiring at the forthcoming 2013 Annual General Meeting.

Audit Committee

The Audit Committee is accountable to the Board and assists the Board in meeting its responsibilities for ensuring compliance with the financial reporting obligations and corporate governance requirements as well as reviewing the effectiveness of the Company's system of internal control.

The chairman of the Committee is Dr. Li Ka-cheung, Eric (Independent Non-Executive Director with professional accounting expertise) and the other members are Mr. Ng Leung-sing (Independent Non-Executive Director), Mr. Gan Fock-kin, Eric (Independent Non-Executive Director) and Mr. Tsim Wing-kit, Alfred (Non-Executive Director). The majority of the members of the Audit Committee are 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's primary duties include ensuring the Group's financial statements, annual and interim reports, and the auditor's report present a true and balanced assessment of the Group's financial position; reviewing the Group's financial control, internal control and risk management systems; reviewing the Group's financial and accounting policies and practices; and recommending the appointment and remuneration of external auditor. Other duties of the Audit Committee are set out in its specific terms of reference, which is available on the Company's website. The Audit Committee is provided with sufficient resources enabling it to discharge its duties.

The Audit Committee met two times during the year ended 30 June 2013 to review with management and the Company's internal and external auditors the Group's significant internal controls and financial matters as set out in the Committee's terms of reference. The Committee's review covers the audit plans and findings of internal and external auditors, external auditor's independence, the Group's accounting principles and practices, listing rules and statutory compliance, internal controls, risk management and financial reporting matters (including the interim and annual accounts for the Board's approval).

The attendance record of the members at the Committee meetings is set out below:

Directors	**Meetings attended/held during the term of office**
Dr. Li Ka-cheung, Eric *(Chairman)*	2/2
Mr. Ng Leung-sing	2/2
Mr. Gan Fock-kin, Eric	2/2
Mr. Tsim Wing-kit, Alfred	2/2

The Audit Committee also held a meeting on 4 September 2013 and reviewed the financial statements as well as the internal audit reports of the Group for the year ended 30 June 2013. The Committee was satisfied that the accounting policies and methods of computation adopted by the Group are in accordance with the current best practices in Hong Kong. The Committee found no unusual items that were omitted from the financial statements and was satisfied with the disclosure of data and explanations shown in the financial statements. The Committee was also satisfied with the internal control measures adopted by the Group.

External auditor's independence

The nature and ratio of annual fees to external auditor for non-audit services and for audit services are subject to scrutiny by the Audit Committee. The provision of non-audit services by the external auditor requires prior approval of Audit Committee so as to ensure that the independence and objectivity of the external auditor will not be impaired. Details of the fees paid or payable to the auditors for the year ended 30 June 2013 are as follows:

	HK$
Audit services	2,319,000
Non-audit services	
Taxation	605,000
Review of interim financial statements	320,000
Others[1]	422,000
	1,347,000
Total fees	3,666,000

Note:

1. Non-audit services – Others mainly consists of other reporting services to regulatory authorities, landlords and business partners.

The consolidated financial statements of the Company and its subsidiaries as at and for the year ended 30 June 2013 have been audited by PricewaterhouseCoopers. Before the commencement of the said audit, the Committee received written confirmation from PricewaterhouseCoopers confirming that they are independent accountants with respect to the Company within the meaning of the requirements of section 290 of the International Ethics Standards Board for Accountants Code of Ethics.

The Committee was satisfied with the findings of their review of the audit fees, process and effectiveness, independence and objectivity of PricewaterhouseCoopers and had recommended the Board to propose a resolution of their re-appointment as the Company's external auditor at the forthcoming 2013 Annual General Meeting.

Directors' and auditors' responsibilities for the accounts

The Directors of the Company are responsible for the preparation of consolidation financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

The responsibilities of the auditors for the accounts are set out in the Auditor's Report on pages 41 to 42 of this Annual Report.

Internal control

The Board is responsible for the internal control of the Group and for reviewing its effectiveness.

The internal control system of the Group comprises a comprehensive organisational structure and delegation of authorities, with responsibilities of each business and operational units clearly defined and authorities assigned to individuals based on experience and business need.

Control procedures have been designed to safeguard assets against unauthorised use and disposition; ensure compliance with relevant laws, rules and regulations; ensure proper maintenance of accounting records for provision of reliable financial information used within the business or for publication; and to provide reasonable assurance against material misstatement, loss or fraud.

A Risk Management Committee has been set up and is responsible for the overall risk management functions of the Group. Risk Management Framework is in place to provide a consistent approach on the risk management processes in identification, assessment, treatment and reporting of all risks identified affecting key business processes.

The Group has an internal audit team, staffed with seven qualified professionals, which is an independent function reports directly to the Audit Committee and the Chief Executive Officer. Internal audit plays an important role in the internal control framework and provides independent assurance to the Board as to the adequacy and effectiveness of internal controls for the Group on an on-going basis. The work of internal audit includes financial and operations reviews, recurring and surprise audits, fraud investigations and productivity efficiency and effectiveness reviews. Internal audit derives its annual audit plan using a risk assessment methodology and taking into account the business nature of the Group. The plan is reviewed and approved by the Audit Committee, who ensures that adequate resources are deployed and the plan objectives are adequate to cover major risks affecting the Group. In addition, there is regular dialogue with the Group's external auditors so that both are aware of the significant factors which may affect their respective scope of work.

The Board conducted a review on the effectiveness of the Group's internal control system and concluded that adequate and effective system of internal control has been maintained to safeguard the shareholders' investment and the Group's assets for the year ended 30 June 2013. The review considered the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget. The review covered all material controls, including financial, operational and compliance controls and risk management functions. It was based on a framework which assesses the Group's internal control system against control environment, risk management, information and communication, and control and monitoring activities on all major business and operational processes. The examination consisted of enquiry, discussion and validation through observation and inspection. The Board assessed the effectiveness of internal control by considering reviews performed by the Audit Committee, internal audit and external auditor.

With respect to procedures and internal controls for handling and dissemination of price-sensitive information, a strict prohibition on unauthorised use of confidential or insider information is included in the code of conduct of the Group. Employees who are privy or have access to unpublished price-sensitive information of the Group has also been notified on the adoption of the "Model Code for Securities Transactions by Senior Management and relevant Employees" by the Company and on observing the restrictions pursuant to Parts XIII and XIV of the Securities and Futures Ordinance.

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 year ended 30 June 2013, 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.

Shareholders' rights

Right to convene special general meeting

The Directors, on the requisition of shareholder(s) of the Company holding at the date of the deposit of the requisition not less than one-tenth of the paid-up capital of the Company as at the date of the deposit carries the right of voting at general meetings of the Company, forthwith proceed duly to convene a special general meeting of the Company.

The requisition must state the purposes of the meeting, and must be signed by the requisitionists and deposited at the Registered Office of the Company in Bermuda for the attention of the Company Secretary.

If the Directors do not within 21 days from the date of the deposit of the requisition proceed duly to convene a meeting, the requisitionists, or any of them representing more than one half of the total voting rights of all of them, may themselves convene a meeting, but any meeting so convened shall not be held after the expiration of three months from the said date.

Right to put enquiries to the Board

Shareholders have the right to put enquiries to the Board. All enquiries shall be in writing and sent by post to the Head Office of the Company in Hong Kong or the Registered Office in Bermuda, or by e-mail to ir@smartone.com for the attention of the Company Secretary.

Right to put forward proposals at general meetings

On the requisition in writing of either (i) any number of shareholder of the Company representing not less than one-twentieth of the total voting rights of all the shareholders having at the date of the requisition a right to vote at the meeting to which the requisition relates; or (ii) not less than 100 shareholders, the Company shall, at the expense of the requisitionists:

(a) to give to shareholders of the Company entitled to receive notice of the next annual general meeting notice of any resolution which may properly be moved and is intended to be moved at that meeting; and

(b) to circulate to shareholders entitled to have notice of any general meeting sent to them any statement of not more than 1,000 words with respect to the matter referred to in any proposed resolution or the business to be dealt with at that meeting.

The requisition must be signed by the requisitionists and deposited at the Registered Office of the Company in Bermuda for the attention of the Company Secretary.

Investor relations

To manage its relationship with investment community, the Group meets regularly with the press and financial analysts and participates frequently in other conferences and presentations. The Company also communicates to its shareholders through announcements and annual and interim reports. All such reports and announcements can also be accessed via the Company's website. The Directors, Company Secretary or other appropriate members of the management team also respond to inquiries from shareholders and investment community promptly.

DIRECTORS AND MANAGEMENT EXECUTIVES PROFILE

Directors

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

Mr. Raymond Kwok (aged 60) 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's 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., and a non-executive director of Transport International Holdings Limited and Wing Tai Properties 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 a director of certain subsidiaries of the Company.

Douglas LI, *Executive Director & Chief Executive Officer*

Mr. Douglas Li (aged 59) was appointed Executive Director of the Company in July 2001. He has been Chief Executive Officer of SmarTone since rejoining it in 2001. He believes in challenging the status quo and doing things differently, and has transformed SmarTone into a leader in mobile internet services and communication.

Under Mr. Li's leadership, SmarTone focused on fostering a culture of innovation and quality in pursuit of market differentiation and an exceptional customer experience.

Mr. Li made the provision of superior network performance, proprietary services and outstanding customer care the cornerstones of SmarTone's strategy, which has led to sustained improvement in its business. SmarTone today leads in customer ARPU in Hong Kong's mobile communication market, one of the most advanced and competitive in the world.

Mr. Li began his career as a Chartered Accountant with KPMG in London and Hong Kong. He became an investment banker at Morgan Grenfell, and following that he joined Sun Hung Kai Properties Limited to manage its corporate finance and new business development. He was founding CEO of SmarTone in 1992 and left in 1996 to become managing director of the Asian private equity business of the Suez group. Mr Li is a member of the Advisory Committee of the Department of Electrical and Electronic Engineering, The University of Hong Kong.

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

DIRECTORS AND MANAGEMENT EXECUTIVES PROFILE

CHAN Kai-lung, Patrick, *Executive Director*

Mr. Patrick Chan (aged 53) was appointed Non-Executive Director of the Company in October 1996 and became Executive Director in May 2002. He is the Company's Chief Financial Officer responsible for the formulation and execution of financial strategies, funding, investment, risk management and corporate development. He is also responsible for investor relations, legal and regulatory affairs and procurement.

Mr. Chan oversees the pivot of Business Markets to help enterprise customers do better business in today's hyper-connected world. He directs its transformation to offer advanced services and solutions that enable enterprise customers to be more productive and agile in an increasingly competitive business environment.

Mr. Chan held various positions in the areas of research, investment, investor relations and finance at leading international banking groups and Sun Hung Kai Properties Limited. From December 1994 to May 1996, he was seconded to the Central Policy Unit of the Hong Kong Government as a full-time member.

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

CHEUNG Wing-yui, *Non-Executive Director*

Mr. Cheung Wing-yui (aged 63) was appointed Director of the Company in March 2003. Mr. Cheung is a director of a number of other publicly listed companies, namely being a non-executive director of Tai Sang Land Development Limited, SUNeVision Holdings Ltd., Tianjin Development Holdings Limited and SRE Group Limited, and being an independent non-executive director of Hop Hing Group Holdings Limited and Agile Property Holdings Limited.

Mr. Cheung was vice-chairman of the Mainland Legal Affairs Committee of The Law Society of Hong Kong, a director of Po Leung Kuk, a member of the Board of Review (Inland Revenue) and deputy chairman of The Hong Kong Institute of Directors. He is currently a vice patron of The Community Chest of Hong Kong 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 CPA Australia. 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.

David Norman PRINCE, *Non-Executive Director*

Mr. David Prince (aged 62) 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 member of the audit committee of Adecco SA which is the global leader in human resources services. He was a non-executive director and chairman of the audit committee of Ark Therapeutics plc. until his resignation in March 2013.

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.

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

Mr. Thomas Siu (aged 60) was appointed Director of the Company in July 2008. Mr. Siu is 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. 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. Mr. Siu is also a non-executive director of SUNeVision Holdings Ltd.

Mr. Siu holds a MPhil degree from the 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.

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

Mr. Alfred Tsim (aged 50) 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"). 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.

John Anthony MILLER, *Non-Executive Director*

Mr. John Anthony Miller (aged 63), SBS, OBE, was appointed Director of the Company in November 2010. Mr. Miller is a non-executive director of Transport International Holdings Limited, The Kowloon Motor Bus Company (1933) Limited, RoadShow Holdings Limited and SUNeVision Holdings Ltd. 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.

DIRECTORS AND MANAGEMENT EXECUTIVES PROFILE

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

Dr. Eric Li (aged 60), 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 and an independent non-executive director of Sun Hung Kai Properties Limited, Transport International Holdings Limited, Wong's International (Holdings) Limited, Hang Seng Bank Limited, China Resources Enterprise Limited and Roadshow Holdings Limited. Dr. Li was an independent non-executive director of Bank of Communications Co., Ltd. until his retirement from the post on 25 June 2013.

Dr. Li is a member of the 12th National Committee of Chinese People's Political Consultative Conference. He was a convenor-cum-member of the Financial Reporting Review Panel until completion of his term of service on 15 July 2013. Dr. Li was previously a member of the Legislative Council of Hong Kong and chairman of its Public Accounts Committee, president of the Hong Kong Institute of Certified Public Accountants, an advisor to the Ministry of Finance on international accounting standards and a member of the Commission on Strategic Development.

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

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

Mr. Ng Leung-sing (aged 64) was appointed Director of the Company in June 1997. Mr. Ng is a Hong Kong Deputy to the 10th, 11th and 12th National People's Congress, P.R.C., a member of the Legislative Council of the Hong Kong Special Administrative Region, chairman of Bank of China (Hong Kong) Trustees Limited, vice-chairman of Chiyu Banking Corporation Limited and a director of the BOCHK Charitable Foundation. Mr. Ng was general manager of the Bank-wide Operation Department of Bank of China (Hong Kong) Limited from August 2005 to July 2009 and executive director and general manager of The China and South Sea Bank Limited, Hong Kong from 1990 to 1998. Mr. Ng has been an independent non-executive director of Nine Dragons Paper (Holdings) Limited since 3 March 2013, he 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 Community Chest of Hong Kong from 1992 to 1996, a member of the Legislative Council of Hong Kong from 1996 to 2004, a member of the Hong Kong Housing Authority from 1996 to 2004 and a member of the Court of Lingnan University from 1999 to 2011.

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.

DIRECTORS AND MANAGEMENT EXECUTIVES PROFILE

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

Mr. Yang Xiang-dong (aged 48) 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 managing director and co-head of Goldman's private equity investment for Asia ex-Japan.

Mr. Yang served on the board of China Pacific Insurance (Group) Company Limited until his retirement from the position in May 2013.

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

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

Mr. Eric Gan (aged 50) was appointed Director of the Company in December 2005. Mr. Gan is founder and president of eAccess Limited, the fourth 3G mobile operator (EMOBILE brand) in Japan. From January 2013, eAccess has successfully merged with Softbank Group (the second largest carrier in Japan and one of the largest carrier in the world).

Prior to the establishment of eAccess, Mr. Gan worked as a telecom analyst and 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 chairman of the Nomination Committee and a member of the Audit Committee of the Company.

IP YEUNG See-ming, Christine, *Independent Non-Executive Director*

Mrs. Christine Ip (aged 49) was appointed Director of the Company in November 2012. Mrs. Ip is currently managing director of United Overseas Bank Limited ("UOB") and is responsible for developing Greater China strategy for the Bank. Mrs. Ip has been appointed as United Overseas Bank Hong Kong Office CEO with effect from January 2012.

Mrs. Ip is a seasoned banker with more than 26 years of experience in both consumer and corporate banking, and she has significant experience in China. Prior to joining UOB, Mrs. Ip has held a range of senior management positions in product and sales management, customer segment management and risk management in Hong Kong, the United States, Canada, Singapore and China with Australia and New Zealand Bank, Standard Chartered Bank and HSBC.

Mrs. Ip's achievements have brought her the Asia Retail Congress award for "Best International Retail Banker" in 2008.

Mrs. Ip holds a Bachelor's degree in Arts from The University of Hong Kong and a MBA degree from The Hong Kong University of Science and Technology. Mrs. Ip is also an associate of The Institute of Bankers.

DIRECTORS AND MANAGEMENT EXECUTIVES PROFILE

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. Chan Kai-lung, Patrick, 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 details of the emoluments of the Directors on a named basis for the year ended 30 June 2013 are disclosed in note 12 to the consolidated financial statements.

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 30 June 2013 are disclosed in "Directors' and chief executive's interests" section of the Report of the Directors on pages 14 to 16 of this Annual Report.

Senior Management

The Executive Directors of the Company are also members of senior management of the Group.

DIRECTORS AND MANAGEMENT EXECUTIVES PROFILE

Members of Operations Committee

Douglas LI, *Executive Director & Chief Executive Officer*

CHAN Kai-lung, Patrick, *Executive Director*

CHAU Kam-kun, Stephen, *Chief Technology Officer*

Mr. Stephen Chau has been with SmarTone since 1993. He joined the Company as Head of Operations and was made Chief Technology Officer since 1999. He is responsible for the company's information and communications technology strategy, roadmap and deployment.

Mr. Chau's leadership has shaped SmarTone's technological innovations, impacting all areas of business operations and establishing sustainable competitive advantages. He is responsible for SmarTone's high performance network, which is widely recognised for its superior voice and data experience. He is the architect of SmarTone's advanced service platform which enables its many proprietary services, offering differentiation in the marketplace and real value to customers. Mr. Chau also oversees the evolution of SmarTone's industry leading customer management and support systems enabling frontline staff to provide award-winning customer care.

Mr. Chau has held various senior management positions in telecommunications companies. He is a member of the Institute of Electrical Engineers, UK and the Institute of Engineers, Australia, and a Chartered Engineer of the Institute of Electrical Engineers, UK. He is also on the Advisory Committee on Electronic Engineering of The Chinese University of Hong Kong, and the panel of the Hong Kong Innovation and Technology Support Programme Assessment under the Innovation and Technology Fund.

LAU Man-fai, Chris, *Director of Future Services*

Mr. Chris Lau joined SmarTone in 1992 as its first employee and was appointed to his current position of Director of Future Services in 2001. He is responsible for monitoring emerging technologies and business models, formulating strategies for new services, and architecting the adoption of technologies for both services and business operations.

Mr. Lau has made important contributions in enabling SmarTone's innovations and its improvement in customer experiences across its full range of services.

Mr. Lau held various senior network and products development positions in both mobile and fixed line service providers in Canada and Hong Kong. Mr. Lau is a Chartered Engineer and a Professional Engineer of Ontario, Canada.

HUI Ching-yee, Rita, *General Manager, Human Resources*

Ms. Rita Hui has been Head of Human Resources since joining SmarTone in 1995 and is responsible for human resources strategy, talent and performance management, training and development.

Ms. Hui has made vital contributions in nurturing a company culture that promotes customer focus, quality, innovation and teamwork. It is closely integrated into training, development and career advancement programmes, helping staff live up to their potential and realising the SmarTone difference.

Ms. Hui has held various human resources, administration, sales operations and logistics positions with multi-national corporations in Hong Kong. She is a member of the Education Working Party of the Hong Kong Retail Management Association, and supports the Hong Kong Baptist University's Human Resources Management Mentoring Programme.

GROUP FINANCIAL SUMMARY

(Expressed in Hong Kong dollars in millions except per share amounts)

	2013	2012	2011	2010	2009
Consolidated profit and loss account					
Revenues	**12,067**	9,952	6,631	3,957	3,703
Profit attributable to equity holders of the Company	**843**	1,023	754	294	42
Basic earnings per share ($)	**0.81**	0.99	0.73	0.28	0.04
Dividends					
Total dividends	**685**	1,023	750	273	43
Total per share for the year ($)	**0.66**	0.99	0.73	0.26	0.04
Consolidated balance sheet					
Total assets	**9,628**	7,469	7,237	4,841	4,504
Current liabilities	**(2,696)**	(2,909)	(3,012)	(1,200)	(1,005)
Total assets less current liabilities	**6,932**	4,560	4,225	3,641	3,499
Non-current liabilities	**(3,884)**	(1,385)	(1,316)	(879)	(816)
Non-controlling interests	**(62)**	(64)	(46)	(35)	(34)
Net assets	**2,986**	3,111	2,863	2,727	2,649
Share capital	**104**	104	103	53	54
Reserves	**2,882**	3,007	2,760	2,674	2,595
Total equity attributable to equity holders of the Company	**2,986**	3,111	2,863	2,727	2,649

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

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

We have audited the consolidated financial statements of SmarTone Telecommunications Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 43 to 104, which comprise the consolidated and company balance sheets as at 30 June 2013, and the consolidated profit and loss account, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 30 June 2013, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 11 September 2013

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 30 June 2013
(Expressed in Hong Kong dollars)

	Note	2013 $000	2012 $000
Service revenue		**5,656,675**	5,723,166
Handset and accessory sales		**6,409,857**	4,228,973
Revenues	6	**12,066,532**	9,952,139
Cost of inventories sold		**(6,214,378)**	(4,189,220)
Staff costs	7	**(698,347)**	(645,473)
Other operating expenses		**(2,164,598)**	(2,125,833)
Depreciation, amortisation and gain/loss on disposal		**(1,852,975)**	(1,630,097)
Operating profit		**1,136,234**	1,361,516
Finance income	8	**18,692**	26,529
Finance costs	9	**(139,547)**	(135,138)
Profit before income tax	10	**1,015,379**	1,252,907
Income tax expense	11	**(166,957)**	(212,212)
Profit after income tax		**848,422**	1,040,695
Attributable to			
Equity holders of the Company		**843,186**	1,022,880
Non-controlling interests		**5,236**	17,815
		848,422	1,040,695
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in cents per share)	16		
Basic		**81.3**	99.2
Diluted		**81.0**	98.9
Dividends	17		
Interim dividend paid		**456,562**	473,831
Final dividend proposed		**228,347**	549,462
		684,909	1,023,293

The notes on pages 52 to 104 are an integral part of these consolidated financial statements.

CONSOLIDATED
STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2013
(Expressed in Hong Kong dollars)

	2013 $000	2012 $000
Profit for the year	**848,422**	1,040,695
Other comprehensive income		
Items that may be reclassified subsequently to profit and loss:		
Fair value gain/(loss) on financial investments, net of tax	**1,381**	(400)
Currency translation differences	**1,471**	1,669
Other comprehensive income for the year, net of tax	**2,852**	1,269
Total comprehensive income for the year	**851,274**	1,041,964
Total comprehensive income attributable to		
Equity holders of the Company	**846,038**	1,024,149
Non-controlling interests	**5,236**	17,815
	851,274	1,041,964

The notes on pages 52 to 104 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

At 30 June 2013
(Expressed in Hong Kong dollars)

	Note	2013 $000	2012 $000
Non-current assets			
Leasehold land and land use rights	18	**15,306**	15,650
Fixed assets	19	**3,185,637**	2,529,922
Interest in an associate	21	**3**	3
Intangible assets	22	**2,989,220**	2,601,660
Deposits and prepayments	23	**79,786**	70,084
Deferred income tax assets	24	**7,549**	3,670
		6,277,501	5,220,989
Current assets			
Inventories	25	**103,164**	255,236
Financial investments	26	**3,279**	82,678
Trade receivables	23	**398,877**	341,311
Deposits and prepayments	23	**167,984**	157,665
Other receivables	23	**167,100**	77,380
Pledged bank deposits	27	**6,269**	8,727
Short-term bank deposits	27	**1,858,466**	56,469
Cash and cash equivalents	27	**645,502**	1,268,400
		3,350,641	2,247,866
Current liabilities			
Trade payables	28	**536,654**	615,533
Other payables and accruals	28	**776,758**	892,104
Current income tax liabilities		**177,922**	174,094
Bank borrowings	29	**65,153**	–
Customer prepayments and deposits		**757,989**	866,982
Deferred income		**204,630**	192,731
Mobile licence fee liabilities	30	**176,948**	167,156
		2,696,054	2,908,600
Net current assets/(liabilities)		**654,587**	(660,734)
Total assets less current liabilities		**6,932,088**	4,560,255
Non-current liabilities			
Customer prepayments and deposits		**316,221**	347,856
Asset retirement obligations		**62,132**	61,296
Bank and other borrowings	29	**2,529,646**	66,000
Mobile licence fee liabilities	30	**615,120**	707,187
Deferred income tax liabilities	24	**360,991**	203,355
		3,884,110	1,385,694
Net assets		**3,047,978**	3,174,561

CONSOLIDATED BALANCE SHEET

At 30 June 2013
(Expressed in Hong Kong dollars)

	Note	2013 $000	2012 $000
Capital and reserves			
Share capital	31	**103,794**	103,672
Reserves		**2,882,121**	3,007,266
Total equity attributable to equity holders of the Company		**2,985,915**	3,110,938
Non-controlling interests		**62,063**	63,623
Total equity		**3,047,978**	3,174,561

The financial statements on pages 43 to 104 were approved by the Board of Directors on 11 September 2013 and were signed on its behalf.

Kwok Ping-luen, Raymond
Director

Douglas Li
Director

The notes on pages 52 to 104 are an integral part of these consolidated financial statements.

BALANCE SHEET

At 30 June 2013
(Expressed in Hong Kong dollars)

	Note	**2013 $000**	2012 $000
Non-current assets			
Investments in subsidiaries	20(a)	**4,708,550**	4,695,047
Current assets			
Prepayments	23	**203**	160
Other receivables	23	**–**	639
Amount due from subsidiaries	20(b)	**3,054**	70
Pledged bank deposits	27	**–**	2,458
Cash and cash equivalents	27	**98**	4,051
		3,355	7,378
Current liabilities			
Amount due to a subsidiary	20(b)	**2,231,993**	2,231,993
Other payables and accruals	28	**3,128**	2,819
Current income tax liabilities		**58**	67
		2,235,179	2,234,879
Net current liabilities		**(2,231,824)**	(2,227,501)
Total assets less current liabilities		**2,476,726**	2,467,546
Capital and reserves			
Share capital	31	**103,794**	103,672
Reserves	33	**2,372,932**	2,363,874
Total equity attributable to equity holders of the Company		**2,476,726**	2,467,546

The financial statements on pages 43 to 104 were approved by the Board of Directors on 11 September 2013 and were signed on its behalf.

Kwok Ping-luen, Raymond
Director

Douglas Li
Director

The notes on pages 52 to 104 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30 June 2013
(Expressed in Hong Kong dollars)

	Note	2013 $000	2012 $000
Cash flows from operating activities			
Profit before income tax		**1,015,379**	1,252,907
Adjustments for:			
Depreciation of fixed assets	19	**574,250**	508,713
Amortisation of leasehold land and land use rights	18	**687**	684
Amortisation of intangible assets	22	**1,285,534**	1,114,916
(Gain)/loss on disposal of fixed assets	10	**(7,496)**	5,784
Impairment loss of financial investments	26(a)	**–**	23,381
Finance income	8	**(18,692)**	(26,529)
Finance costs	9	**139,547**	135,138
Net exchange (gain)/loss		**(1,137)**	1,148
Share-based payments	7	**20,152**	48,779
		3,008,224	3,064,921
Changes in working capital			
Decrease in inventories		**152,072**	56,270
Increase in trade receivables, deposits, prepayments and other receivables		**(144,181)**	(90,401)
Decrease in trade and other payables, accruals and deferred income		**(227,550)**	(23,473)
(Decrease)/increase in customer prepayments and deposits		**(114,040)**	219,546
Cash generated from operations		**2,674,525**	3,226,863
Interest paid		**(7,187)**	(3,864)
Income tax paid		**(9,378)**	(38,792)
Net cash generated from operating activities		**2,657,960**	3,184,207
Cash flows from investing activities			
Payment for purchase of fixed assets		**(1,255,311)**	(808,969)
Proceeds from disposal of fixed assets		**27,227**	5,341
Proceeds from disposal of held-to-maturity debt securities	26(b)	**77,560**	333,966
Payment of mobile licence fees	30	**(813,096)**	(128,520)
Distributions from available-for-sale financial assets	26(a)	**1,587**	–
Additions of handset subsidies	22	**(1,059,682)**	(1,208,169)
Increase in short-term bank deposits		**(1,801,392)**	(56,469)
Interest received		**11,372**	34,140
Net cash used in investing activities		**(4,811,735)**	(1,828,680)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30 June 2013
(Expressed in Hong Kong dollars)

	Note	2013 $000	2012 $000
Cash flows from financing activities			
Proceeds from shares issued under share option scheme	31(a)	**6,531**	27,389
Decrease in pledged bank deposits		**2,458**	402,242
Proceeds from bank borrowings		**1,056,563**	216,000
Repayment of bank borrowings		**(16,066)**	(700,000)
Proceeds from issuance of guaranteed notes		**1,535,599**	–
Payment of transaction costs of bank and other borrowings		**(49,935)**	–
Dividends paid to the Company's equity holders		**(997,744)**	(852,255)
Dividend paid to non-controlling interests of a subsidiary		**(6,796)**	–
Net cash generated from/(used in) financing activities		**1,530,610**	(906,624)
Net (decrease)/increase in cash and cash equivalents		**(623,165)**	448,903
Cash and cash equivalents at 1 July		**1,268,400**	819,781
Effect of foreign exchange rates changes		**267**	(284)
Cash and cash equivalents at 30 June	27	**645,502**	1,268,400

In the consolidated cash flow statement, proceeds from disposal of fixed assets comprise:

	2013 $000	2012 $000
Net book amount of disposed fixed assets (note 19)	**19,731**	11,125
Gain/(loss) on disposal of fixed assets	**7,496**	(5,784)
Proceeds from disposal of fixed assets	**27,227**	5,341

The notes on pages 52 to 104 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2013
(Expressed in Hong Kong dollars)

	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 year	–	–	–	–	–	–	–	1,022,880	1,022,880	17,815	1,040,695
Other comprehensive income											
Fair value loss on financial investments, net of tax	–	–	(400)	–	–	–	–	–	(400)	–	(400)
Currency translation differences	–	–	–	–	–	–	1,669	–	1,669	–	1,669
Total comprehensive income for the year ended 30 June 2012	–	–	(400)	–	–	–	1,669	1,022,880	1,024,149	17,815	1,041,964
Transactions with owners											
Share-based payments	–	–	–	–	–	48,779	–	–	48,779	–	48,779
Issue of shares (note 31(a))	504	28,587	–	–	–	(1,702)	–	–	27,389	–	27,389
Payment of 2011 final dividend	–	–	–	–	–	–	–	(432,511)	(432,511)	–	(432,511)
Payment of 2012 interim dividend (note 17)	329	53,758	–	–	(473,831)	–	–	–	(419,744)	–	(419,744)
Total transactions with owners	833	82,345	–	–	(473,831)	47,077	–	(432,511)	(776,087)	–	(776,087)
At 30 June 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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2013
(Expressed in Hong Kong dollars)

	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 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 year	–	–	–	–	–	–	–	843,186	843,186	5,236	848,422
Other comprehensive income											
Fair value gain on financial investments, net of tax	–	–	1,381	–	–	–	–	–	1,381	–	1,381
Currency translation differences	–	–	–	–	–	–	1,471	–	1,471	–	1,471
Total comprehensive income for the year ended 30 June 2013	–	–	1,381	–	–	–	1,471	843,186	846,038	5,236	851,274
Transactions with owners											
Share-based payments	–	–	–	–	–	20,152	–	–	20,152	–	20,152
Issue of shares (note 31(a))	61	7,740	–	–	–	(1,270)	–	–	6,531	–	6,531
Payment of prior year's final dividend to non-controlling interests	–	–	–	–	–	–	–	–	–	(6,796)	(6,796)
Payment of 2012 final dividend	32	4,583	–	–	(549,714)	–	–	–	(545,099)	–	(545,099)
Payment of 2013 interim dividend (note 17)	29	3,888	–	–	(456,562)	–	–	–	(452,645)	–	(452,645)
Total transactions with owners	122	16,211	–	–	(1,006,276)	18,882	–	–	(971,061)	(6,796)	(977,857)
At 30 June 2013	103,794	177,450	1,381	10,260	307,257	69,316	8,252	2,308,205	2,985,915	62,063	3,047,978

The notes on pages 52 to 104 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED 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 consolidated financial statements are presented in thousands of units of Hong Kong dollars ($000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 11 September 2013.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

3 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by certain available-for-sale financial assets.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4.

(a) Revised standards and amendments to standards relevant to and adopted by the Group

The following amendment to standard is mandatory and relevant to the Group for the financial year beginning on 1 July 2012.

HKAS 1 (Amendment)	Presentation of Financial Statements[1]

[1] Effective for annual periods beginning on or after 1 July 2012.

The adoption of the above amendment to the existing standard has no significant impact on these financial statements.

(Expressed in Hong Kong dollars)

3 Basis of preparation *(continued)*

(b) New and revised standards, amendments and interpretations have been issued but are not yet effective and have not been early adopted by the Group

The following new and revised standards, amendments to standards and interpretations to existing standards have been published and are mandatory for the Group's accounting policies beginning on or after 1 July 2013 or later periods but which the Group has not early adopted.

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]
HK (IFRIC) – Int 21	Levies[2]

[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.

The Group is in the process of assessing the impact of these new and revised standards, amendments to standards and interpretations to existing standards and does not expect that there will be a material impact on the consolidated financial statements of the Group.

3 Basis of preparation *(continued)*

(c) Consolidation

(i) Subsidiaries

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 30 June.

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated profit and loss account.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances and income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets.

3 Basis of preparation *(continued)*

(c) Consolidation *(continued)*

(ii) Transactions with non-controlling interests

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions, that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals of non-controlling interests are also recorded in equity.

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

(d) An associate

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investment in an associate is accounted for using the equity method of accounting and is initially recognised at cost and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

The Group's share of its associate's post-acquisition profits or losses is recognised in the consolidated profit and loss account, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to "share of profit/(loss) of an associate" in the consolidated profit and loss account.

Unrealised gains on transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the assets transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

3 Basis of preparation *(continued)*

(e) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (the "CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Group's senior executive management that makes strategic decision.

(f) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and the Group's presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated profit and loss account.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security, and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in the consolidated profit and loss account, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in other comprehensive income.

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

a. assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

b. income and expenses for each profit and loss account are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

c. all resulting exchange differences are recognised in other comprehensive income.

3 Basis of preparation *(continued)*

(f) Foreign currency translation *(continued)*

(iii) Group companies *(continued)*

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the equity holders of the Company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associates that do not result in the Group losing significant influence), the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

(g) Intangible assets

Intangible assets are stated in the consolidated balance sheet at cost less accumulated amortisation (where the estimated useful life is other than indefinite) and impairment losses as described in note 3(k).

(i) Mobile licence fees

A unified carrier licence, which is a right to establish and maintain a telecommunication network and to provide mobile services in Hong Kong, is recorded as an intangible asset. Upon the issuance and renewal of relevant mobile licences, the cost thereof, which is the discounted value of the minimum annual fees payable over the licence period as specified in the respective licensing agreement and directly attributable costs of preparing the asset for its intended use, is recorded together with the related obligations. Amortisation is provided on the straight-line basis over the remaining licence period from the date when the asset is ready for its intended use.

The difference between the discounted value and the total of the minimum annual fee payments represents the effective cost of financing and, accordingly, for the period prior to the asset being ready for its intended use, is capitalised as part of the intangible asset consistent with the policy for borrowing costs as set out in note 3(r). Subsequent to the date when the asset is ready for its intended use, such finance costs will be charged to the consolidated profit and loss account in the year in which they are incurred.

Variable annual payments on top of the minimum annual payments, if any, are recognised in the consolidated profit and loss account as incurred.

3 Basis of preparation *(continued)*

(g) Intangible assets *(continued)*

(ii) Handset subsidies

Handset subsidies provided to customers are deferred and amortised on a straight-line basis over the minimum enforceable contractual periods. In the event that a customer terminates the contract prior to the end of the minimum enforceable contractual period, the unamortised handset subsidies will be written off.

(h) Fixed assets

Fixed assets are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated profit and loss account during the financial period in which they are incurred.

Depreciation of fixed assets is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives. The principal annual rates are as follows:

Leasehold improvements	Over the lease term
Buildings	Over the lease term
Network and testing equipment	10% – 50%
Computer, billing and office telephone equipment	20% – 33 1/3%
Other fixed assets	20% – 33 1/3%

The cost of the network comprises assets and equipment of the telecommunications network purchased at cost. Depreciation of each part of the network commences from the date of launch of the relevant services.

No depreciation is provided for any part of the network under construction, including the equipment therein.

Other fixed assets comprise motor vehicles, equipment, furniture and fixtures.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 3(k)).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amounts and are recognised within "depreciation, amortisation and gain/loss on disposal" in the consolidated profit and loss account.

3 Basis of preparation *(continued)*

(i) Leasehold land and land use rights

Leasehold land and land use rights are stated at cost less accumulated amortisation and impairment losses. Cost represents upfront prepayments made for the rights to use the land on which various plants and buildings are situated for periods varying from 10 to 50 years. Amortisation of leasehold land and land use rights is expensed in the consolidated profit and loss account on a straight-line basis over the period of the lease or when there is impairment, the impairment is expensed in the consolidated profit and loss account.

(j) Leased assets

Leases of assets under which the lessee assumes substantially all the risks and benefits of ownership are classified as finance leases. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

(i) Operating lease charges

Where the Group has the use of assets under operating leases, payments made under the leases (net of any incentives recorded from the lessor) are charged to the consolidated profit and loss account on a straight-line basis over the period of the lease, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset.

(k) Impairment of non-financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

3 Basis of preparation *(continued)*

(l) Financial assets

Classification

The Group classifies its financial assets in the following categories: loans and receivables, held-to-maturity debt securities and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise "trade and other receivables", "deposits", "bank deposits" and "cash and cash equivalents" in the consolidated balance sheet (note 3(n) and note 3(o) respectively). Impairment testing of trade receivables is described in note 3(n).

(ii) Held-to-maturity debt securities

Held-to-maturity debt securities are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell or reclassify other than an insignificant amount of held-to-maturity debt securities, the whole category would be tainted and reclassified as available-for-sale financial assets. Held-to-maturity debt securities are included in non-current assets, except for those with maturities less than 12 months from the balance sheet date, which are classified as current assets.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of debt securities, a significant or prolonged deterioration of credit rating is considered as an indicator that the held-to-maturity debt securities are impaired. If any such evidence exists for held-to-maturity debt securities, the loss (measured as the difference between the amortised cost and the current fair value) is recognised in the consolidated profit and loss account.

(iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of the investment within 12 months of the end of the reporting period.

3 Basis of preparation *(continued)*

(l) Financial assets *(continued)*

Recognition and measurement

Regular way purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables and held-to-maturity debt securities are subsequently carried at amortised cost using the effective interest method.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated profit and loss account as "other operating expenses".

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the consolidated profit and loss account) is removed from equity and recognised in the consolidated profit and loss account. Impairment losses recognised in the consolidated profit and loss account on equity instruments are not reversed through the consolidated profit and loss account.

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

(m) Inventories

Inventories, comprising handsets and accessories, are stated at the lower of cost and net realisable value. Cost is calculated on the weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

3 Basis of preparation *(continued)*

(n) Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair values and subsequently measured at amortised costs using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the consolidated profit and loss account within "other operating expenses".

(o) Cash and cash equivalents

In the consolidated cash flow statement, cash and cash equivalents comprise cash at bank and in hand, deposits held at call with banks and other financial institutions, and other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to insignificant risk of changes in value, having been with original maturities of three months or less.

(p) Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

(q) Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair values and subsequently measured at amortised costs using the effective interest method.

3 Basis of preparation *(continued)*

(r) Borrowings and borrowing costs

Borrowings are recognised initially at fair values, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated profit and loss account over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(s) Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries and the associate operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

3 Basis of preparation *(continued)*

(s) Current and deferred income tax *(continued)*

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and an associate, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(t) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(u) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability of annual leave arising from services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave, maternity or paternity leave and marriage leave are not recognised until the time of leave.

(ii) Bonus plans

The Group recognises a liability and an expense for bonuses, based on a formula that takes into consideration the profit attributable to the equity holders of the Company after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

3 Basis of preparation *(continued)*

(u) Employee benefits *(continued)*

(iii) Retirement benefits

The Group operates defined contribution retirement schemes (including Mandatory Provident Funds) for its employees, the assets of which are generally held in separate trustee-administered funds. The schemes are generally funded by payments from the relevant group companies.

Contributions to defined contribution plans, including contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in the consolidated profit and loss account when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

The Group pays fixed contributions and has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

(iv) Share-based payments

The Group operates an equity-settled, share-based compensation plan under which the Group receives services from employees as consideration for equity instruments of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, including any market performance conditions (for example, an entity's share price) and the impact of any non-vesting conditions and excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision of original estimates, if any, in the consolidated profit and loss account with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiaries, with a corresponding credit to equity in the parent entity accounts.

3 Basis of preparation *(continued)*

(v) Contingent assets and liabilities

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

(w) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised in the consolidated profit and loss account as follows:

(i) Sales of goods

Revenue from the sales of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed and collectability of the related receivables is reasonably assured.

3 Basis of preparation *(continued)*

(w) Revenue recognition *(continued)*

(ii) Provision of services

Revenue from services is measured based on the usage of the Group's telecommunications network and facilities and is recognised when the services are rendered. Service revenue in respect of standard service plans billed in advance is deferred and included under deferred income.

(iii) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continuous unwinding the discount as interest income.

(iv) Dividend income

Dividend income is recognised when the right to receive payment is established.

(x) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

(y) Financial guarantee

A financial guarantee contract requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument. The Group recognises financial guarantee contract as insurance contract, and performs a liability adequacy test at each reporting date by comparing its net liability regarding the financial guarantee with the amount that would be required if the financial guarantee would result in a present legal or constructive obligation. If the liability is less than its present legal or constructive obligation amount, the entire difference is recognised in the consolidated profit and loss account immediately.

(z) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals including key management or other entities.

4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Useful lives of fixed assets

The fixed assets used in the network are long-lived but may be subject to technical obsolescence. The annual depreciation charges are sensitive to the estimated economic useful lives the Group allocates to each type of fixed assets. Management performs annual reviews to assess the appropriateness of their estimated economic useful lives. Such reviews take into account the technological changes, prospective economic utilisation and physical condition of the assets concerned. The useful lives are estimated at the time the purchases are made after considering the future technology changes, business developments and the Group's strategies. Should there be unexpected adverse changes in the circumstances or events, the Group assesses the need to shorten the useful lives and/or make impairment provisions. Indications of these unexpected adverse changes include declines in projected operating results, negative industry or economic trends and rapid advancement in technology.

(b) Asset retirement obligations

The Group evaluates and recognises, on a regular basis, the fair value of fixed assets and obligations which arise from future reinstatement of leased properties upon end of lease terms. To establish the fair values of the asset retirement obligations, estimates and judgement are applied in determining these future cash flows and the discount rate. Management estimates the future cash flows based on certain assumptions, such as the types of leased properties, probability of renewal of lease terms and restoration costs. The discount rate used is referenced to the Group's historical weighted average cost of capital.

(c) Impairment of assets

At each balance sheet date, the Group performs an impairment assessment of fixed assets and intangible assets.

Management judgement is required in the area of asset impairment, particularly in assessing whether (1) an event has occurred that may affect asset values; (2) the carrying value of an asset can be supported by the net present value of future cash flows from the assets using estimated cash flow projections; and (3) the cash flow is discounted using an appropriate rate. Changing the assumptions selected by management to determine the level, if any, of impairment, including the discount rates or the growth rate assumption in the cash flows projections, could significantly affect the Group's reported financial condition and results of operations.

4 Critical accounting estimates and judgements *(continued)*

(d) Determination of fair value of share-based payments

The Group uses the Binominal option pricing model to determine the fair value of share options issued. Under this model, the value of the share options is subject to a number of assumptions such as the risk-free interest rate, the contractual life of the options and expected volatility of the share price of the share. Therefore, the value may be subjective and would change should any of the assumptions change.

Where the outcome of the number of options that are exercisable is different, such difference will impact the consolidated profit and loss account in the subsequent remaining vested period of the relevant share options.

(e) Current and deferred income tax

The Group is subject to income taxes. There are transactions and calculations relating to the Group's ordinary business activities for which the ultimate tax determination is uncertain and judgement is required in determining the provision for income taxes. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

5 Financial risk management

This section presents information about the Group's management and control of financial risks. The major types of financial risk to which the Group was exposed include market risk (including foreign currency risk, cash flow and fair value interest rate risk and price risk), credit risk and liquidity risk. The Group's treasury policy, approved from time to time by the board of directors, is designed to minimise the Group's exposure to financial risks. The Group's risk management policy focuses on the unpredictability of financial markets and seeks to mitigate potential adverse effects on the Group's financial performance.

(a) Financial risks

(i) Market risk

The Group's market risk consists of foreign exchange risk, interest rate risk and price risk. There has been no change to the manner in which the Group manages and measures such risks.

Foreign currency risk

Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations, primarily with respect to the US dollar, Euro, Macau Pataca and Renminbi. In addition, the conversion of Renminbi into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the People's Republic of China. Any change in the exchange rates of these currencies to Hong Kong dollar will impact the Group's operating results.

Certain of the assets and liabilities of the Group are principally denominated in US dollar. Hong Kong dollar is pegged to US dollar, and thus foreign exchange exposure is considered as minimal. The Group currently does not undertake any foreign currency hedging.

5 Financial risk management *(continued)*

(a) Financial risks *(continued)*

(i) Market risk *(continued)*

Foreign currency risk (continued)

The carrying amount of net financial liabilities of the Group in foreign currencies are as follows:

	2013	2012
	$000	$000
US dollar	**(2,167,301)**	(157,131)
Renminbi	**1,485,953**	60,686
Others	**4,405**	(19,541)
Net financial liabilities	**(676,943)**	(115,986)

At 30 June 2013, if Hong Kong dollar had weakened or strengthened by 1% against the US dollar with all other variables held constant, the pre-tax profit of the Group would decrease or increase by approximately $21,673,000 (2012: $1,571,000).

At 30 June 2013, if Hong Kong dollar had weakened or strengthened by 1% against Renminbi with all other variables held constant, the pre-tax profit of the Group would increase or decrease by approximately $14,860,000 (2012: $607,000).

Cash flow and fair value interest rate risk

The Group's interest rate risk arises primarily from the holding of bank deposits and bank and other borrowings. Bank and other borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by bank deposits held at variable rates. Bank and other borrowings issued at fixed rates expose the Group to fair value interest rate risk.

The Group follows a policy which involves close monitoring of interest rate movements and entering into new banking facilities when favourable pricing opportunities arise.

At 30 June 2013, if interest rates had increased or decreased by 100 basis points and all other variables were held constant, the pre-tax profit of the Group would increase or decrease by approximately $19,402,000 (2012: $12,592,000) mainly as a result of higher or lower net interest income on bank deposits and interest expenses on bank borrowings.

The 100 basis point movement represents management's assessment of a reasonably possible change in interest rate over the period until the next annual reporting date.

5 Financial risk management *(continued)*

(a) Financial risks *(continued)*

(i) Market risk *(continued)*

Price risk

The Group is exposed to price risk through its holding of available-for-sale financial assets. The available-for-sale financial assets are stated at fair value based on the net asset value per unit of the respective funds as determined by the managers of the relevant funds. The Group manages its exposure by closely monitoring the price movements and the change in market conditions that may affect the value of these investments.

At 30 June 2013, if the fair value of the available-for-sale financial assets had increased or decreased by 10% and all other variables were held constant, the investment revaluation reserve of the Group would increase or decrease by approximately $328,000 (2012: $349,000).

(ii) Credit risk

The Group's holding of cash and bank balances expose the Group to credit risk of the counterparties. The Group manages its credit risk to non-performance of its counterparties by monitoring their credit ratings and setting approved counterparty limits that are regularly reviewed. In accordance with the treasury policy, the Group invests its surplus funds by placing deposits with credit worthy banks and financial institutions or investing in held-to-maturity debt securities of investment grade, with a minimum credit rating of BBB– as rated by Standard & Poor's.

The Group is also exposed to credit risk from its operating activities. The credit periods granted by the Group to its customers generally range from 15 days to 45 days from the date of invoice. The Group does not have a significant exposure to any individual debtor.

(iii) Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its obligations when they fall due, resulting from amount and maturity mismatches of assets and liabilities.

The Group employs projected cash flow analysis to manage liquidity risk by forecasting the amount of cash required and monitoring the Group's working capital to ensure that all liabilities due and known funding requirements could be met.

The Group maintains a conservative level of liquid assets to ensure the availability of sufficient cash to meet any unexpected and material cash requirements in the normal course of business.

5 Financial risk management *(continued)*

(a) Financial risks *(continued)*

(iii) Liquidity risk *(continued)*

Group

The following table analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The table has been drawn up based on the undiscounted cash flow of financial liabilities based on the earliest date on which the Group can be required to pay.

	1 year or less $000	1 year to 2 years $000	2 years to 5 years $000	Over 5 years $000	Total $000
At 30 June 2013					
Trade payables	**536,654**	**–**	**–**	**–**	**536,654**
Other payables and accruals	**720,626**	**–**	**–**	**–**	**720,626**
Bank and other borrowings	**140,497**	**134,607**	**911,300**	**2,108,237**	**3,294,641**
Mobile licence fee liabilities	**183,220**	**193,345**	**479,412**	**225,330**	**1,081,307**
Total	**1,580,997**	**327,952**	**1,390,712**	**2,333,567**	**5,633,228**

	1 year or less $000	1 year to 2 years $000	2 years to 5 years $000	Over 5 years $000	Total $000
At 30 June 2012					
Trade payables	615,533	–	–	–	615,533
Other payables and accruals	823,019	–	–	–	823,019
Bank and other borrowings	1,815	1,815	15,127	64,115	82,872
Mobile licence fee liabilities	173,096	183,220	610,407	287,680	1,254,403
Total	1,613,463	185,035	625,534	351,795	2,775,827

Company

The contractual maturity of the Company's undiscounted cash flows of financial liabilities at 30 June 2013, including amount due to a subsidiary, and other payables and accruals, based on the earliest date on which the Company can be required to pay is within 1 year (2012: same).

5 Financial risk management *(continued)*

(b) Capital risk management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group defines capital as total equity attributable to equity holders of the Company, comprising share capital and reserves. The Group actively and regularly reviews and manages its capital structure to ensure optimal capital and shareholder returns, taking into consideration the future capital requirements of the Group and capital efficiency, projected operating cash flows and projected capital expenditures.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total equity. Net debt is calculated as total bank and other borrowings as shown in the consolidated balance sheet less cash and cash equivalents, short-term bank deposits and short-term pledged bank deposits.

	2013	2012
	$000	$000
Total bank and other borrowings (note 29)	**2,594,799**	66,000
Less: cash and cash equivalents (note 27)	**(645,502)**	(1,268,400)
Less: short-term bank deposits (note 27)	**(1,858,466)**	(56,469)
Less: short-term pledged bank deposits (note 27)	**(6,269)**	(8,727)
Net debt/(cash)	**84,562**	(1,267,596)
Total equity	**3,047,978**	3,174,561
Gearing ratio	**3%**	N/A

(c) Fair value estimation

The fair value measurements of financial instruments that are measured in the balance sheet at fair value by level of the fair value measurement hierarchy are disclosed as follows:

(i) Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

(ii) 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).

(iii) Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

5 Financial risk management *(continued)*

(c) Fair value estimation *(continued)*

The following table presents the Group's assets that are measured at fair value at 30 June 2013 and 2012.

	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Assets				
Available-for-sale financial assets (note 26(a))				
At 30 June 2013	**–**	**3,279**	**–**	**3,279**
At 30 June 2012	–	3,485	–	3,485

There were no transfers of financial assets between level 1 and level 2 fair value hierarchy classifications.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

6 Segment reporting

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 gain/loss on disposal ("EBITDA") and operating profit.

6 Segment reporting *(continued)*

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

(a) Segment results

	For the year ended 30 June 2013			
	Hong Kong $000	Macau $000	Elimination $000	Consolidated $000
Revenues	11,817,947	734,927	(486,342)	12,066,532
EBITDA	2,901,656	87,553	–	2,989,209
Depreciation, amortisation and gain on disposal	(1,788,875)	(64,321)	221	(1,852,975)
Operating profit	1,112,781	23,232	221	1,136,234
Finance income				18,692
Finance costs				(139,547)
Profit before income tax				1,015,379
Other information				
Additions to fixed assets	1,195,364	54,047	–	1,249,411
Additions to intangible assets	1,680,166	19,516	–	1,699,682
Depreciation	533,158	41,313	(221)	574,250
Amortisation of leasehold land and land use rights	687	–	–	687
Amortisation of intangible assets	1,262,950	22,584	–	1,285,534
(Gain)/loss on disposal of fixed assets	(7,920)	424	–	(7,496)
Impairment loss of trade receivables	16,150	522	–	16,672
Impairment loss of inventories	7,650	1,070	–	8,720

6 Segment reporting *(continued)*

(a) Segment results *(continued)*

	For the year ended 30 June 2012			
	Hong Kong $000	Macau $000	Elimination $000	Consolidated $000
Revenues	9,669,376	384,743	(101,980)	9,952,139
EBITDA	2,857,715	133,898	–	2,991,613
Depreciation, amortisation and loss on disposal	(1,569,117)	(61,436)	456	(1,630,097)
Operating profit	1,288,598	72,462	456	1,361,516
Finance income				26,529
Finance costs				(135,138)
Profit before income tax				1,252,907
Other information				
Additions to fixed assets	802,610	136,380	–	938,990
Additions to intangible assets	1,190,983	17,186	–	1,208,169
Depreciation	464,532	44,637	(456)	508,713
Amortisation of leasehold land and land use rights	684	–	–	684
Amortisation of intangible assets	1,098,112	16,804	–	1,114,916
Loss/(gain) on disposal of fixed assets	5,789	(5)	–	5,784
Impairment loss of financial investments	23,381	–	–	23,381
Impairment loss of trade receivables	16,192	282	–	16,474
Impairment loss of inventories	4,824	416	–	5,240

Sales between segments are carried out in accordance with terms mutually agreed by the relevant parties.

6 Segment reporting *(continued)*

(b) Segment assets/(liabilities)

	At 30 June 2013			
	Hong Kong $000	**Macau $000**	**Unallocated $000**	**Consolidated $000**
Segment assets	**9,215,100**	**402,211**	**10,831**	**9,628,142**
Segment liabilities	**(5,880,322)**	**(160,929)**	**(538,913)**	**(6,580,164)**

	At 30 June 2012			
	Hong Kong $000	Macau $000	Unallocated $000	Consolidated $000
Segment assets	6,977,768	404,736	86,351	7,468,855
Segment liabilities	(3,760,962)	(155,883)	(377,449)	(4,294,294)

The total of non-current assets other than interest in an associate and deferred income tax assets located in Hong Kong is $5,996,806,000 (2012: $4,952,564,000), and the total of these non-current assets located in Macau is $273,143,000 (2012: $264,752,000).

Unallocated assets consist of interest in an associate, financial investments and deferred income tax assets.

Unallocated liabilities consist of current income tax liabilities and deferred income tax liabilities.

7 Staff costs

	2013 $000	2012 $000
Wages and salaries	**639,335**	563,400
Contributions to defined contribution plans *	**38,860**	33,294
Share-based payments	**20,152**	48,779
	698,347	645,473

* Net of forfeited contributions of $1,075,000 (2012: $928,000).

8 Finance income

	2013 $000	2012 $000
Interest income from listed debt securities	**443**	9,886
Interest income from unlisted debt securities	**–**	4,684
Interest income from bank deposits	**17,607**	11,737
Accretion income	**642**	222
	18,692	26,529

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 year.

9 Finance costs

	2013 $000	2012 $000
Interest expense		
Bank and other borrowings wholly repayable within 5 years	**832**	3,573
Bank and other borrowings not wholly repayable within 5 years	**25,565**	263
Bank charges for credit card instalment	**19,991**	30,503
Accretion expenses		
Mobile licence fee liabilities (note 30)	**90,821**	98,379
Asset retirement obligations	**2,338**	2,420
	139,547	135,138

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 year.

10 Profit before income tax

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

	2013 **$000**	2012 $000
Charging:		
Cost of services provided	**476,774**	564,521
Operating lease rentals for land and buildings, transmission sites and leased lines	**902,948**	782,734
Impairment loss of financial investments (note 26)	**–**	23,381
Impairment loss of trade receivables (note 23)	**16,672**	16,474
Impairment loss of inventories (note 25)	**8,720**	5,240
Loss on disposal of fixed assets	**–**	5,784
Auditor's remuneration	**2,319**	2,276
Crediting:		
Gain on disposal of fixed assets	**7,496**	–
Net exchange gain	**2,499**	1,570

11 Income tax expense

Hong Kong profits tax has been provided at the rate of 16.5% (2012: 16.5%) on the estimated assessable profit for the year. Income tax on overseas profits has been calculated on the estimated assessable profit for the year at the tax rates prevailing in the countries in which the Group operates.

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

	2013 **$000**	2012 $000
Current income tax		
Hong Kong profits tax	**9,507**	161,778
Overseas tax	**3,773**	9,786
(Over)/under-provision in prior year tax charge		
Hong Kong profits tax	**(80)**	149
	13,200	171,713
Deferred income tax assets (note 24(a))	**(3,879)**	(3,670)
Deferred income tax liabilities (note 24(b))	**157,636**	44,169
Income tax expense	**166,957**	212,212

11 Income tax expense *(continued)*

(b) The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the applicable tax rate of the home country of the Group is as follows:

	2013 $000	2012 $000
Profit before income tax	**1,015,379**	1,252,907
Notional tax on profit before income tax, calculated at Hong Kong tax rate of 16.5% (2012: 16.5%)	**167,538**	206,729
Effect of different tax rates in other countries	**(1,488)**	523
Expenses not deductible for tax purposes	**131**	300
Income not subject to tax	**(3,260)**	(3,991)
Utilisation of previously unrecognised tax losses	**–**	(1,670)
(Over)/under-provision in prior year	**(80)**	149
Tax loss not recognised	**759**	7
Temporary differences not recognised	**3,357**	10,165
Income tax expense	**166,957**	212,212

12 Directors' emoluments

The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:

	2013 $000	2012 $000
Non-executive directors		
Fees	**1,890**	1,830
Executive directors		
Fees	**240**	240
Salaries and allowances	**13,879**	13,284
Bonuses	**15,156**	10,866
Retirement scheme contributions	**1,388**	1,309
Share-based payments	**7,908**	17,464
	38,571	43,163
	40,461	44,993

12 Directors' emoluments *(continued)*

During the year ended 30 June 2013 and 2012, no director:

- received any emoluments from Sun Hung Kai Properties Limited ("SHKP"), the ultimate holding company of the Company, in respect of their services to the Group;
- waived any right to receive emoluments; or
- received any amounts as inducement to join the Group or as compensation for loss of office.

In addition to the above emoluments, directors were granted share options under the Company's share option scheme. The details of these benefits in kind are disclosed under the section "Share Option Schemes" in the Report of the Directors and note 32.

Details of directors' emoluments, on a named basis for the year are as follows:

	2013						2012
	Fees $000	Salaries and allowances $000	Bonuses $000	Retirement scheme contributions $000	Share-based payments $000	Total $000	Total $000
Executive Directors							
Mr. Douglas Li	120	9,653	14,207	965	6,590	31,535	34,861
Mr. Chan Kai-lung, Patrick	120	4,226	949	423	1,318	7,036	8,302
Non-Executive Directors							
Mr. Kwok Ping-luen, Raymond	150	–	–	–	–	150	150
Mr. Cheung Wing-yui	120	–	–	–	–	120	120
Mr. David Norman Prince	120	–	–	–	–	120	120
Mr. Siu Hon-wah, Thomas	120	–	–	–	–	120	120
Mr. Tsim Wing-kit, Alfred	240	–	–	–	–	240	240
Mr. John Anthony Miller	120	–	–	–	–	120	120
Dr. Li Ka-cheung, Eric, JP *	240	–	–	–	–	240	240
Mr. Ng Leung-sing, JP *	240	–	–	–	–	240	240
Mr. Yang Xiang-dong *	120	–	–	–	–	120	120
Mr. Gan Fock-kin, Eric *	240	–	–	–	–	240	240
Mr. Yung Wing-chung (1)	120	–	–	–	–	120	120
Mrs. Ip Yeung See-ming, Christine * (2)	60	–	–	–	–	60	–
	2,130	13,879	15,156	1,388	7,908	40,461	44,993
2012	2,070	13,284	10,866	1,309	17,464		

* Independent Non-Executive Director
(1) Resigned on 30 April 2013
(2) Appointed on 16 November 2012

13 Five highest paid individuals

Of the five highest paid individuals, two (2012: two) are directors whose emoluments are disclosed in note 12. The aggregate of the emoluments in respect of the other three (2012: three) individuals are as follows:

	2013 $000	2012 $000
Salaries and allowances	**8,854**	8,385
Bonuses	**1,768**	1,475
Retirement scheme contributions	**850**	806
Share-based payments	**2,142**	4,730
	13,614	15,396

In addition to the above emoluments, the three highest paid individuals were granted share options under the Company's share option scheme. The details of these benefits in kind are disclosed under the section "Share Option Schemes" in the Report of the Directors and note 32.

The emoluments of the three (2012: three) highest paid individuals are within the following bands:

	2013 Number of Individuals	2012 Number of individuals
$2,500,001 – $3,000,000	**1**	1
$3,500,001 – $4,000,000	**1**	–
$4,000,001 – $4,500,000	**–**	1
$6,500,001 – $7,000,000	**1**	–
$8,000,001 – $8,500,000	**–**	1
	3	3

14 Employee retirement benefits

The Group participates in two defined contribution retirement schemes, an Occupational Retirement Scheme ("ORSO") and a Mandatory Provident Fund Scheme ("MPF"), for employees (together the "Schemes"). The assets of the Schemes are held separately from those of the Group in funds administered independently of the Group's management.

Contributions to the ORSO scheme by the Group and the employees are calculated as specified percentages of each employee's basic salary. Where employees leave the scheme prior to the full vesting of the employer's contributions, the amount of forfeited contributions is used to reduce the contributions payable by the Group. As at 30 June 2013, all available forfeited contributions had been utilised by the Group to reduce its contributions payable (2012: same).

The MPF scheme was established under the Hong Kong Mandatory Provident Fund Scheme Ordinance in December 2000 and the Group's employees may elect to join the MPF scheme. Both the Group and the employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of $25,000 (2012: $20,000 to $25,000). Contributions to the scheme vest immediately.

15 Profit attributable to equity holders of the Company

The consolidated profit attributable to equity holders of the Company includes a profit of $980,241,000 (2012: $639,000) which has been dealt with in the financial statements of the Company.

16 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.

	2013	2012
Profit attributable to equity holders of the Company ($000)	**843,186**	1,022,880
Weighted average number of ordinary shares in issue	**1,037,392,866**	1,030,625,581
Basic earnings per share (cents per share)	**81.3**	99.2

(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. 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 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.

	2013	2012
Profit attributable to equity holders of the Company ($000)	**843,186**	1,022,880
Weighted average number of ordinary shares in issue	**1,037,392,866**	1,030,625,581
Adjustment for dilutive share options	**3,409,162**	4,041,620
Weighted average number of ordinary shares for diluted earnings per share	**1,040,802,028**	1,034,667,201
Diluted earnings per share (cents per share)	**81.0**	98.9

17 Dividends

	2013 $000	2012 $000
Interim dividend, paid, of 44 cents (2012: 46 cents) per share	**456,562**	473,831
Final dividend, proposed, of 22 cents (2012: 53 cents) per share	**228,347**	549,462
	684,909	1,023,293

For the dividends attributable to the year ended 30 June 2013 and 2012, scrip dividend elections were offered to shareholders. Shares issued during the year on the shareholders' election to receive shares are set out in note 31.

At a meeting held on 11 September 2013, the directors proposed a final dividend of 22 cents per share. This proposed dividend is not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained profits for the year ending 30 June 2014.

The proposed final dividend is calculated based on the number of shares in issue at the date of approval of these financial statements.

The aggregate amounts of the dividends paid and proposed during 2013 and 2012 have been disclosed in the consolidated profit and loss account in accordance with the Hong Kong Companies Ordinance.

18 Leasehold land and land use rights

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments and their net book values are outside Hong Kong and held on leases between 10 to 50 years.

	2013 $000	2012 $000
At 1 July	**15,650**	16,007
Amortisation of leasehold land and land use rights	**(687)**	(684)
Exchange differences	**343**	327
At 30 June	**15,306**	15,650

19 Fixed assets

	Leasehold improvements $000	Buildings $000	Network and testing equipment $000	Computer, billing and office telephone equipment $000	Other fixed assets $000	Network under construction $000	Total $000
At 30 June 2011							
Cost	189,456	7,696	4,926,642	678,344	159,066	274,147	6,235,351
Accumulated depreciation	(153,203)	(722)	(3,303,442)	(585,271)	(82,230)	–	(4,124,868)
Net book amount	36,253	6,974	1,623,200	93,073	76,836	274,147	2,110,483
Year ended 30 June 2012							
Opening net book amount	36,253	6,974	1,623,200	93,073	76,836	274,147	2,110,483
Exchange differences	101	141	–	28	17	–	287
Additions	25,334	92,657	21,314	81,494	9,606	708,585	938,990
Reclassifications	–	–	509,951	–	–	(509,951)	–
Disposals	(152)	–	(9,671)	(16)	(312)	(974)	(11,125)
Depreciation	(16,421)	(705)	(398,457)	(60,894)	(32,236)	–	(508,713)
Closing net book amount	45,115	99,067	1,746,337	113,685	53,911	471,807	2,529,922
At 30 June 2012							
Cost	205,579	100,509	5,229,651	747,406	140,833	471,807	6,895,785
Accumulated depreciation	(160,464)	(1,442)	(3,483,314)	(633,721)	(86,922)	–	(4,365,863)
Net book amount	45,115	99,067	1,746,337	113,685	53,911	471,807	2,529,922
Year ended 30 June 2013							
Opening net book amount	**45,115**	**99,067**	**1,746,337**	**113,685**	**53,911**	**471,807**	**2,529,922**
Exchange differences	**117**	**147**	**–**	**(16)**	**37**	**–**	**285**
Additions	**22,793**	**56,682**	**32,305**	**85,450**	**11,988**	**1,040,193**	**1,249,411**
Reclassifications	**–**	**–**	**995,212**	**–**	**–**	**(995,212)**	**–**
Disposals	**(95)**	**–**	**(18,426)**	**(234)**	**(80)**	**(896)**	**(19,731)**
Depreciation	**(17,628)**	**(3,813)**	**(467,778)**	**(59,855)**	**(25,176)**	**–**	**(574,250)**
Closing net book amount	**50,302**	**152,083**	**2,287,650**	**139,030**	**40,680**	**515,892**	**3,185,637**
At 30 June 2013							
Cost	**221,539**	**157,368**	**6,133,945**	**819,584**	**131,143**	**515,892**	**7,979,471**
Accumulated depreciation	**(171,237)**	**(5,285)**	**(3,846,295)**	**(680,554)**	**(90,463)**	**–**	**(4,793,834)**
Net book amount	**50,302**	**152,083**	**2,287,650**	**139,030**	**40,680**	**515,892**	**3,185,637**

At 30 June 2013, buildings with a carrying amount of $89,812,000 (2012: $92,250,000) were pledged as security for bank borrowings of the Group (note 29).

20 Investments in subsidiaries

(a) Investments in subsidiaries

	2013	2012
	$000	$000
Unlisted shares, at cost	**939,189**	939,189
Amount due from a subsidiary	**3,703,065**	3,705,962
Contribution relating to share-based payments	**68,497**	51,289
Reversal of contribution upon recharge to subsidiaries on exercise of share options	**(2,201)**	(1,393)
	4,708,550	4,695,047

Particulars of the principal subsidiaries at 30 June 2013 are as follows:

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Group equity interest
SmarTone (BVI) Limited *	The British Virgin Islands ("BVI")	Investment holding and group financing in BVI	1,000 ordinary shares of US$1 each	100%
SmarTone Mobile Communications Limited	Hong Kong	Provision of mobile services and sales of mobile handsets and accessories in Hong Kong	100,000,000 ordinary shares of $1 each	100%
SmarTone Communications Limited	Hong Kong	Provision of wireless fixed services in Hong Kong	2 ordinary shares of $1 each	100%
SmarTone Finance Limited	The British Virgin Islands ("BVI")	Issuance of guaranteed notes in Hong Kong	1 ordinary shares of US$1 each	100%
SmarTone-Comunicações Móveis, S.A.	Macau	Provision of mobile services and sales of mobile handsets and accessories in Macau	100,000 shares of MOP100 each	72%
廣州數碼通客戶服務有限公司	The People's Republic of China	Provision of customer support services and telemarketing services in Mainland China	Registered capital of $27,400,000	100%

* Subsidiary held directly by the Company.

All of the above subsidiaries are limited liability companies.

20 Investments in subsidiaries *(continued)*

(b) Amount due from/(to) subsidiaries

	2013 $000	2012 $000
Amount due from subsidiaries	**3,054**	70
Amount due to a subsidiary	**(2,231,993)**	(2,231,993)
	(2,228,939)	(2,231,923)

The amounts due from/(to) subsidiaries are unsecured, interest-free and repayable on demand. The carrying amounts approximate their fair values.

21 Interest in an associate

	2013 $000	2012 $000
Share of net assets	**3**	3

During the year ended 30 June 2013, there is no movement of share of net assets of interest in an associate (2012: same).

Particulars of the associate at 30 June 2013 are as follows:

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued shares held	Interest held
New Top Finance Limited	The British Virgin Islands	Investment holding in BVI	375 ordinary shares of US$1 each	37.5%

The Group has not disclosed the assets, liabilities, and retained profits of the associate as the amounts are immaterial to the Group. The carrying amount approximates its fair value.

22 Intangible assets

	Handset subsidies $000	Mobile licence fees $000	Total $000
At 30 June 2011			
Cost	1,811,747	1,852,108	3,663,855
Accumulated amortisation	(715,494)	(427,790)	(1,143,284)
Net book amount	1,096,253	1,424,318	2,520,571
Year ended 30 June 2012			
Opening net book amount	1,096,253	1,424,318	2,520,571
Additions	1,208,169	–	1,208,169
Amortisation *	(1,022,860)	(92,056)	(1,114,916)
Disposal	(12,164)	–	(12,164)
Closing net book amount	1,269,398	1,332,262	2,601,660
At 30 June 2012			
Cost	2,707,631	1,852,108	4,559,739
Accumulated amortisation	(1,438,233)	(519,846)	(1,958,079)
Net book amount	1,269,398	1,332,262	2,601,660
Year ended 30 June 2013			
Opening net book amount	**1,269,398**	**1,332,262**	**2,601,660**
Additions	**1,059,682**	**640,000**	**1,699,682**
Amortisation *	**(1,141,703)**	**(143,831)**	**(1,285,534)**
Disposal	**(26,588)**	**–**	**(26,588)**
Closing net book amount	**1,160,789**	**1,828,431**	**2,989,220**
At 30 June 2013			
Cost	**2,896,519**	**2,492,108**	**5,388,627**
Accumulated amortisation	**(1,735,730)**	**(663,677)**	**(2,399,407)**
Net book amount	**1,160,789**	**1,828,431**	**2,989,220**

* Included handset subsidies written off of $12,763,000 (2012: $13,416,000).

23 Trade and other receivables

	Group		Company	
	2013	2012	**2013**	2012
	$000	$000	**$000**	$000
Trade receivables	**415,570**	362,396	**–**	–
Less: provision for impairment of trade receivables	**(16,693)**	(21,085)	**–**	–
Trade receivables – net	**398,877**	341,311	**–**	–
Deposits and prepayments	**247,770**	227,749	**203**	160
Other receivables	**167,100**	77,380	**–**	639
	813,747	646,440	**203**	799
Less: deposits and prepayments included under non-current assets	**(79,786)**	(70,084)	**–**	–
Current assets	**733,961**	576,356	**203**	799

The carrying amounts of trade and other receivables approximate their fair values.

The maximum exposure to credit risk at the reporting date is the carrying amounts of deposits, trade and other receivables. The Group does not hold any collateral as security.

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:

	Group	
	2013	2012
	$000	$000
Current to 30 days	**372,882**	300,119
31 – 60 days	**9,719**	13,834
61 – 90 days	**1,849**	8,977
Over 90 days	**14,427**	18,381
	398,877	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 $16,672,000 (2012: $16,474,000) for the impairment of its trade receivables during the year ended 30 June 2013. The loss has been included in "other operating expenses" in the consolidated profit and loss account. Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

23 Trade and other receivables *(continued)*

As at 30 June 2013, trade receivables of $33,498,000 (2012: $50,664,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. An ageing analysis of these trade receivables is as follows:

	2013	2012
	$000	$000
Within 30 days	**17,222**	23,306
31 – 60 days	**1,849**	8,977
Over 60 days	**14,427**	18,381
	33,498	50,664

The carrying amounts of the Group's trade and other receivables are mainly denominated in Hong Kong dollars which accounted for 66% (2012: 78%).

The movements on the provision for impairment of trade receivables are as follows:

	2013	2012
	$000	$000
At 1 July	**21,085**	20,536
Impairment loss recognised in the consolidated profit and loss account (note 10)	**16,672**	16,474
Amounts written off during the year	**(21,064)**	(15,925)
At 30 June	**16,693**	21,085

At 30 June 2013, trade receivables of $16,693,000 (2012: $21,085,000) were impaired and fully provided. The individually impaired receivables mainly relate to independent customers that were in financial difficulties. The ageing of these receivables is as follows:

	2013	2012
	$000	$000
31 – 60 days	**1,476**	1,153
61 – 90 days	**1,996**	2,354
Over 90 days	**13,221**	17,578
	16,693	21,085

The other classes within trade and other receivables do not contain impaired assets.

24 Deferred income tax

Deferred income tax for the Group's temporary differences arising from operations in Hong Kong and overseas is calculated at 16.5% (2012: 16.5%) and the appropriate current tax rates ruling in the relevant countries respectively.

The analysis of deferred income tax assets and deferred income tax liabilities is as follows:

	2013 **$000**	2012 $000
Deferred income tax assets		
To be recovered after more than 12 months	**(7,549)**	(3,670)
Deferred income tax liabilities		
To be settled within 12 months	**13,914**	10,251
To be settled after more than 12 months	**347,077**	193,104
	360,991	203,355
Deferred income tax liabilities, net	**353,442**	199,685

The movement in deferred income tax (assets)/liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

(a) Deferred income tax assets

	Decelerated depreciation allowance $000
At 1 July 2011	–
Recognised in the consolidated profit and loss account (note 11(a))	(3,670)
At 30 June 2012	(3,670)
At 1 July 2012	**(3,670)**
Recognised in the consolidated profit and loss account (note 11(a))	**(3,879)**
At 30 June 2013	**(7,549)**

24 Deferred income tax *(continued)*

(b) Deferred income tax liabilities

	Mobile licence fee (assets)/ liabilities $000	Accelerated depreciation allowance $000	Total $000
At 1 July 2011	85,773	73,413	159,186
Recognised in the consolidated profit and loss account (note 11(a))	(10,216)	54,385	44,169
At 30 June 2012	75,557	127,798	203,355
At 1 July 2012	**75,557**	**127,798**	**203,355**
Recognised in the consolidated profit and loss account (note 11(a))	**95,443**	**62,193**	**157,636**
At 30 June 2013	**171,000**	**189,991**	**360,991**

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group has not recognised deferred income tax assets of $893,000 (2012: $137,000) in respect of tax losses of $7,113,000 (2012: $830,000). The tax losses do not expire under current tax legislation.

25 Inventories

	2013 $000	2012 $000
Handsets and accessories, at cost	**123,343**	266,695
Less: provision for slow-moving and obsolete inventories	**(20,179)**	(11,459)
	103,164	255,236

The Group recognised an impairment provision of $8,720,000 (2012: $5,240,000) for slow-moving and obsolete inventories during the year ended 30 June 2013. The amount recognised has been included in "cost of inventories sold" in the consolidated profit and loss account.

26 Financial investments

	2013 $000	2012 $000
Available-for-sale financial assets (a)	**3,279**	3,485
Held-to-maturity debt securities (b)	**–**	79,193
	3,279	82,678

(a) Available-for-sale financial assets

	2013 $000	2012 $000
At 1 July	**3,485**	27,266
Distributions	**(1,587)**	–
Fair value gain/(loss) transferred to equity	**1,381**	(400)
Impairment loss (note 10)	**–**	(23,381)
At 30 June	**3,279**	3,485

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

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

(b) Held-to-maturity debt securities

	2013 $000	2012 $000
At 1 July	**79,193**	422,054
Amortisation	**(1,618)**	(7,975)
Redemption upon maturity	**(77,560)**	(333,966)
Exchange differences	**(15)**	(920)
At 30 June	**–**	79,193

26 Financial investments *(continued)*

(b) Held-to-maturity debt securities *(continued)*

An analysis on held-to-maturity debt securities is as follows:

	2013 **$000**	2012 $000
Listed debt securities, outside Hong Kong	–	79,193
Market value of listed debt securities	–	78,121

The held-to-maturity debt securities as at 30 June 2012 are denominated in US dollars with a minimum credit rating of A- as rated by Standard & Poor's.

During the year ended 30 June 2013, no gain or loss arose on the disposal of held-to-maturity debt securities (2012: same).

27 Pledged bank deposits, short-term bank deposits and cash and cash equivalents

	Group		Company	
	2013 **$000**	2012 $000	**2013** **$000**	2012 $000
Cash at bank and in hand	**235,075**	401,585	**98**	4,051
Short-term bank deposits with original maturities of 3 months or less	**410,427**	866,815	**–**	–
Cash and cash equivalents	**645,502**	1,268,400	**98**	4,051
Short-term bank deposits with original maturities more than 3 months	**1,858,466**	56,469	**–**	–
Short-term pledged bank deposits	**6,269**	8,727	**–**	2,458
	2,510,237	1,333,596	**98**	6,509
Maximum exposure to credit risk	**2,501,277**	1,325,197	**98**	6,509

There is no concentration of credit risk with respect to bank balances, as the Group has placed deposits with a number of banks.

At 30 June 2013, short-term pledged bank deposits are mainly pledged for the issuance of performance bond by a bank in favour of the Telecommunications Authority of Macau as referred to in note 34(c).

At 30 June 2012, short-term pledged bank deposits are mainly pledged as cash collateral for issuing letter of credit for the Group's lease out, lease back arrangement as referred to in note 34(d).

27 Pledged bank deposits, short-term bank deposits and cash and cash equivalents *(continued)*

Pledged bank deposits, short-term bank deposits and cash and cash equivalents are denominated in the following currencies:

	Group		Company	
	2013	2012	**2013**	2012
	$000	$000	**$000**	$000
Hong Kong dollars	**941,582**	1,025,920	**98**	4,051
US dollars	**54,120**	92,485	**–**	2,458
Euro	**6,459**	120,344	**–**	–
Renminbi	**1,479,890**	61,914	**–**	–
Others	**28,186**	32,933	**–**	–
	2,510,237	1,333,596	**98**	6,509

28 Trade and other payables

	Group		Company	
	2013	2012	**2013**	2012
	$000	$000	**$000**	$000
Trade payables (a)	**536,654**	615,533	**–**	–
Other payables and accruals (b)	**776,758**	892,104	**3,128**	2,819
	1,313,412	1,507,637	**3,128**	2,819

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

	Group	
	2013	2012
	$000	$000
Current to 30 days	**288,925**	472,264
31 – 60 days	**142,243**	121,304
61 – 90 days	**38,419**	3,016
Over 90 days	**67,067**	18,949
	536,654	615,533

28 Trade and other payables *(continued)*

(b) An analysis of other payables and accruals is as follows:

	Group		Company	
	2013	2012	**2013**	2012
	$000	$000	**$000**	$000
Accrued expenses	**353,368**	440,528	**3,128**	2,819
Payables for fixed assets	**365,809**	385,124	**–**	–
Receipt in advance	**57,581**	66,452	**–**	–
	776,758	892,104	**3,128**	2,819

29 Bank and other borrowings

	2013	2012
	$000	$000
Secured bank borrowings	**66,000**	66,000
Unsecured bank borrowings	**1,008,564**	–
Guaranteed notes (a)	**1,520,235**	–
	2,594,799	66,000
Less: Unsecured bank borrowings included under current liabilities	**(65,153)**	–
Non-current portion	**2,529,646**	66,000

(a) On 8 April 2013, SmarTone Finance Limited, an indirect wholly-owned subsidiary of the Company, issued US$200 million, 3.875% guaranteed notes due 2023, which are listed on The Stock Exchange of Hong Kong Limited. The notes are irrevocably and unconditionally guaranteed by the Company and will rank pari passu with all other outstanding unsecured and unsubordinated obligations of the Company.

The maturity of long-term bank and other borrowings are as follows:

	2013	2012
	$000	$000
Between 2 and 5 years	**752,326**	9,947
Over 5 years	**1,777,320**	56,053
	2,529,646	66,000

29 Bank and other borrowings *(continued)*

The carrying amounts of the Group's unsecured bank borrowings included under current liabilities approximate their fair values, as the impact of discounting is not significant. The fair values of the bank borrowings included under non-current liabilities as estimated by discounting their future cash flows at the prevailing market borrowing rates at the year end date for similar borrowings and the fair values of guaranteed notes as calculated using the market price are as follows:

	2013	2012
	$000	$000
Secured bank borrowings	**66,000**	66,000
Unsecured bank borrowings	**994,758**	–
Guaranteed notes	**1,346,482**	–
	2,407,240	66,000

At 30 June 2013, 78% (2012: nil) of the Group's bank and other borrowings are denominated in US dollars and 22% (2012: 100%) are denominated in Hong Kong dollars.

At 30 June 2013, secured bank borrowings are secured by certain buildings of the Group (note 19) (2012: same).

30 Mobile licence fee liabilities

	2013	2012
	$000	$000
At 1 July	**874,343**	904,484
Additions (note 22)	**640,000**	–
Accretion expenses included in consolidated profit and loss account (note 9)	**90,821**	98,379
Payment	**(813,096)**	(128,520)
At 30 June	**792,068**	874,343
Less: mobile licence fee liabilities included under current liabilities	**(176,948)**	(167,156)
Non-current portion	**615,120**	707,187

30 Mobile licence fee liabilities *(continued)*

Analysis of the present value of mobile licence fee liabilities:

	2013 $000	2012 $000
Minimum annual fees payable		
Within 1 year	**183,220**	173,096
After 1 year but within 5 years	**672,757**	793,627
After 5 years	**225,330**	287,680
	1,081,307	1,254,403
Less: future finance charges	**(289,239)**	(380,060)
Present value of mobile licence fee liabilities	**792,068**	874,343
Comprising:		
Within 1 year	**176,948**	167,156
After 1 year but within 5 years	**508,425**	577,862
After 5 years	**106,695**	129,325
	792,068	874,343

31 Share capital

	Shares of $0.1 each	$000
Authorised		
At 30 June 2012 and 30 June 2013	**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)	5,036,500	504
Issue of shares in lieu of cash dividends (b)	3,290,786	329
At 30 June 2012	**1,036,721,142**	**103,672**
Issue of new shares upon exercise of share options (a)	**607,000**	**61**
Issue of shares in lieu of cash dividends (b)	**613,102**	**61**
At 30 June 2013	**1,037,941,244**	**103,794**

(Expressed in Hong Kong dollars)

31 Share capital *(continued)*

(a) During the year ended 30 June 2013, options were exercised to subscribe for 607,000 (2012: 5,036,500) shares in the Company at a consideration of approximately $6,531,000 (2012: approximately $27,389,000), of which $61,000 (2012: $504,000) was credited to share capital and the balance of $6,470,000 (2012: $26,885,000) was credited to the share premium account. In respect of the options exercised, an amount of $1,270,000 (2012: $1,702,000) was reversed from the employee share-based compensation reserve and credited to the share premium account of the Group.

(b) On 4 September 2012, the board of directors declared 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.

On 18 February 2013, the board of directors declared an interim dividend of 44 cents (2012: 46 cents) per share for the year ended 30 June 2013. The shareholders were provided with an option to receive the interim dividend in form of scrip dividend. On 15 April 2013, 295,224 (2012: 3,290,786) shares were issued at $13.268 (2012: $16.436) per share in respect of the interim dividend.

32 Share option scheme

Pursuant to the terms of the share option schemes adopted by the Company on 15 November 2002 and 2 November 2011, the Company may grant options to the participants, including directors and employees of the Group, to subscribe for shares of the Company. The details of the terms of the share option schemes are disclosed under the section “Share Option Schemes” in the Report of the Directors. Below is a summary of the share options issued.

(a) Movements in share options

	Average exercise price per share	Number of share options
At 1 July 2011	$11.72	39,191,500
Exercised	$5.44	(5,036,500)
Granted	$13.86	1,942,500
Cancelled or lapsed	$12.80	(1,600,000)
At 30 June 2012 and 1 July 2012	**$12.71**	**34,497,500**
Exercised	**$10.76**	**(607,000)**
Cancelled or lapsed	**$13.02**	**(650,000)**
At 30 June 2013	**$12.74**	**33,240,500**

At 30 June 2013, 21,625,000 (2012: 11,091,500) share options were exercisable with average exercise price of $12.66 (2012: $12.37) per share.

(Expressed in Hong Kong dollars)

32 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	**2013 Number of share options**	2012 Number of share options
5 February 2004	5 February 2005 to 4 February 2014	$4.50	**398,000**	546,000
13 June 2011	13 June 2012 to 12 June 2016	$12.78	**31,425,000**	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
			33,240,500	34,497,500

(c) No share options were granted during the year ended 30 June 2013. The fair values of options granted during the year ended 30 June 2012 were determined using the Bi-nominal option pricing model. The significant inputs into the model were summarised as follows:

	Date of grant				
	30 September 2011	31 October 2011	30 November 2011	30 December 2011	29 February 2012
Volatility	38.21%	40.26%	40.74%	40.87%	41.68%
Exercise price	$13.12	$14.96	$13.02	$13.52	$16.56
Dividend yield	5.5%	5.5%	5.5%	5.5%	5.5%
Expected option life	5 Years	5 Years	5 Years	5 Years	5 Years
Annual risk-free interest rate	0.757%	0.887%	0.813%	0.957%	0.532%
Exercise multiples	1.65 – 2.05	1.65 – 2.05	1.65 – 2.05	1.65 – 2.05	1.65 – 2.05
Share price at date of grant	$11.84	$14.60	$13.02	$13.44	$16.56
Fair value per option	$2.38	$3.50	$3.25	$3.36	$4.20

The volatility is estimated based on the change of the share price of the Company over the last 5 years. The amount of share-based payments charged to the consolidated profit and loss account for the year ended 30 June 2013 was disclosed in note 7.

(d) Details of share options exercised

Share options exercised during the year resulted in 607,000 (2012: 5,036,500) shares being issued. The related weighted average share price at the time of exercise was $14.99 (2012: $15.50) per share.

33 Reserves

	Company					
	Share premium $000	Capital redemption reserve $000	Contributed surplus $000	Employee share-based compensation reserve $000	Retained profits $000	Total $000
At 1 July 2011	65,944	10,260	2,526,553	2,510	534,888	3,140,155
Comprehensive income						
Profit for the year	–	–	–	–	639	639
Transactions with owners						
Share-based payments	–	–	–	48,779	–	48,779
Issue of shares (a)	28,278	–	–	(1,393)	–	26,885
Payment of 2011 final dividend	–	–	–	–	(432,511)	(432,511)
Payment of 2012 interim dividend	53,758	–	(473,831)	–	–	(420,073)
At 30 June 2012 and 1 July 2012	**147,980**	**10,260**	**2,052,722**	**49,896**	**103,016**	**2,363,874**
Comprehensive income						
Profit for the year	**–**	**–**	**–**	**–**	**980,241**	**980,241**
Transactions with owners						
Share-based payments	**–**	**–**	**–**	**20,152**	**–**	**20,152**
Issue of shares (a)	**7,595**	**–**	**–**	**(1,125)**	**–**	**6,470**
Payment of 2012 final dividend	**4,583**	**–**	**(549,714)**	**–**	**–**	**(545,131)**
Payment of 2013 interim dividend (note 31(b))	**3,888**	**–**	**(456,562)**	**–**	**–**	**(452,674)**
At 30 June 2013	**164,046**	**10,260**	**1,046,446**	**68,923**	**1,083,257**	**2,372,932**

(a) During the year ended 30 June 2013, options were exercised to subscribe for 607,000 (2012: 5,036,500) shares in the Company at a consideration of approximately $6,531,000 (2012: approximately $27,389,000), of which $61,000 (2012: $504,000) was credited to share capital and the balance of $6,470,000 (2012: $26,885,000) was credited to the share premium account. In respect of the options exercised, an amount of $1,125,000 (2012: $1,393,000) was reversed from the employee share-based compensation reserve and credited to the share premium account of the Company.

34 Commitments and contingent liabilities

(a) Capital commitments

	Group	
	2013 $000	2012 $000
Fixed assets		
Contracted for	**131,637**	417,148
Authorised but not contracted for	**1,018,481**	881,167
	1,150,118	1,298,315

34 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 30 June 2013, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	Group	
	2013	2012
	$000	$000
Land and buildings and transmission sites		
No later than 1 year	**543,150**	475,539
Later than 1 year and no later than 5 years	**410,964**	368,988
Later than 5 years	**11**	10,587
	954,125	855,114
Leased lines		
No later than 1 year	**164,082**	136,113
Later than 1 year and no later than 5 years	**726,967**	468,685
Later than 5 years	**855,055**	412,751
	1,746,104	1,017,549
Equipment		
No later than 1 year	**4,000**	4,000
Later than 1 year and no later than 5 years	**3,933**	7,934
	7,933	11,934

(c) Performance bonds

	Group		Company	
	2013	2012	**2013**	2012
	$000	$000	**$000**	$000
Hong Kong	**644,227**	704,973	**644,227**	704,973
Macau	**3,883**	3,883	**–**	–
	648,110	708,856	**644,227**	704,973

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.

34 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 year ended 30 June 2013, 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 30 June 2013.

(e) At 30 June 2013, 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 $660,156,000) and $500,000,000, of which US$71,771,000 (approximately $556,692,000) and $500,000,000 of the banking facilities were utilised by the subsidiary.

35 Related party transactions

The Group is controlled by Cellular 8 Holdings Limited, which owns 63.71% of the Company's shares as at 30 June 2013. The remaining 36.29% of the shares are widely held, of which 2.73% is held by another subsidiary of SHKP. The ultimate holding company of the Group is SHKP, a company incorporated in Hong Kong.

(a) During the year, 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.

	2013	2012
	$000	$000
Operating lease rentals for land and buildings and transmission sites (i)	**100,991**	93,931
Insurance expense (ii)	**6,954**	5,183

(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 year ended 30 June 2013, rental and licence fees paid and payable to subsidiaries and associated companies of SHKP totalled $100,991,000 (2012: $93,931,000).

(ii) Insurance services

Sun Hung Kai Properties Insurance Limited, a wholly owned subsidiary of SHKP, provides general insurance services to the Group. For the year ended 30 June 2013, insurance premiums paid and payable were $6,954,000 (2012: $5,183,000).

35 Related party transactions *(continued)*

(b) At 30 June 2013, the Group had 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:

	2013	2012
	$000	$000
Salaries, bonuses and other short-term employee benefits	**39,672**	34,183
Share-based payments	**9,753**	21,539
	49,425	55,722

(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:

	2013	2012
	$000	$000
Trade receivables (note 23)	**1,066**	1,200
Deposits and prepayments (note 23)	**7,123**	8,762
Other receivables (note 23)	**385**	154
Trade payables (note 28)	**919**	54
Other payables and accruals (note 28)	**4,005**	2,470

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

36 Ultimate holding company

The directors consider the ultimate holding company at 30 June 2013 to be Sun Hung Kai Properties Limited, a company incorporated in Hong Kong with its shares listed on the main board of HKSE.