INTERIM REPORT 2013/14

SmarTone Telecommunications Holdings Limited

Stock Code : 0315

CONTENTS

CHAIRMAN'S STATEMENT

(Financial figures are expressed in Hong Kong dollars)

I am pleased to report the results of the Group for the six months ended 31 December 2013.

Financial Highlights

Total revenue increased 11% to $6,531 million, with a 24% growth in handset and accessory sales, partly offset by a 3% decrease in service revenue, compared to the same period last year. The increase in handset and accessory sales reflects strong volume growth of the wholesale handset business. Increased network operating costs from strongly rising data usage, higher depreciation from completion of the 4G network, and reduced handset margins affected profitability. EBITDA declined 12% to $1,348 million and net profit decreased 32% to $311 million.

Dividend

In line with our dividend policy of 60% payout of profit attributable to equity holders excluding extraordinary items, your Board declares an interim dividend of 18 cents per share. Shareholders have the option to receive new and fully paid shares in lieu of cash under a scrip dividend scheme.

Business Review

In Hong Kong, competition continues to intensify in the period under review. While SmarTone increased Hong Kong customer numbers, in both postpaid and prepaid segments, by 8% to 1.87 million, service revenue declined 2%. This reflects competitive pricing erosion, a slowing decline in roaming revenue, as well as the continued scale-down of the wireless fixed broadband business. Handset models launched in the period have not met with the strong response as in the past and many customers have adopted SIM-only price plans, at lower price points, when their handset-bundled plans expired. This migration has no impact on profitability but has reduced revenue and ARPU. This, together with the increased acquisition of new customers with the lower-priced 3G speed-capped plans, reduced fully blended ARPU 11% to $243. Postpaid churn improved to 1.1% compared with 1.4% for the same period last year.

SmarTone's highly optimised network performance is well recognised in the market for its outstanding customer experience in terms of coverage, stability and speed. Our 4G LTE network is largely fully deployed in the 1800MHz band and our HSPA+ network has now been extended to the 850MHz band. Just under 40% of our mobile broadband customers have adopted 4G LTE and it is anticipated that usage will continue to rise as customers come to rely on ever more broadband-delivered services and applications. We are now focusing on vacating further 2G spectrum for refarming to 4G LTE, as well as trialling HetNet small-cell technology across Hong Kong, ensuring network excellence for our customers in the future.

SmarTone is strongly committed to enhance customer experience through its services and applications, as well as customer care. We foster a customer-focused culture of innovation and are passionate about developing propositions, experiences and engagement that redefine brand saliency and loyalty, and bring about monetisation opportunities. Some of our proprietary services have met with strong customer response, with approximately 40% of postpaid customers subscribing to these services. Our customer care has garnered customer accolades, with excellent satisfaction ratings across all touch points. We are focused on implementing several key service and customer care initiatives that we believe will further drive customer satisfaction and brand loyalty.

The Macau operation suffered a small loss due to a decline in roaming revenue.

(Financial figures are expressed in Hong Kong dollars)

Prospects

Competition in the Hong Kong mobile market remains intense and this will continue to put pressure on service revenue. Costs are expected to increase with higher customer data usage and general inflation. In light of this headwind, we will focus on cost control and productivity improvement without compromising on quality of service to our customers.

We remain committed to extend our network excellence, develop new services that are valuable to our customers and provide outstanding customer care. With a strong brand and a healthy financial position, we are well-placed to face the industry challenges and bring value to both customers and shareholders in the long term.

Appreciation

During the period under review, Mr. Fung Yuk-lun, Allen was appointed as Non-Executive Director. I would like to welcome Mr. Fung to the Board.

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

Kwok Ping-luen, Raymond
Chairman

Hong Kong, 13 February 2014

MANAGEMENT DISCUSSION AND ANALYSIS

(Financial figures are expressed in Hong Kong dollars)

Review of financial results

During the period under review, the Group's revenue increased by 11% to $6,531 million (first half of 2012/2013: $5,888 million), comprising a 24% increase in handset and accessory sales, partly offset by a 3% decline in service revenue. EBITDA fell by 12% to $1,348 million (first half of 2012/13: $1,537 million). Profit attributable to equity holders of the Company decreased by 32% to $311 million (first half of 2012/13: $459 million).

Revenues rose by $643 million or 11% to $6,531 million (first half of 2012/13: $5,888 million).

- Service revenue declined by $80 million or 3% to $2,789 million (first half of 2012/13: $2,869 million) driven by lower local mobile service revenue, roaming revenue and the continuing scale down of wireless fixed broadband business. Local mobile service revenue declined by 1% amidst customers' migration from handset-bundled plans to SIM-only price plans, partly offset by the revenue increase from the growth in customer numbers. The drop in roaming revenue was due to a significant reduction in global wholesale roaming inter-operator tariffs as well as reduced voice roaming traffic amidst cannibalisation by over-the-top applications.

  The Group achieved a 8% year-on-year growth in its Hong Kong customer base. Fully blended ARPU decreased by 11% to $243 (first half of 2012/13: $272) amidst customers' migration from handset-bundled plans to SIM-only price plans, dilution from the lower-priced 3G speed-capped plans and decrease in roaming revenue.

- Handset and accessory sales rose by $723 million or 24% to $3,742 million (first half of 2012/13: $3,019 million). Both sales volume and average unit selling price increased.

Cost of inventories sold rose by $774 million or 26% to $3,702 million (first half of 2012/13: $2,927 million). As the cost of inventories sold increased in a larger extent than the corresponding increase in handset and accessory sales, lower handset business profits were resulted.

Staff costs fell slightly by $4 million or 1% to $342 million (first half of 2012/13: $346 million).

Other operating expenses rose by $62 million or 6% collectively to $1,140 million (first half of 2012/13: $1,078 million). Increase in network operating costs, rental and utilities and cost of services provided were partly offset by lower sales and marketing expenses as well as general and administrative expenses.

Depreciation and gain on disposal increased by $56 million or 21% to $327 million (first half of 2012/13: $271 million) arising from higher capital expenditure incurred in FY12/13 for the launch of 4G LTE network as well as general capacity enhancement to cater for increasing data usage by customers.

Handset subsidy amortisation fell by $61 million or 11% to $518 million (first half of 2012/13: $578 million), mainly attributable to customers' migration from handset-bundled plans to SIM-only price plans during the period under review. Such decrease more than offset the decline in local mobile service revenue. As a result, local mobile service revenue net of handset subsidy amortisation increased slightly by 2%. Mobile licence fee amortisation remained stable at $72 million (first half of 2012/13: $72 million).

Finance income rose by $21 million to $28 million (first half of 2012/13: $7 million) amid higher average balance of bank deposits and a higher return on surplus cash. Finance costs increased by $29 million to $94 million (first half of 2012/13: $66 million) driven by higher bank borrowings and the US$200 million 10-year guaranteed notes.

Income tax expense amounted to $56 million (first half of 2012/13: $90 million).

Macau operations reported an operating loss of $9 million (first half of 2012/13: operating profit of $27 million) amid lower contribution from roaming business.

Capital structure, liquidity and financial resources

During the period under review, the Group was financed by share capital, internally generated funds and bank and other borrowings. As at 31 December 2013, the Group recorded share capital of $104 million, total equity of $3,134 million and total borrowings of $2,809 million.

The Group's cash resources remained robust with cash and bank balances (including pledged bank deposits and short-term bank deposits) of $2,664 million as at 31 December 2013 (30 June 2013: $2,510 million).

As at 31 December 2013, the Group had bank and other borrowings of $2,809 million (30 June 2013: $2,595 million) of which 80% were denominated in US dollars and were arranged on a fixed rate basis. Net debt, after deducting cash and bank deposits, amounted to $145 million as at 31 December 2013 (30 June 2013: $85 million). The gearing ratio, calculated by dividing net debt by total equity, was 5% as at 31 December 2013 (30 June 2013: 3%). Net debt to EBITDA (annualised) was 5% as at 31 December 2013 (30 June 2013: 3%).

The Group had net cash generated from operating activities and interest received of $1,131 million and $5 million respectively during the period ended 31 December 2013. The Group's major outflows of funds during the period were payments for additions of handset subsidies, purchase of fixed assets, dividends and mobile licence fees.

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. Bank deposits are maintained in Hong Kong dollars, Renminbi and other currencies.

The Group is required to arrange for banks to issue performance bonds and letter of credit on its behalf. The Group may partially or fully collateralise such instruments by cash deposits to lower the issuance costs.

Charges on assets

As at 31 December 2013, certain bank deposits of the Group, in aggregate amount of $6 million (30 June 2013: $6 million), were pledged for securing guarantees issued by the banks. In addition, certain Hong Kong dollar denominated bank borrowings were secured by certain assets of the Group and the carrying amount of the pledged assets amounted to $89 million as at 31 December 2013 (30 June 2013: $90 million).

Interest rate exposure

The Group is exposed to interest rate changes that affect borrowings denominated in Hong Kong dollars which accounted for 20% of the Group's total borrowings at 31 December 2013. The remaining 80% of the Group's borrowings are fixed rates borrowings. Hence, the Group is well protected from any potential rising interest rates in the next few years. The Group does not currently undertake any interest rate hedging.

Functional currency and foreign exchange exposure

The functional currency of the Company is Hong Kong dollar. The Group is exposed to other currency movements, principally in terms of certain trade receivables, bank deposits, available-for-sale financial assets, trade payables and bank and other borrowings denominated in Renminbi and United States dollars. 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 31 December 2013 under these performance bonds was $527 million (30 June 2013: $648 million). The banks' obligations under the performance bonds are guaranteed by the Company and various subsidiaries of the Company.

Employees and share option scheme

The Group had 2,171 full-time employees as at 31 December 2013 (30 June 2013: 2,184), with the majority of them based in Hong Kong. Total staff costs were $342 million for the period ended 31 December 2013 (first half of 2012/13: $346 million).

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

The Group has a share option scheme under which the Company may grant options to participants, including directors and employees, to subscribe for shares of the Company. During the period under review, no new share options were granted; 12,000 share options were exercised; and 350,000 share options were cancelled or lapsed. 32,878,500 (30 June 2013: 33,240,500) share options were outstanding as at 31 December 2013.

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

Mr. Raymond Kwok has been with the Group since April 1992 and was appointed Director of the Company in October 1996. He holds a Master of Arts degree in Law from Cambridge University, a Master'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.

For the financial year ended 30 June 2013, Mr. Kwok received a fee of HK$150,000. Except the above fee, Mr. Kwok did not receive any other emoluments during the said financial year.

Douglas LI *Executive Director & Chief Executive Officer*

Mr. Douglas Li 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.

For the financial year ended 30 June 2013, Mr. Li received salaries (including allowances and retirement scheme contributions), bonus, share-based payment and director's fee of HK$10,618,000, HK$14,207,000, HK$6,590,000 and HK$120,000 respectively.

DIRECTORS' PROFILE

CHAN Kai-lung, Patrick *Executive Director*

Mr. Patrick Chan 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.

For the financial year ended 30 June 2013, Mr. Chan received salaries (including allowances and retirement scheme contributions), bonus, share-based payment and director's fee of HK$4,649,000, HK$949,000, HK$1,318,000 and HK$120,000 respectively.

CHEUNG Wing-yui *Non-Executive Director*

Mr. Cheung Wing-yui 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 is a non-executive director of Hung Kai Finance Company, Limited and Sun Hung Kai Properties Insurance Limited, both of which are wholly-owned subsidiaries of Sun Hung Kai Properties Limited.

Mr. Cheung is currently the vice patron of The Community Chest of Hong Kong, the deputy chairman of The Open University of Hong Kong and a member of the Labour and Welfare Department's Lump Sum Grant Steering Committee, Honorary Council Member of The Hong Kong Institute of Directors Limited. Mr. Cheung was a member of the Appeal Board established under the Accreditation of Academic and Vocational Qualifications Ordinance, a member of the Board of Review (Inland Revenue Ordinance), the deputy chairman of the Hong Kong Institute of Directors Limited, a director of Po Leung Kuk and the vice chairman of the Mainland Legal Affairs Committee of the Law Society of Hong Kong. Mr. Cheung was awarded the Bronze Bauhinia Star (BBS) in 2013. 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.

For the financial year ended 30 June 2013, Mr. Cheung received a fee of HK$120,000. Except the above fee, Mr. Cheung did not receive any other emoluments during the said financial year.

David Norman PRINCE *Non-Executive Director*

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

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

He was Group Finance Director of Cable and Wireless plc. until December 2003 and prior to this, spent some 12 years working in the telecommunications industry in Hong Kong, Mainland China and Asia. From 1994 to 2000 he was Finance Director and latterly Deputy Chief Executive Officer of Hong Kong Telecommunications Limited until it was acquired by PCCW in 2000. He went on to join PCCW plc. as Group Chief Financial Officer primarily focused on the integration of the companies following the acquisition. In 2002, he left PCCW to join Cable and Wireless as Group Finance Director. Prior to his time in Hong Kong he held senior management roles for Cable and Wireless in the USA and Europe. His early career was spent in the Gas, Oil and Electronic industries within Europe and the USA.

Mr. Prince is currently a non-executive director and 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.

For the financial year ended 30 June 2013, Mr. Prince received a fee of HK$120,000. Except the above fee, Mr. Prince did not receive any other emoluments during the said financial year.

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

Mr. Thomas Siu 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.

For the financial year ended 30 June 2013, Mr. Siu received a fee of HK$120,000. Except the above fee, Mr. Siu did not receive any other emoluments during the said financial year.

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

Mr. Alfred Tsim was appointed Director of the Company in November 2009. Mr. Tsim was appointed an executive director and the chief financial officer of SUNeVision Holdings Ltd. ("SUNeVision") in July 2006 and had been the chief executive officer of SUNeVision since 2008 until his redesignation as non-executive director of SUNeVision in October 2013. Mr. Tsim is currently a manager of Sun Hung Kai Properties Limited.

Mr. Tsim is an accountant by profession, he qualified with Price Waterhouse and is a member of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants, United Kingdom, CPA Australia, CMA Canada and The Institute of Chartered Accountants in England and Wales. Mr. Tsim holds a Bachelor of Arts degree from the City University of Hong Kong, a Master of Business Administration degree from The University of Sydney, a Master of Laws degree from the University of Wolverhampton, United Kingdom, and a Diploma in Management Accounting from The Chinese University of Hong Kong.

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

For the financial year ended 30 June 2013, Mr. Tsim received a fee of HK$240,000 including the fee for acting as a member of the Audit Committee of the Company. Except the above fee, Mr. Tsim did not receive any other emoluments during the said financial year.

John Anthony MILLER *Non-Executive Director*

Mr. John Anthony Miller, SBS, OBE, was appointed Director of the Company in November 2010. Mr. Miller is a non-executive director of Transport International Holdings Limited, The Kowloon Motor Bus Company (1933) Limited and RoadShow Holdings Limited. He is also chairman of Hong Kong Business Aviation Centre Limited, a partly-owned subsidiary of Sun Hung Kai Properties Limited.

Mr. Miller was a non-executive director of SUNeVision Holdings Ltd. until his resignation from the post with effect from 1 January 2014.

Mr. Miller retired from the Civil Service in February 2007 as Permanent Representative of the Hong Kong Special Administrative Region of China to the World Trade Organisation in Geneva. Key positions held over a career spanning 35 years prior to Mr. Miller's retirement include Permanent Secretary for Financial Services and the Treasury (2002-2004), Director of Housing and Chief Executive of the Housing Authority (1996-2002), Director-General of Trade (1993-1996), Director of Marine (1991-1993), Information Coordinator in the Chief Secretary's Office (1989-1991) and Private Secretary to the Governor (1979-1982). Mr. Miller holds an MPA degree from Harvard University and a BA degree from London University.

For the financial year ended 30 June 2013, Mr. Miller received a fee of HK$120,000. Except the above fee, Mr. Miller did not receive any other emoluments during the said financial year.

FUNG Yuk-lun, Allen *Non-Executive Director*

Mr. Allen Fung was appointed Director of the Company in December 2013. Mr. Fung obtained an undergraduate degree (Modern History) from Oxford University and holds a doctoral degree in History and East Asian Languages from Harvard University. He was a recipient of a Guggenheim Fellowship in 1996. Mr. Fung was a Teaching Fellow at Harvard University in 1993-1994 and a visiting Assistant Professor of History at Brown University in 1996-1997.

Mr. Fung is an executive director and a member of the Executive Committee of Sun Hung Kai Properties Limited ("SHKP"), as well as the chief executive officer of the SHKP group's non-property related portfolio investments. He is also a non-executive director of SUNeVision Holdings Ltd. and Transport International Holdings Limited.

Mr. Fung joined McKinsey and Company ("McKinsey"), a global management consulting company, in 1997. He primarily served clients in China and Hong Kong, and also served institutions in Europe and Southeast Asia. Mr. Fung was the co-leader of the infrastructure practice for McKinsey. He was the managing partner of McKinsey Hong Kong from 2004 to 2010. In 2011, he became a director of McKinsey globally, being the first Hong Kong Chinese to become a director in McKinsey's history. He was also the head of recruiting for the Asia region in McKinsey.

Mr. Fung is chairman of the Hong Kong Society for the Protection of Children, a council member of both The Hong Kong Federation of Youth Groups and The Hong Kong Management Association and a member of Executive Committee of The Hong Kong Council of Social Service. He is also an advisory member of the Faculty of Business and Economics at The University of Hong Kong.

Mr. Fung did not receive any fee or any emoluments during the financial year ended 30 June 2013.

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

Dr. Eric Li, GBS, OBE, JP, LLD, DSocSc., B.A., FCPA (Practising), FCA, FCPA (Aust.), FCIS, was appointed Director of the Company in October 1996. Dr. Li is the senior partner of Li, Tang, Chen & Co., Certified Public Accountants 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.

For the financial year ended 30 June 2013, Dr. Li received a fee of HK$240,000 including the fee for acting as the chairman of the Audit Committee of the Company. Except the above fee, Dr. Li did not receive any other emoluments during the said financial year.

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

Mr. Ng Leung-sing 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.

For the financial year ended 30 June 2013, Mr. Ng received a fee of HK$240,000 including the fee for acting as member of the Audit Committee of the Company. Except the above fee, Mr. Ng did not receive any other emoluments during the said financial year.

YANG Xiang-dong *Independent Non-Executive Director*

Mr. Yang Xiang-dong 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.

For the financial year ended 30 June 2013, Mr. Yang received a fee of HK$120,000. Except the above fee, Mr. Yang did not receive any other emoluments during the said financial year.

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

Mr. Eric Gan 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.

For the financial year ended 30 June 2013, Mr. Gan received a fee of HK$240,000 including the fee for acting as member of the Audit Committee of the Company. Except the above fee, Mr. Gan did not receive any other emoluments during the said financial year.

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

Mrs. Christine Ip 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.

For the financial year ended 30 June 2013, Mrs. Ip received a fee of HK$60,000. Except the above fee, Mrs. Ip did not receive any other emoluments during the said financial year.

Notes:

Save 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 Directors' interests in shares of the Company or any of its associated corporations, if any, within the meaning of Part XV of the Securities and Futures Ordinance as at 31 December 2013 are disclosed in "Directors' and chief executive's interests" section on pages 41 to 43 of this Interim Report.

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

羅兵咸永道

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

Introduction

We have reviewed the condensed consolidated interim financial information set out on pages 15 to 40, which comprises the condensed consolidated balance sheet of SmarTone Telecommunications Holdings Limited (the "Company") and its subsidiaries (together, the "Group") as at 31 December 2013 and the related condensed consolidated profit and loss account, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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

Conclusion

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 13 February 2014

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 31 December 2013

(Expressed in Hong Kong dollars)

	Note	Unaudited six months ended 31 December 2013 $000	2012 $000
Service revenue		**2,788,749**	2,869,028
Handset and accessory sales		**3,742,190**	3,019,059
Revenues	6	**6,530,939**	5,888,087
Cost of inventories sold		**(3,701,563)**	(2,927,251)
Staff costs		**(341,928)**	(345,699)
Other operating expenses		**(1,139,888)**	(1,078,116)
Depreciation, amortisation and gain/loss on disposal		**(916,697)**	(921,561)
Operating profit		**430,863**	615,460
Finance income	7	**28,090**	6,889
Finance costs	8	**(94,499)**	(65,897)
Profit before income tax	9	**364,454**	556,452
Income tax expense	10	**(56,013)**	(90,441)
Profit after income tax		**308,441**	466,011
Attributable to			
Equity holders of the Company		**311,299**	459,399
Non-controlling interests		**(2,858)**	6,612
		308,441	466,011
Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in cents per share)	11		
Basic		**30.0**	44.3
Diluted		**30.0**	44.1
Interim dividend declared	12	**186,726**	456,506

The notes on pages 22 to 40 are an integral part of these condensed consolidated Interim Financial Statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 December 2013
(Expressed in Hong Kong dollars)

	Unaudited six months ended 31 December	
	2013	2012
	$000	$000
Profit for the period	**308,441**	466,011
Other comprehensive income		
Items that may be reclassified subsequently to profit and loss:		
Fair value gain on financial investments, net of tax	**964**	3,006
Currency translation differences	**484**	267
Other comprehensive income for the period, net of tax	**1,448**	3,273
Total comprehensive income for the period	**309,889**	469,284
Total comprehensive income attributable to		
Equity holders of the Company	**312,747**	462,672
Non-controlling interests	**(2,858)**	6,612
	309,889	469,284

The notes on pages 22 to 40 are an integral part of these condensed consolidated Interim Financial Statements.

CONDENSED CONSOLIDATED BALANCE SHEET

As at 31 December 2013 and 30 June 2013
(Expressed in Hong Kong dollars)

	Note	Unaudited 31 December 2013 $000	Audited 30 June 2013 $000
Non-current assets			
Leasehold land and land use rights		15,104	15,306
Fixed assets	13	3,174,010	3,185,637
Interest in an associate		3	3
Intangible assets	14	2,727,585	2,989,220
Deposits and prepayments	15	102,450	79,786
Deferred income tax assets		7,190	7,549
		6,026,342	6,277,501
Current assets			
Inventories		163,645	103,164
Financial investments	16	4,243	3,279
Trade receivables	15	408,503	398,877
Deposits and prepayments	15	157,692	167,984
Other receivables	15	109,120	167,100
Pledged bank deposits		6,269	6,269
Short-term bank deposits		1,565,696	1,858,466
Cash and cash equivalents		1,092,461	645,502
		3,507,629	3,350,641
Current liabilities			
Trade payables	17	688,454	536,654
Other payables and accruals		629,618	776,758
Current income tax liabilities		45,484	177,922
Bank borrowings	18	87,249	65,153
Customer prepayments and deposits		670,461	757,989
Deferred income		224,950	204,630
Mobile licence fee liabilities		154,892	176,948
		2,501,108	2,696,054
Net current assets		1,006,521	654,587
Total assets less current liabilities		7,032,863	6,932,088
Non-current liabilities			
Customer prepayments and deposits		250,543	316,221
Asset retirement obligations		61,046	62,132
Bank and other borrowings	18	2,722,236	2,529,646
Mobile licence fee liabilities		495,812	615,120
Deferred income tax liabilities		368,822	360,991
		3,898,459	3,884,110
Net assets		3,134,404	3,047,978

CONDENSED CONSOLIDATED BALANCE SHEET

As at 31 December 2013 and 30 June 2013
(Expressed in Hong Kong dollars)

	Note	Unaudited 31 December 2013 $000	Audited 30 June 2013 $000
Capital and reserves			
Share capital	19	**103,804**	103,794
Reserves		**2,971,395**	2,882,121
Total equity attributable to equity holders of the Company		**3,075,199**	2,985,915
Non-controlling interests		**59,205**	62,063
Total equity		**3,134,404**	3,047,978

The notes on pages 22 to 40 are an integral part of these condensed consolidated Interim Financial Statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 31 December 2013
(Expressed in Hong Kong dollars)

	Unaudited six months ended 31 December	
	2013	2012
	$000	$000
Net cash generated from operating activities	**1,131,198**	1,976,845
Net cash used in investing activities	**(667,082)**	(1,523,323)
Net cash used in financing activities	**(17,447)**	(214,851)
Net increase in cash and cash equivalents	**446,669**	238,671
Effect of foreign exchange rate change	**290**	(62)
Cash and cash equivalents at 1 July	**645,502**	1,268,400
Cash and cash equivalents at 31 December	**1,092,461**	1,507,009

The notes on pages 22 to 40 are an integral part of these condensed consolidated Interim Financial Statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2013
(Expressed in Hong Kong dollars)

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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2013
(Expressed in Hong Kong dollars)

	Unaudited										
	Attributable to equity holders of the Company										
	Share capital $000	Share premium $000	Revaluation reserve $000	Capital redemption reserve $000	Contributed surplus $000	Employee share-based compensation reserve $000	Exchange reserve $000	Retained profits $000	Total $000	Non-controlling interests $000	Total $000
At 1 July 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
Comprehensive income											
Profit for the period	–	–	–	–	–	–	–	311,299	311,299	(2,858)	308,441
Other comprehensive income											
Fair value gain on financial investments, net of tax	–	–	964	–	–	–	–	–	964	–	964
Currency translation differences	–	–	–	–	–	–	484	–	484	–	484
Total comprehensive income for the period ended 31 December 2013	–	–	964	–	–	–	484	311,299	312,747	(2,858)	309,889
Transactions with owners											
Issue of shares (note 19(a))	1	65	–	–	–	(12)	–	–	54	–	54
Share-based payments	–	–	–	–	–	3,980	–	–	3,980	–	3,980
Payment of 2013 final dividend	9	841	–	–	(228,347)	–	–	–	(227,497)	–	(227,497)
Total transactions with owners	10	906	–	–	(228,347)	3,968	–	–	(223,463)	–	(223,463)
At 31 December 2013	103,804	178,356	2,345	10,260	78,910	73,284	8,736	2,619,504	3,075,199	59,205	3,134,404

The notes on pages 22 to 40 are an integral part of these condensed consolidated Interim Financial Statements.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1 General information

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

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

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

These unaudited condensed consolidated interim financial information ("Interim Financial Statements") are presented in Hong Kong dollars, unless otherwise stated. These Interim Financial Statements have been approved for issue by the board of directors on 13 February 2014.

2 Basis of preparation

These Interim Financial Statements for the six months ended 31 December 2013 have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim Financial Reporting". These Interim Financial Statements should be read in conjunction with the annual financial statements for the year ended 30 June 2013, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The preparation of Interim Financial Statements in conformity with HKFRSs 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 Interim Financial Statements, are disclosed in note 4.

3 Accounting policies

Except as described below, the accounting policies adopted are consistent with those of the annual financial statements for the year ended 30 June 2013, as described in those annual financial statements.

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

The following new and revised standards and amendments to standards are mandatory and relevant to the Group for the financial year beginning on 1 July 2013.

Annual Improvements 2011	Annual Improvements 2009-2011 Cycle
HKAS 27 (Revised 2011)	Separate Financial Statements
HKAS 28 (Revised 2011)	Investments in Associates and Joint Ventures
HKFRS 7 (Amendment)	Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities
HKFRS 10	Consolidated Financial Statements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 10, HKFRS 11 and HKFRS 12 (Amendments)	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
HKFRS 13	Fair Value Measurement

(Expressed in Hong Kong dollars)

3 Accounting policies *(continued)*

(a) New and revised standards and amendments to standards relevant to and adopted by the Group *(continued)*

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

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

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

The following new standards, amendments to standards and interpretations to existing standards have been issued but are not yet effective for the financial year beginning 1 July 2013 and have not been early adopted.

HKAS 32 (Amendment)	Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities[1]
HKAS 36 (Amendment)	Recoverable Amount Disclosures for Non-Financial Assets[1]
HKAS 39 (Amendment)	Financial Instruments: Recognition and Measurement – Novation of Derivatives[1]
HKFRS 9	Financial Instruments[2]
HKFRS 7 and HKFRS 9 (Amendments)	Mandatory Effective Date and Transition Disclosures[2]
HKFRS 10, HKFRS12 and HKAS 27 (Amendments)	Consolidation for Investment Entities[1]
HK(IFRIC) – Int 21	Levies[1]

1 Effective for annual periods beginning on or after 1 January 2014.
2 Effective for annual periods beginning on or after 1 January 2015.

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.

4 Critical accounting estimates and judgements *(continued)*

(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) 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.

(d) 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. In assessing the Group's current and deferred taxation, the Group has exercised judgement in determining the taxability of certain income and deductibility of certain payments. 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

(a) Financial risk factors

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

The Interim Financial Statements do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 30 June 2013.

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

(b) Fair value estimation

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

The following table presents the Group's assets that are measured at fair value at 31 December 2013.

	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Assets				
Available-for-sale financial assets (note 16)				
At 31 December 2013 (Unaudited)	**–**	**4,243**	**–**	**4,243**
At 30 June 2013 (Audited)	–	3,279	–	3,279

There were no transfers between level 1 and level 2 during the period.

6 Segment information

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

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.

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

(a) Segment results

	Unaudited six months ended 31 December 2013			
	Hong Kong $000	**Macau $000**	**Elimination $000**	**Consolidated $000**
Revenues	**6,441,655**	**279,005**	**(189,721)**	**6,530,939**
EBITDA	**1,324,160**	**23,400**	**–**	**1,347,560**
Depreciation, amortisation and gain on disposal	**(884,961)**	**(32,732)**	**996**	**(916,697)**
Operating profit/(loss)	**439,199**	**(9,332)**	**996**	**430,863**
Finance income				**28,090**
Finance costs				**(94,499)**
Profit before income tax				**364,454**

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

6 Segment information *(continued)*

(b) Segment assets/(liabilities)

	At 31 December 2013 (Unaudited)			
	Hong Kong $000	**Macau $000**	**Unallocated $000**	**Consolidated $000**
Segment assets	**9,108,280**	**414,255**	**11,436**	**9,533,971**
Segment liabilities	**(5,838,797)**	**(146,464)**	**(414,306)**	**(6,399,567)**

	At 30 June 2013 (Audited)			
	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)

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

7 Finance income

	Unaudited six months ended 31 December	
	2013 $000	2012 $000
Interest income from listed debt securities	**–**	443
Interest income from bank deposits	**27,774**	6,125
Accretion income	**316**	321
	28,090	6,889

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

8 Finance costs

	Unaudited six months ended 31 December	
	2013	2012
	$000	$000
Interest expense		
Bank and other borrowings wholly repayable within 5 years	**4,531**	–
Bank and other borrowings not wholly repayable within 5 years	**41,939**	2,411
Bank charges for credit card instalment	**5,062**	15,328
Accretion expenses		
Mobile licence fee liabilities	**41,856**	46,861
Asset retirement obligations	**1,111**	1,297
	94,499	65,897

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

9 Profit before income tax

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

	Unaudited six months ended 31 December	
	2013	2012
	$000	$000
Charging:		
Cost of services provided	**238,945**	235,821
Operating lease rentals for land and buildings, transmission sites and leased lines	**491,934**	431,807
Impairment loss of trade receivables (note 15)	**7,910**	8,306
Impairment loss of inventories	**14,763**	10,880
Loss on disposal of fixed assets	**–**	1,325
Share-based payments	**3,980**	10,773
Crediting:		
Net exchange gain	**15,058**	644
Gain on disposal of fixed assets	**8,936**	–

10 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 period. Income tax on overseas profits has been calculated on the estimated assessable profit for the period at the tax rate prevailing in the countries in which the Group operates.

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

	Unaudited six months ended 31 December	
	2013	2012
	$000	$000
Current income tax		
Hong Kong profits tax	**47,301**	55,954
Overseas tax	**547**	3,865
Over-provision in prior year tax charge		
Hong Kong profits tax	**(25)**	–
	47,823	59,819
Deferred income tax	**8,190**	30,622
	56,013	90,441

Income tax expense is recognised based on management's estimate of the weighted average annual income tax rate expected for the full financial year.

11 Earnings per share

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue.

	Unaudited six months ended 31 December	
	2013	2012
Profit attributable to equity holders of the Company ($000)	**311,299**	459,399
Weighted average number of ordinary shares in issue	**1,037,949,205**	1,037,049,769
Basic earnings per share (cents per share)	**30.0**	44.3

11 Earnings per share *(continued)*

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

	Unaudited six months ended 31 December	
	2013	2012
Profit attributable to equity holders of the Company ($000)	**311,299**	459,399
Weighted average number of ordinary shares in issue	**1,037,949,205**	1,037,049,769
Adjustment for dilutive share options	**225,322**	4,712,434
Weighted average number of ordinary shares for diluted earnings per share	**1,038,174,527**	1,041,762,203
Diluted earnings per share (cents per share)	**30.0**	44.1

12 Dividends

(a) In respect of the period

	Unaudited six months ended 31 December	
	2013	2012
	$000	$000
Interim dividend declared of 18 cents (2012: 44 cents) per share	**186,726**	456,506

At a meeting held on 13 February 2014, the directors declared an interim dividend of 18 cents per share for the year ending 30 June 2014. The interim dividend declared is not reflected as a dividend payable in these Interim Financial Statements, but will be reflected as an appropriation of retained profits for the year ending 30 June 2014.

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

12 Dividends *(continued)*

(b) Attributable to prior year paid in the period

	Unaudited six months ended 31 December	
	2013	2012
	$000	$000
Final dividend of 22 cents (2012: 53 cents) per share	**228,347**	549,714

13 Fixed assets

	Unaudited $000
Opening net book amount at 1 July 2013	**3,185,637**
Additions	**334,821**
Disposals	**(10,658)**
Exchange differences	**212**
Depreciation	**(336,002)**
Closing net book amount at 31 December 2013	**3,174,010**
Opening net book amount at 1 July 2012	2,529,922
Additions	637,461
Disposals	(3,426)
Exchange differences	52
Depreciation	(269,558)
Closing net book amount at 31 December 2012	2,894,451

During the six months ended 31 December 2013, major fixed assets acquired by the Group included network and testing equipment, including network under construction amounting to $291,496,000.

At 31 December 2013, buildings with carrying amount of $88,593,000 (30 June 2013: $89,812,000) were pledged as security for bank borrowings of the Group (note 18).

14 Intangible assets

	Unaudited Handset subsidies $000	Unaudited Mobile licence fees $000	Unaudited Total $000
Opening net book amount at 1 July 2013	**1,160,789**	**1,828,431**	**2,989,220**
Additions	**334,553**	**–**	**334,553**
Amortisation	**(517,558)**	**(71,915)**	**(589,473)**
Disposal	**(6,715)**	**–**	**(6,715)**
Closing net book amount at 31 December 2013	**971,069**	**1,756,516**	**2,727,585**
Opening net book amount at 1 July 2012	1,269,398	1,332,262	2,601,660
Additions	764,930	–	764,930
Amortisation	(578,421)	(71,915)	(650,336)
Disposal	(25,825)	–	(25,825)
Closing net book amount at 31 December 2012	1,430,082	1,260,347	2,690,429

15 Trade and other receivables

	Unaudited 31 December 2013 $000	Audited 30 June 2013 $000
Trade receivables	**422,490**	415,570
Less: provision for impairment of trade receivables	**(13,987)**	(16,693)
Trade receivables – net	**408,503**	398,877
Deposits and prepayments	**260,142**	247,770
Other receivables	**109,120**	167,100
	777,765	813,747
Less: deposits and prepayments included under non-current assets	**(102,450)**	(79,786)
Current portion	**675,315**	733,961

15 Trade and other receivables *(continued)*

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

	Unaudited 31 December 2013 $000	Audited 30 June 2013 $000
Current to 30 days	**385,442**	372,882
31 – 60 days	**4,285**	9,719
61 – 90 days	**3,094**	1,849
Over 90 days	**15,682**	14,427
	408,503	398,877

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 $7,910,000 (2012: $8,306,000) for the impairment of its trade receivables during the six months ended 31 December 2013. The loss has been included in "other operating expenses" in the condensed consolidated profit and loss account.

16 Financial investments

	Unaudited 31 December 2013 $000	Audited 30 June 2013 $000
Available-for-sale financial assets	**4,243**	3,279

Movement of available-for-sale financial assets is as follows:

	Unaudited $000
At 1 July 2013	**3,279**
Change in fair value	**964**
At 31 December 2013	**4,243**

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

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

17 Trade payables

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

	Unaudited 31 December 2013 $000	Audited 30 June 2013 $000
Current to 30 days	559,952	288,925
31 – 60 days	82,783	142,243
61 – 90 days	25,054	38,419
Over 90 days	20,665	67,067
	688,454	536,654

18 Bank and other borrowings

	Unaudited 31 December 2013 $000	Audited 30 June 2013 $000
Secured bank borrowings	66,000	66,000
Unsecured bank borrowings	1,222,018	1,008,564
Guaranteed notes (a)	1,521,467	1,520,235
	2,809,485	2,594,799
Less: Unsecured bank borrowings included under current liabilities	(87,249)	(65,153)
Non-current portion	2,722,236	2,529,646

(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 HKSE. 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:

	Unaudited 31 December 2013 $000	Audited 30 June 2013 $000
Between 2 and 5 years	871,118	752,326
Over 5 years	1,851,118	1,777,320
	2,722,236	2,529,646

18 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 period end date for similar borrowings and the fair values of guaranteed notes as calculated using the market price are as follows:

	Unaudited 31 December 2013 $000	Audited 30 June 2013 $000
Secured bank borrowings	**66,000**	66,000
Unsecured bank borrowings	**1,095,000**	994,758
Guaranteed notes	**1,307,598**	1,346,482
	2,468,598	2,407,240

At 31 December 2013, bank borrowings of $66,000,000 are secured by certain buildings of the Group (note 13) (30 June 2013: same).

Movements in bank and other borrowings are analysed as follows:

	Unaudited $000
Six months ended 31 December 2013	
Opening amount as at 1 July 2013	**2,594,799**
Drawdown	**261,492**
Repayment	**(38,818)**
Payment of transaction costs	**(7,988)**
Closing amount as at 31 December 2013	**2,809,485**

	Unaudited $000
Six months ended 31 December 2012	
Opening amount as at 1 July 2012	66,000
Drawdown	352,481
Payment of transaction costs	(29,067)
Closing amount as at 31 December 2012	389,414

19 Share capital

	Unaudited	
	Shares of $0.1 each	$000
Authorised		
At 30 June 2013 and 31 December 2013	**2,000,000,000**	**200,000**
Issued and fully paid		
At 1 July 2013	**1,037,941,244**	**103,794**
Issue of new shares upon exercise of share options (a)	**12,000**	**1**
Issue of shares in lieu of cash dividends (b)	**88,339**	**9**
At 31 December 2013	**1,038,041,583**	**103,804**

(a) During the six months ended 31 December 2013, options were exercised to subscribe for 12,000 shares in the Company at a consideration of $54,000, of which $1,000 was credited to share capital and the balance of $53,000 was credited to the share premium account. In respect of the options exercised, an amount of $12,000 was reversed from the employee share-based compensation reserve and credited to the share premium account.

(b) On 11 September 2013, the board of directors declared a final dividend of 22 cents per share for the year ended 30 June 2013. The shareholders were provided with an option to receive the final dividend in form of scrip dividend. On 17 December 2013, 88,339 shares were issued at $9.624 per share in respect of the final dividend.

20 Share option scheme

(a) Movements in share options

	Unaudited	
	Average exercise price per share	Numbers of share options
At 1 July 2013	**$12.74**	**33,240,500**
Exercised	**$4.50**	**(12,000)**
Cancelled or lapsed	**$12.78**	**(350,000)**
At 31 December 2013	**$12.74**	**32,878,500**

At 31 December 2013, 21,785,500 share options were exercisable with average exercise price of $12.67 per share.

20 Share option scheme *(continued)*

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

Date of grant	Exercise period	Exercise price per share	**Unaudited 31 December 2013 Number of share options**	Audited 30 June 2013 Number of share options
5 February 2004	5 February 2005 to 4 February 2014	$4.50	**386,000**	398,000
13 June 2011	13 June 2012 to 12 June 2016	$12.78	**31,075,000**	31,425,000
30 September 2011	30 September 2012 to 29 September 2016	$13.12	**315,000**	315,000
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
			32,878,500	33,240,500

(c) Details of share options exercised

Share options exercised during the period resulted in 12,000 (six months ended 31 December 2012: 475,000) shares being issued. The related weighted average share price at the time of exercise was $7.66 (six months ended 31 December 2012: $15.26) per share.

21 Commitments and contingent liabilities

(a) Capital commitments

	Unaudited 31 December 2013 $000	Audited 30 June 2013 $000
Fixed assets		
Contracted for	**193,749**	131,637
Authorised but not contracted for	**498,765**	1,018,481
	692,514	1,150,118

(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.

21 Commitments and contingent liabilities *(continued)*

(b) Operating lease commitments *(continued)*

At 31 December 2013, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	Unaudited 31 December 2013 $000	Audited 30 June 2013 $000
Land and buildings and transmission sites		
No later than 1 year	**527,474**	543,150
Later than 1 year and no later than 5 years	**380,626**	410,964
Later than 5 years	**13,941**	11
	922,041	954,125
Leased lines		
No later than 1 year	**185,487**	164,082
Later than 1 year and no later than 5 years	**759,121**	726,967
Later than 5 years	**749,628**	855,055
	1,694,236	1,746,104
Equipment		
No later than 1 year	**3,999**	4,000
Later than 1 year and no later than 5 years	**1,932**	3,933
	5,931	7,933

(c) Performance bonds

	Unaudited 31 December 2013 $000	Audited 30 June 2013 $000
Hong Kong	**523,357**	644,227
Macau	**3,883**	3,883
	527,240	648,110

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.

21 Commitments and contingent liabilities *(continued)*

(d) At 31 December 2013, the Company and certain of its subsidiaries have provided corporate guarantee for general banking facilities granted to a wholly owned subsidiary of US$145,495,000 (approximately $1,128,270,000) and $500,000,000, of which US$105,554,000 (approximately $818,540,000) and $500,000,000 of the banking facilities were utilised by the subsidiary.

22 Related party transactions

The Group is controlled by Cellular 8 Holdings Limited, which owns 63.70% of the Company's shares as at 31 December 2013. The remaining 36.30% of the shares are widely held, of which 2.73% is held by another subsidiary of Sun Hung Kai Properties Limited ("SHKP"). The ultimate holding company of the Group is SHKP, a company incorporated in Hong Kong.

(a) During the six months ended 31 December 2013, the Group had significant transactions with certain fellow subsidiaries and associates of SHKP in the ordinary course of business as set out below. All related party transactions are carried out in accordance with the terms of the relevant agreements governing the transactions.

	Unaudited six months ended 31 December	
	2013	2012
	$000	$000
Operating lease rentals for land and buildings and transmission sites (i)	**51,705**	49,597
Insurance expenses (ii)	**4,336**	3,196

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

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

For the six months ended 31 December 2013, rental and licence fees paid and payable to subsidiaries and associated companies of SHKP totalled $51,705,000 (2012: $49,597,000).

(ii) Insurance expenses

Sun Hung Kai Properties Insurance Limited, a wholly owned subsidiary of SHKP, provides general insurance services to the Group. For the six months ended 31 December 2013, insurance premiums paid and payable were $4,336,000 (2012: $3,196,000).

22 Related party transactions *(continued)*

(b) At 31 December 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:

	Unaudited six months ended 31 December	
	2013	2012
	$000	$000
Salaries, bonuses and other short-term employee benefits	**25,533**	28,118
Share-based payments	**2,025**	5,059
	27,558	33,177

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

	Unaudited 31 December 2013 $000	Audited 30 June 2013 $000
Trade receivables (note 15)	**1,172**	1,066
Deposits and prepayments (note 15)	**6,496**	7,123
Other receivables (note 15)	**324**	385
Trade payables (note 17)	**1,706**	919
Other payables and accruals	**8,348**	4,005

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

(Financial figures are expressed in Hong Kong dollars)

Interim dividend

The Directors declared an interim dividend of 18 cents per share for the six months ended 31 December 2013 (2012: 44 cents). The interim dividend will be payable in cash, with an option to receive new and fully paid shares in lieu of cash under a scrip dividend scheme (the "Scrip Dividend Scheme"). The Directors may, after having made enquiry regarding the legal restrictions under the laws of the relevant place and the requirements of the relevant regulatory body or stock exchange in relation to the Scrip Dividend Scheme, exclude any shareholder outside Hong Kong from the Scrip Dividend Scheme provided that the Directors consider such exclusion to be necessary or expedient on account either of the legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place. Such shareholders will receive the interim dividend in cash. A circular containing details of the Scrip Dividend Scheme and the relevant election form are expected to be sent to shareholders on or about Tuesday, 11 March 2014.

The Scrip Dividend Scheme is conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of and permission to deal in the new shares to be issued under the Scrip Dividend Scheme.

The interim dividend will be distributed, and the share certificates issued under the Scrip Dividend Scheme will be sent on or about Wednesday, 9 April 2014 to shareholders whose names appear on the Register of Members of the Company on Friday, 28 February 2014.

Closure of register of members

The record date for entitlement to the interim dividend is Friday, 28 February 2014. For determining the entitlement to the interim dividend, the Register of Members of the Company will be closed for one day on Friday, 28 February 2014 during which no transfer of shares will be effected. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Thursday, 27 February 2014.

Directors' and chief executive's interests

As at 31 December 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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

(Financial figures are expressed in Hong Kong dollars)

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".

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

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

	Number of shares held					
Name of Director	Personal interests (held as beneficial owner)	Other interests	Total	Number of underlying shares held under equity derivatives	Total	% of shares in issue
Kwok Ping-luen, Raymond	81,142	444,418,279[1]	444,499,421	100,000[2]	444,599,421	16.44
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:

			Number of share options				
Date of grant	Exercise price $	Exercise period*	Outstanding at 1 July 2013	Granted during the period	Exercised during the period	Cancelled/ Lapsed during the period	Outstanding at 31 December 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 31 December 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.

OTHER INFORMATION

(Financial figures are expressed in Hong Kong dollars)

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

Movements of the share options granted to the participants pursuant to the Old Scheme and the New Scheme during the six months ended 31 December 2013 are as follows:

				Number of share options				
Grantee	**Date of grant**	**Exercise price** $	**Exercise period**[1]	**Outstanding at 1 July 2013**	**Granted during the period**	**Exercised during the period**	**Cancelled/ Lapsed during the period**	**Outstanding at 31 December 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	398,000	–	(12,000)[2]	–	386,000
	13 June 2011	12.78	13 June 2012 to 12 June 2016	19,425,000	–	–	(350,000)	19,075,000
	30 September 2011	13.12	30 September 2012 to 29 September 2016	315,000	–	–	–	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 was $8.10 per share.

(Financial figures are expressed in Hong Kong dollars)

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

Discloseable interests and short positions of shareholders under the SFO

As at 31 December 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	66.43%

Note:

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.

Save as disclosed above, as at 31 December 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.

Purchase, sale or redemption of shares

At no time during the six months ended 31 December 2013 was there any purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's shares.

Review of interim results

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

The Audit Committee held a meeting on 10 February 2014 and reviewed the interim financial statements as well as the internal audit reports of the Group for the six months ended 31 December 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 disclosures of data and explanations shown in the financial statements. The Committee was also satisfied with the internal control measures adopted by the Group.

OTHER INFORMATION

(Financial figures are expressed in Hong Kong dollars)

The interim financial statements for the six months ended 31 December 2013 have not been audited but have been reviewed by the Company's external auditor.

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

Corporate governance

The Company is committed to building and maintaining high standards of corporate governance. Throughout the six months ended 31 December 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 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.

Compliance with model code for securities transactions

The Group adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" contained in Appendix 10 of the Listing Rules as the code of conduct regarding Directors' transactions in the securities of the Company. Similar code has also been adopted for relevant employees, who may be in possession of unpublished price-sensitive information, in dealing with the Company's securities. Upon specific enquiry, each Director had confirmed that during the six months ended 31 December 2013, they had fully complied with the required standard set out in the said model code and there was no event of non-compliance.

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

Hong Kong, 13 February 2014

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