SmarTone Telecommunications Holdings Limited

Stock Code : 0315

INTERIM REPORT 2014/15

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 2014.

Financial Highlights

In the period under review, the Company results recovered from the low in second half FY14. Total revenue increased to $8,673 million, a 29% increase over the previous half, and a 33% increase compared to the same period last year. Service revenue increased 4% on the previous half year, whilst still down 2% on the same period last year. Revenue from handset sales increased significantly, generating higher handset profit. In line with the recovery in revenue, EBITDA increased to $1,469 million, 19% higher on the previous half and 11% compared to the same period last year. Net profit more than doubled over the previous half and increased 50% compared to the same period last year, to $466 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 27 cents per share, an increase of 50% compared to the same period last year and 108% over the previous half. Shareholders have the option to receive new and fully paid shares in lieu of cash under a scrip dividend scheme.

Business Review

Reflecting the recovery in the first half of FY15, group service revenue increased 4% on the previous six months while still 2% down on the same period last year. The growth in service revenue came from customers upgrading to higher tier plans and increased customer numbers in both postpaid and prepaid.

Over the period, there has been a migration of customers from handset-bundled plans to SIM-only plans, resulting in lower ARPU and service revenue. This had little effect on profitability as the lower revenue was largely offset by a corresponding reduction in handset subsidy amortisation. Group service revenue, net of handset subsidy amortisation, increased 7% over the previous six months and 4% on the same period last year.

Customer number increased 4% to 1.95 million, largely from intake of 3G speed-capped plan customers. Average mobile postpaid churn has been stable at 1.0%. Postpaid ARPU stands at $293, incorporating the dilutive effect of the uptake of the lower-priced 3G speed-capped plan. Excluding 3G speed-capped plan customers, postpaid ARPU increased 3% over the previous half and 1% compared to the same period last year.

The Company has largely completed the refarming of its 2G 900MHz spectrum for 4G LTE, providing additional mobile broadband capacity. Use of this low band frequency has further improved indoor 4G LTE coverage. Rollout of 4G LTE at 2,600MHz has commenced at high traffic locations, and together with the implementation of LTE-Advanced, will provide further improvements in network performance and capacity.

CHAIRMAN'S STATEMENT

(Financial figures are expressed in Hong Kong dollars)

SmarTone acquired additional 2,100MHz spectrum and renewed one-third of its existing 2,100MHz spectrum at close to the reserve price at the Government auction in December. It also renewed its remaining 2,100MHz spectrum at the Government-mandated minimum price. The renewal of the existing 2,100MHz spectrum at the new spectrum utilisation fee represents a 36% increase from existing fee, and together with the additional block of spectrum acquired, will represent an increase in spectrum cost of approximately $50 million per annum. SmarTone is committed to invest prudently to enhance performance and customer experience, and the additional 2,100MHz spectrum acquired will provide greater flexibility in refarming and capacity expansion in the future.

SmarTone's focus on quality and innovation together with its exclusive proprietary services has helped enhance customer satisfaction, stimulate demand and grow service revenue. Rising costs from spectrum–related costs, increasing customer data usage, rental and general inflation necessitate vigorous cost control, and further efforts will be directed to this end. This includes taking advantage of social media to better engage and communicate with both customers and prospects in a more cost effective manner, leveraging on SmarTone's branded Facebook page with over 300,000 fans, one of the largest in Hong Kong across all categories and brands.

Prospects

The Company will continue to focus on network performance, quality customer care and exclusive services in order to deliver an outstanding experience and meaningful value to customers. This enables SmarTone to differentiate and sustainably increase its competitiveness in the market. Continuing efforts will be made to upgrade customers and increase customer adoption of services to drive revenue growth, while keeping costs under control.

With a strong brand and a healthy financial position, the Company is well-placed to face industry challenges and bring value to both customers and shareholders in the long term.

Appreciation

During the period under review, Mr. Cheung Wing-yui and Mr. Fung Yuk-lun, Allen, both being Non-Executive Directors, have been appointed as Deputy Chairmen of SmarTone. I would like to congratulate both Mr. Cheung and Mr. Fung on their new positions.

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, 17 February 2015

Review of financial results

The Group experienced a recovery from the low in the second half of 2013/14.

Compared with the second half of 2013/14, Group's revenue increased by 29% to $8,673 million (second half of 2013/14: $6,713 million), comprising a 45% increase in handset and accessory sales and a 4% increase in service revenue. EBITDA rose by 19% to $1,469 million (second half of 2013/14: $1,234 million). Profit attributable to equity holders of the Company rose by 106% to $466 million (second half of 2013/14: $226 million).

Compared with the same period last year, Group's revenue increased by 33% to $8,673 million (first half of 2013/14: $6,531 million), comprising a 58% increase in handset and accessory sales, partly offset by a 2% decline in service revenue. EBITDA rose by 11% to $1,469 million (first half of 2013/14: $1,329 million). Profit attributable to equity holders of the Company rose by 50% to $466 million (first half of 2013/14: $311 million).

Revenues rose by $2,142 million or 33% to $8,673 million when compared with $6,531 million for the first half of 2013/14, and rose by $1,959 million or 29% when compared with $6,713 million for the second half of 2013/14.

- Service revenue declined by $43 million or 2% to $2,745 million (first half of 2013/14: $2,789 million) driven by lower local mobile service revenue and roaming revenue. Local service revenue declined by 2% amidst continuing customers' migration from handset-bundled plans to SIM-only price plans in the past 12 months, partly offset by revenue increase from growth in customer numbers. Such decrease in local service revenue was fully offset by the $127 million decline in handset subsidy amortisation. As a result, local service revenue net of handset subsidy amortisation actually increased by 5%.

  Compared with the second half of 2013/14, local service revenue rose by 4% amid migration to new tariffs by mid and high tier customers and higher customer numbers. Handset subsidy amortisation fell by $34 million. As a result, local service revenue net of handset subsidy amortisation was 7% higher than the second half of 2013/14.

  The drop in roaming revenue as compared with first half of 2013/14 was due to the impact of continuing global downward trend in inter-operator tariffs as well as reduced voice and SMS roaming traffic amidst cannibalisation by over-the-top applications. Increase in roaming revenue as compared with the second half of 2013/14 was mainly due to seasonal factors.

  The Group achieved a 4% year-on-year growth in its Hong Kong customer base. Fully blended ARPU decreased by 6% to $229 (first half of 2013/14: $243) 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. Compared with the second half of 2013/14, fully blended ARPU rose by 2% to $229 (second half of 2013/14: $226) amid higher prepaid ARPU and migration to new tariffs by mid and high tier customers, offset by continuing customers' migration to SIM-only plans and dilution from 3G speed-capped plan.

- Handset and accessory sales rose by $2,185 million or 58% to $5,927 million when compared with $3,742 million for the first half of 2013/14 and rose by $1,848 million or 45% when compared with $4,080 million for the second half of 2013/14. Both sales volume and average unit selling price increased.

Cost of inventories sold rose by $1,974 million or 53% to $5,675 million when compared with $3,702 million for the first half of 2013/14 and rose by $1,634 million or 40% as compared with $4,041 million for the second half of 2013/14. Such increase was broadly in line with the increase in handset and accessory sales.

Staff costs rose by $14 million or 4% to $356 million (first half of 2013/14: $342 million) mainly amid higher bonus provision and annual salary adjustment. Compared with the second half of 2013/14, staff costs rose by $19 million or 6% (second half of 2013/14: $337 million) mainly amid higher bonus provision. Excluding bonus provision, staff costs were actually lower.

Other operating expenses rose by $14 million or 1% to $1,172 million (first half of 2013/14: $1,158 million). Increase in network operating costs, rental and utilities and general and administrative expenses were partly offset by lower cost of services provided. Compared with the second half of 2013/14, other operating expenses rose by $71 million or 6% to $1,172 million (second half of 2013/14: $1,102 million). Increase in sales and marketing expenses and general administrative expenses due to launch of a popular handset model were the main reasons for the increase.

Depreciation and loss on disposal increased by $33 million or 10% to $361 million when compared with $327 million for the first half of 2013/14 and rose by $18 million or 5% when compared with $342 million for the second half of 2013/14. Such increase arose from higher capital expenditure incurred in the past 2 years for the rollout of 4G LTE network as well as general capacity enhancement to cater for increasing data usage by customers.

Handset subsidy amortisation fell by $127 million or 25% to $391 million when compared with $518 million for the first half of 2013/14 and fell by $34 million or 8% when compared with $425 million for the second half of 2013/14. Such decline was due to continuing customers' migration from handset-bundled plans to SIM-only plans in the past 12 months.

Mobile license fee amortisation rose by $23 million or 32% to $95 million as compared with both first half and second half of 2013/14 (first half of 2013/14: $72 million; second half of 2013/14: $72 million) due to the commencement of amortisation of licence fee for 2,600 MHz spectrum during the period under review.

Finance income rose slightly by $4 million to $32 million when compared with $28 million for the first half of 2013/14 and $3 million when compared with $29 million for the second half of 2013/14 amid higher average balance of bank deposits, partly offset by lower return on surplus cash.

Finance costs excluding exchange gain increased slightly by $2 million to $96 million (first half of 2013/14: $94 million) driven by higher bank borrowings and handset instalment charges, partly offset by lower accretion expenses on mobile license fee liabilities.

Compared with the second half of 2013/14, finance costs excluding exchange gain increased by $7 million (second half of 2013/14: $89 million) driven by higher handset instalment charges due to significantly higher sales of a popular handset model, partly offset by lower accretion expenses on mobile license fee liabilities.

Exchange gain related to cash, bank deposits and borrowings amounted to $5 million (first half of 2013/14: $18 million). Exchange loss related to cash, bank deposits and borrowings for the second half of 2013/14 amounted to $36 million.

Income tax expense amounted to $96 million (first half of 2013/14: $56 million), reflecting an effective tax rate of 17.1% (first half of 2013/14: 15.4%). Excluding the impact of non-taxable items, effective tax rate would have been 18.3% (first half of 2013/14: 17.6%).

Effective tax rate for the second half of 2013/14 was 25%, driven by an income tax provision of $22 million recorded in the second half of 2013/14, in light of the uncertainty of the tax deductibility of certain upfront payments for spectrum utilisation fees. Excluding this tax provision, effective tax rate for the second half of 2013/14 would have been 17.6%.

Macau operations turned from an operating loss of $9 million for the first half of 2013/14 to an operating profit of $4 million for the first half of 2014/15 amid higher contribution from handset and roaming business.

Macau operations improved from an operating loss of $7 million for the second half of 2013/14 to an operating profit of $4 million for the first half of 2014/15 amid higher contribution from handset 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 2014, the Group recorded share capital of $105 million, total equity of $3,597 million and total borrowings of $3,003 million.

The Group's cash resources remained robust with cash and bank balances (including pledged bank deposits and short-term bank deposits) of $3,304 million as at 31 December 2014 (30 June 2014: $3,165 million).

As at 31 December 2014, the Group had bank and other borrowings of $3,003 million (30 June 2014: $2,840 million) of which 81% were denominated in United States dollars and were arranged on a fixed rate basis. Net cash, after deducting bank and other borrowings, amounted to $301 million as at 31 December 2014 (30 June 2014: $324 million). Net cash to EBITDA (annualised) was 10% as at 31 December 2014 (30 June 2014: 13%).

The Group had net cash generated from operating activities and interest received of $1,441 million and $22 million respectively during the period ended 31 December 2014. Excluding purchase of tax reserve certificate of $252 million during the period, net cash generated from operating activities would have been $1,694 million. The Group's major outflows of funds during the period were payments for tax reserve certificate, additions of handset subsidies, purchase of fixed assets, mobile licence fees and dividends.

The directors are of the opinion that the Group can fund its capital expenditures and working capital requirements for the financial year ending 30 June 2015 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 predominantly maintained in Hong Kong dollars and Renminbi.

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

Charges on assets

As at 31 December 2014, certain bank deposits of the Group, in aggregate amount of $6 million (30 June 2014: $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 $86 million as at 31 December 2014 (30 June 2014: $87 million).

Interest rate exposure

The Group is exposed to interest rate changes that affect bank borrowings denominated in Hong Kong dollars which accounted for 19% of the Group's total borrowings at 31 December 2014. The remaining 81% 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 2014 under these performance bonds was $396 million (30 June 2014: $527 million).

During the six months ended 31 December 2014, a bank issued a standby letter of credit of $1,306,800,000 to a subsidiary of the Company in favor of the Office of Communications Authority ("OFCA") regarding the acceptance of the offer of the right of first refusal for the re-assignment of one of the spectrum.

A bank also issued a standby letter of credit with amount of $960,000,000 to a subsidiary of the Company in favor of OFCA for submission of a deposit to participate in the auction for one of the spectrum. This standby letter of credit will be cancelled and replaced by another letter of credit of $980,400,000, being the final amount of spectrum utilisation fees determined during the auction, to be issued in March 2015.

Employees and share option scheme

The Group had 2,200 full-time employees as at 31 December 2014 (30 June 2014: 2,137), with the majority of them based in Hong Kong. Total staff costs were $356 million for the period ended 31 December 2014 (first half of 2013/14: $342 million).

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

The Group has share option schemes under which the Company may grant options to participants, including directors and employees, to subscribe for shares of the Company. During the period under review, no new share options were granted; 52,500 share options were exercised; and 600,000 share options were cancelled or lapsed. 31,690,000 (30 June 2014: 32,342,500) share options were outstanding as at 31 December 2014.

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 the chairman and an executive director 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 2014, 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.

CHEUNG Wing-yui *Deputy Chairman & 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 a director of The Community Chest of Hong Kong, co-deputy chairman of Sponsorship & Development Fund Committee and court member of The Open University of Hong Kong and a member of the Labour and Welfare Bureau's Lump Sum Grant Steering Committee, Honorary Council Member of The Hong Kong Institute of Directors Limited. Mr. Cheung was the deputy chairman of The Open University of Hong Kong, 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 2014, 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.

FUNG Yuk-lun, Allen *Deputy Chairman & 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 vice chairman and non-executive director of SUNeVision Holdings Ltd., and a non-executive director of Transport International Holdings Limited and Roadshow Holdings Limited. He is also a director of certain SHKP subsidiaries.

Mr. Fung joined McKinsey and Company ("McKinsey"), a global management consulting company, in 1997. During his time in McKinsey, 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 the 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.

For the financial year ended 30 June 2014, Mr. Fung received a fee of HK$60,000. Except the above fee, Mr. Fung 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 2014, Mr. Li received salaries (including allowances and retirement scheme contributions), bonus, share-based payment and director's fee of HK$10,989,000, HK$11,772,000, HK$2,587,000 and HK$120,000 respectively.

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 2014, Mr. Chan received salaries (including allowances and retirement scheme contributions), bonus, share-based payment and director's fee of HK$4,811,000, HK$718,000, HK$517,000 and HK$120,000 respectively.

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. 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 previously a non-executive director and chairman of the audit committee of Ark Therapeutics plc.

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 2014, 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.

DIRECTORS' PROFILE

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 2014, 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 2014, 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 2014, 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.

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 previously an independent non-executive director of Bank of Communications Co., Ltd.

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 2014, 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, a director of the BOCHK Charitable Foundation and a director of the Hong Kong Mortgage Corporation Limited from 7 April 2014. 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 and Hanhua Financial Holding Co., Ltd. (became listed on the Hong Kong Stock Exchange on 19 June 2014) since 17 June 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 2014, 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 was previously a member of the board of China Pacific Insurance (Group) Company Limited.

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

For the financial year ended 30 June 2014, 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 Ltd., the fourth mobile operator (EMOBILE brand) in Japan which is now a subsidiary of SoftBank Corp. Following the merger of eAccess and Willcom Inc. in June 2014, Mr. Gan was appointed representative director, president and chief executive officer of the combined entity – Ymobile Corporation. Mr. Gan is also an executive vice president of Softbank Mobile Corp.

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 2014, 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 27 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 2014, Mrs. Ip received a fee of HK$120,000. Except the above fee, Mrs. Ip did not receive any other emoluments during the said financial year.

Notes:

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

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

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

DIRECTORS' PROFILE

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 2014 are disclosed in "Directors' and chief executive's interests" section on pages 45 to 48 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 interim financial information set out on pages 18 to 44, which comprises the condensed consolidated balance sheet of SmarTone Telecommunications Holdings Limited (the "Company") and its subsidiaries (together, the "Group") as at 31 December 2014 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 interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this 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 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, 17 February 2015

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 31 December 2014
(Expressed in Hong Kong dollars)

	Note	Unaudited six months ended 31 December 2014 $000	2013 $000 (Note 24)
Service revenue		**2,745,469**	2,788,749
Handset and accessory sales		**5,927,270**	3,742,190
Revenues	6	**8,672,739**	6,530,939
Cost of inventories sold		**(5,675,402)**	(3,701,563)
Staff costs		**(355,975)**	(341,928)
Other operating expenses		**(1,172,477)**	(1,158,351)
Depreciation, amortisation and loss/gain on disposal	9	**(846,081)**	(916,697)
Operating profit		**622,804**	412,400
Finance income	7	**32,365**	28,090
Finance costs	8	**(91,589)**	(76,036)
Profit before income tax	9	**563,580**	364,454
Income tax expense	10	**(96,344)**	(56,013)
Profit after income tax		**467,236**	308,441
Attributable to			
Equity holders of the Company		**466,289**	311,299
Non-controlling interests		**947**	(2,858)
		467,236	308,441
Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in cents per share)	12		
Basic		**44.6**	30.0
Diluted		**44.6**	30.0
Interim dividend declared	13	**282,693**	186,726

The notes on pages 25 to 44 are an integral part of these condensed consolidated Interim Financial Statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 December 2014
(Expressed in Hong Kong dollars)

	Unaudited six months ended 31 December	
	2014	2013
	$000	$000
Profit for the period	**467,236**	308,441
Other comprehensive income		
Items that may be reclassified subsequently to profit and loss:		
Fair value gain on financial investments, net of tax	**4,777**	964
Currency translation differences	**433**	484
Other comprehensive income for the period, net of tax	**5,210**	1,448
Total comprehensive income for the period	**472,446**	309,889
Total comprehensive income attributable to		
Equity holders of the Company	**471,499**	312,747
Non-controlling interests	**947**	(2,858)
	472,446	309,889

The notes on pages 25 to 44 are an integral part of these condensed consolidated Interim Financial Statements.

CONDENSED CONSOLIDATED BALANCE SHEET

As at 31 December 2014 and 30 June 2014
(Expressed in Hong Kong dollars)

	Note	Unaudited 31 December 2014 $000	Audited 30 June 2014 $000
Non-current assets			
Leasehold land and land use rights		**14,396**	14,651
Fixed assets	14	**3,237,858**	3,396,056
Interest in an associate		**3**	3
Intangible assets	15	**2,597,023**	2,378,052
Deposits and prepayments	16	**89,499**	78,430
Deferred income tax assets		**6,864**	7,341
		5,945,643	5,874,533
Current assets			
Inventories		**257,133**	80,350
Financial investments	17	**9,492**	4,715
Trade receivables	16	**371,925**	435,749
Deposits and prepayments	16	**191,837**	179,168
Other receivables	16	**87,757**	52,746
Tax reserve certificate		**252,362**	–
Pledged bank deposits		**6,463**	6,269
Short-term bank deposits		**1,304,742**	1,321,651
Cash and cash equivalents		**1,993,161**	1,836,773
		4,474,872	3,917,421
Current liabilities			
Trade payables	18	**574,751**	778,119
Other payables and accruals		**674,829**	859,250
Current income tax liabilities		**436,156**	343,065
Bank borrowings	19	**124,899**	100,901
Customer prepayments and deposits		**695,346**	488,338
Deferred income		**338,844**	192,319
Mobile licence fee liabilities		**164,142**	186,741
		3,008,967	2,948,733
Net current assets		**1,465,905**	968,688
Total assets less current liabilities		**7,411,548**	6,843,221
Non-current liabilities			
Customer prepayments and deposits		**366,916**	148,144
Asset retirement obligations		**58,434**	58,636
Bank and other borrowings	19	**2,878,565**	2,739,317
Mobile licence fee liabilities		**367,096**	502,192
Deferred income tax liabilities		**143,714**	145,402
		3,814,725	3,593,691
Net assets		**3,596,823**	3,249,530

CONDENSED CONSOLIDATED BALANCE SHEET

As at 31 December 2014 and 30 June 2014
(Expressed in Hong Kong dollars)

	Note	**Unaudited 31 December 2014 $000**	Audited 30 June 2014 $000
Capital and reserves			
Share capital	20	**104,695**	104,599
Reserves		**3,434,213**	3,087,963
Total equity attributable to equity holders of the Company		**3,538,908**	3,192,562
Non-controlling interests		**57,915**	56,968
Total equity		**3,596,823**	3,249,530

The notes on pages 25 to 44 are an integral part of these condensed consolidated Interim Financial Statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 31 December 2014
(Expressed in Hong Kong dollars)

	Unaudited six months ended 31 December	
	2014	2013
	$000	$000
		(Note 24)
Cash flows from operating activities	**1,698,213**	1,311,305
Income tax paid	**(4,467)**	(180,262)
Purchase of tax reserve certificate	**(252,362)**	–
Net cash generated from operating activities	**1,441,384**	1,131,043
Cash flows from investing activities		
Payment for purchase of fixed assets	**(454,912)**	(484,720)
Payment of mobile licence fees	**(193,345)**	(183,220)
Additions of handset subsidies	**(722,816)**	(334,553)
Decrease in short-term deposits	**22,839**	310,739
Other investing activities	**32,241**	24,827
Net cash used in investing activities	**(1,315,993)**	(666,927)
Cash flows from financing activities		
Proceeds from bank borrowings	**218,839**	261,987
Repayment of bank borrowings	**(56,887)**	(38,818)
Dividend paid to the Company's equity holders	**(125,980)**	(227,497)
Other financing activities	**(5,904)**	(13,119)
Net cash generated from/(used in) financing activities	**30,068**	(17,447)
Net increase in cash and cash equivalents	**155,459**	446,669
Effect of foreign exchange rate change	**929**	290
Cash and cash equivalents at 1 July	**1,836,773**	645,502
Cash and cash equivalents at 31 December	**1,993,161**	1,092,461

The notes on pages 25 to 44 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 2014
(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	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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2014
(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 2014	104,599	308,289	2,817	10,949	23,012	76,484	8,417	2,657,995	3,192,562	56,968	3,249,530
Comprehensive income											
Profit for the period	–	–	–	–	–	–	–	466,289	466,289	947	467,236
Other comprehensive income											
Fair value gain on financial investments, net of tax	–	–	4,777	–	–	–	–	–	4,777	–	4,777
Currency translation differences	–	–	–	–	–	–	433	–	433	–	433
Total comprehensive income for the period ended 31 December 2014	–	–	4,777	–	–	–	433	466,289	471,499	947	472,446
Transactions with owners											
Issue of shares (note 20(a))	5	794	–	–	–	(129)	–	–	670	–	670
Share-based payments	–	–	–	–	–	157	–	–	157	–	157
Lapse of share option	–	–	–	–	2,041	(2,041)	–	–	–	–	–
Payment of 2014 final dividend (note 20(b))	91	9,908	–	–	–	–	–	(135,979)	(125,980)	–	(125,980)
Total transactions with owners	96	10,702	–	–	2,041	(2,013)	–	(135,979)	(125,153)	–	(125,153)
At 31 December 2014	104,695	318,991	7,594	10,949	25,053	74,471	8,850	2,988,305	3,538,908	57,915	3,596,823

The notes on pages 25 to 44 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 17 February 2015.

2 Basis of preparation

These Interim Financial Statements for the six months ended 31 December 2014 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 2014, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

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 2014, as described in those annual financial statements.

(a) Amendments to standards relevant to and adopted by the Group

The following amendments to standards are mandatory and relevant to the Group for the financial year beginning on 1 July 2014.

Annual Improvements Project	Annual Improvements 2010-2012 Cycle
Annual Improvements Project	Annual Improvements 2011-2013 Cycle
HKAS 32 (Amendments)	Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities
HKAS 36 (Amendments)	Impairment of Assets: Recoverable Amount Disclosures for Non-Financial Assets

The adoption of the above 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.

(Expressed in Hong Kong dollars)

3 Accounting policies *(continued)*

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

The following new standards and amendments to standards have been issued but are not yet effective for the financial year beginning 1 July 2014 and have not been early adopted.

Annual Improvements Project	Annual Improvements 2012-2014 Cycle[2]
HKAS 16 and HKAS 38 (Amendments)	Clarification of Acceptable Methods of Depreciation and Amortisation[1]
HKAS 16 and HKAS 41 (Amendments)	Bearer Plants[1]
HKAS 27 (Amendments)	Equity Method in Separate Financial Statements[1]
HKFRS 9	Financial Instruments[4]
HKFRS 10 and HKAS 28 (Amendments)	Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[1]
HKFRS 11 (Amendments)	Accounting for Acquisitions of Interests in Joint Operation[1]
HKFRS 14	Regulatory Deferral Accounts[1]
HKFRS 15	Revenue from Contracts with Customers[3]

1 Effective for annual periods beginning on or after 1 January 2016.
2 Effective for annual periods beginning on or after 1 July 2016.
3 Effective for annual periods beginning on or after 1 January 2017.
4 Effective for annual periods beginning on or after 1 January 2018.

4 Critical accounting estimates and judgements

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

In preparing these Interim Financial Statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 30 June 2014.

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 2014.

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

(b) Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as at 31 December 2014 by valuation method. Such inputs are categorised into three levels within a fair value hierarchy 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 2014 and 30 June 2014.

	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Assets				
Available-for-sale financial assets (note 17)				
At 31 December 2014 (Unaudited)	**–**	**9,492**	**–**	**9,492**
At 30 June 2014 (Audited)	–	4,715	–	4,715

There were no transfers between level 1 and level 2 and no changes in valuation techniques 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. The CODM has determined the operating segments based on these reports.

The CODM considers the business from a geographic perspective. The CODM measures the performance of its segments based on earnings before interest, tax, depreciation, amortisation and gain/loss on disposal ("EBITDA") and operating profit.

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 2014			
	Hong Kong $000	**Macau $000**	**Elimination $000**	**Consolidated $000**
Revenues	**8,554,367**	**321,599**	**(203,227)**	**8,672,739**
EBITDA	**1,435,601**	**33,284**	**–**	**1,468,885**
Depreciation, amortisation and loss on disposal	**(817,092)**	**(29,225)**	**236**	**(846,081)**
Operating profit	**618,509**	**4,059**	**236**	**622,804**
Finance income				**32,365**
Finance costs				**(91,589)**
Profit before income tax				**563,580**

	Unaudited six months ended 31 December 2013			
	Hong Kong $000	Macau $000	Elimination $000	Consolidated $000 (Note 24)
Revenues	6,441,655	279,005	(189,721)	6,530,939
EBITDA	1,305,681	23,416	–	1,329,097
Depreciation, amortisation and gain on disposal	(884,961)	(32,732)	996	(916,697)
Operating profit/(loss)	420,720	(9,316)	996	412,400
Finance income				28,090
Finance costs				(76,036)
Profit before income tax				364,454

6 Segment information *(continued)*

(b) Segment assets/(liabilities)

	At 31 December 2014 (Unaudited)			
	Hong Kong $000	**Macau $000**	**Unallocated $000**	**Consolidated $000**
Segment assets	**9,770,078**	**381,716**	**268,721**	**10,420,515**
Segment liabilities	**(6,109,531)**	**(134,291)**	**(579,870)**	**(6,823,692)**

	At 30 June 2014 (Audited)			
	Hong Kong $000	Macau $000	Unallocated $000	Consolidated $000
Segment assets	9,396,525	383,370	12,059	9,791,954
Segment liabilities	(5,893,369)	(160,588)	(488,467)	(6,542,424)

There has been no material change in the basis of segmentation and the basis of measurement of segment results from the last annual financial statements except for unallocated assets. Unallocated assets as at 31 December 2014 included tax reserve certificate of $252,362,000.

7 Finance income

	Unaudited six months ended 31 December	
	2014 $000	2013 $000
Interest income from bank deposits	**31,791**	27,774
Accretion income	**574**	316
	32,365	28,090

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	
	2014	2013
	$000	$000
		(Note 24)
Interest expense		
Bank and other borrowings wholly repayable within 5 years	**4,578**	4,531
Bank and other borrowings not wholly repayable within 5 years	**44,656**	41,939
Bank charges for credit card instalment	**10,528**	5,062
Accretion expenses		
Mobile licence fee liabilities	**35,651**	41,856
Asset retirement obligations	**1,029**	1,111
Net exchange gain on financing activities (note 11)	**(4,853)**	(18,463)
	91,589	76,036

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	
	2014	2013
	$000	$000
Charging:		
Cost of services provided	**222,358**	238,945
Operating lease rentals for land and buildings, transmission sites and leased lines	**505,637**	491,934
Impairment loss of trade receivables (note 16)	**5,906**	7,910
Impairment loss of inventories	**–**	14,763
Net exchange loss (note 11)	**385**	–
Loss on disposal of fixed assets	**2,194**	–
Depreciation of fixed assets, leasehold land and land use rights	**358,677**	336,354
Amortisation of handset subsidies	**390,536**	517,558
Amortisation of mobile licence fees	**94,910**	71,915
Share-based payments	**157**	3,980
Crediting:		
Reversal of impairment loss of inventories	**3,634**	–
Net exchange gain (note 11)	**–**	15,058
Gain on disposal of fixed assets	**–**	8,936
Gain on disposal of financial investments	**236**	194

10 Income tax expense

Hong Kong profits tax has been provided at the rate of 16.5% (2013: 16.5%) on the estimated assessable profit for the period. Income tax on overseas profits has been calculated on the estimated assessable profit for the period at the tax rates prevailing in the countries in which the Group operates.

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

	Unaudited six months ended 31 December	
	2014	2013
	$000	$000
Current income tax		
Hong Kong profits tax	**96,148**	47,301
Overseas tax	**1,256**	547
Under/(over)-provision in prior years		
Hong Kong profits tax	**–**	(25)
Overseas tax	**151**	–
	97,555	47,823
Deferred income tax	**(1,211)**	8,190
	96,344	56,013

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 Net exchange loss/(gain)

The exchange differences charged/(credited) to the condensed consolidated profit and loss account are included as follows:

	Unaudited six months ended 31 December	
	2014	2013
	$000	$000
Other operating expenses	**5,238**	3,405
Finance costs (note 8)	**(4,853)**	(18,463)
	385	(15,058)

12 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	
	2014	2013
Profit attributable to equity holders of the Company ($000)	**466,289**	311,299
Weighted average number of ordinary shares in issue	**1,046,048,469**	1,037,949,205
Basic earnings per share (cents per share)	**44.6**	30.0

(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	
	2014	2013
Profit attributable to equity holders of the Company ($000)	**466,289**	311,299
Weighted average number of ordinary shares in issue	**1,046,048,469**	1,037,949,205
Adjustment for dilutive share options	**2,525**	225,322
Weighted average number of ordinary shares for diluted earnings per share	**1,046,050,994**	1,038,174,527
Diluted earnings per share (cents per share)	**44.6**	30.0

13 Dividends

(a) In respect of the period

	Unaudited six months ended 31 December	
	2014	2013
	$000	$000
Interim dividend declared of 27 cents (2013: 18 cents) per share	**282,693**	186,726

At a meeting held on 17 February 2015, the directors declared an interim dividend of 27 cents per share for the year ending 30 June 2015. 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 2015.

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

(b) Attributable to prior year paid in the period

	Unaudited six months ended 31 December	
	2014	2013
	$000	$000
Final dividend of 13 cents (2013: 22 cents) per share	**135,979**	228,347

14 Fixed assets

	Unaudited $000
Opening net book amount at 1 July 2014	**3,396,056**
Additions	**212,306**
Disposals	**(12,261)**
Exchange differences	**79**
Depreciation	**(358,322)**
Closing net book amount at 31 December 2014	**3,237,858**
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

14 Fixed assets *(continued)*

During the six months ended 31 December 2014, major fixed assets acquired by the Group included network and testing equipment, including network under construction amounting to $186,947,000.

At 31 December 2014, buildings with carrying amount of $86,155,000 (30 June 2014: $87,374,000) were pledged as security for bank borrowings of the Group (note 19).

15 Intangible assets

	Unaudited		
	Handset subsidies $000	Mobile licence fees $000	Total $000
Opening net book amount at 1 July 2014	**693,451**	**1,684,601**	**2,378,052**
Additions	**722,816**	**–**	**722,816**
Amortisation	**(390,536)**	**(94,910)**	**(485,446)**
Disposal	**(18,399)**	**–**	**(18,399)**
Closing net book amount at 31 December 2014	**1,007,332**	**1,589,691**	**2,597,023**
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

16 Trade and other receivables

	Unaudited 31 December 2014 $000	Audited 30 June 2014 $000
Trade receivables	**382,552**	447,817
Less: provision for impairment of trade receivables	**(10,627)**	(12,068)
Trade receivables – net	**371,925**	435,749
Deposits and prepayments	**281,336**	257,598
Other receivables	**87,757**	52,746
	741,018	746,093
Less: deposits and prepayments included under non-current assets	**(89,499)**	(78,430)
Current assets	**651,519**	667,663

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 2014 $000	Audited 30 June 2014 $000
Current to 30 days	**302,640**	410,723
31 – 60 days	**22,716**	12,746
61 – 90 days	**43,044**	3,683
Over 90 days	**3,525**	8,597
	371,925	435,749

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 $5,906,000 (2013: $7,910,000) for the impairment of its trade receivables during the six months ended 31 December 2014. The loss has been included in "other operating expenses" in the condensed consolidated profit and loss account.

17 Financial investments

	Unaudited 31 December 2014 $000	Audited 30 June 2014 $000
Available-for-sale financial assets	**9,492**	4,715

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

	Unaudited $000
At 1 July 2014	**4,715**
Fair value gain transferred to equity	**4,777**
At 31 December 2014	**9,492**

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 value based on the net asset value per unit of the respective funds as determined by the managers of the relevant funds.

18 Trade payables

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

	Unaudited 31 December 2014 $000	Audited 30 June 2014 $000
Current to 30 days	**524,627**	691,235
31 – 60 days	**25,722**	45,683
61 – 90 days	**8,877**	14,460
Over 90 days	**15,525**	26,741
	574,751	778,119

19 Bank and other borrowings

	Unaudited 31 December 2014 $000	Audited 30 June 2014 $000
Secured bank borrowings	**66,000**	66,000
Unsecured bank borrowings	**1,412,417**	1,251,824
Guaranteed notes (a)	**1,525,047**	1,522,394
	3,003,464	2,840,218
Less: Bank borrowings included under current liabilities	**(124,899)**	(100,901)
Non-current portion	**2,878,565**	2,739,317

(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 in 2023, which are listed on The Stock Exchange of Hong Kong Limited. The notes are irrevocably and unconditionally guaranteed by the Company and will rank pari passu with all other outstanding unsecured and unsubordinated obligations of the Company.

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

	Unaudited 31 December 2014 $000	Audited 30 June 2014 $000
Between 1 and 2 years	**126,555**	101,053
Between 2 and 5 years	**884,983**	806,741
Over 5 years	**1,867,027**	1,831,523
	2,878,565	2,739,317

19 Bank and other borrowings *(continued)*

The carrying amounts of the Group's 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:

	Level 1 $000	**Level 2 $000**	**Level 3 $000**	**Total $000**
At 31 December 2014				
Secured bank borrowings	**–**	**63,275**	**–**	**63,275**
Unsecured bank borrowings	**–**	**1,172,448**	**–**	**1,172,448**
Guaranteed notes	**1,454,788**	**–**	**–**	**1,454,788**
Total	**1,454,788**	**1,235,723**	**–**	**2,690,511**

	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
At 30 June 2014				
Secured bank borrowings	–	65,616	–	65,616
Unsecured bank borrowings	–	1,085,901	–	1,085,901
Guaranteed notes	1,386,309	–	–	1,386,309
Total	1,386,309	1,151,517	–	2,537,826

At 31 December 2014, bank borrowings of $66,000,000 are secured by certain buildings of the Group (note 14) (30 June 2014: same).

20 Share capital

	Unaudited	
	Shares of $0.1 each	$000
Authorised		
At 30 June 2014 and 31 December 2014	**2,000,000,000**	**200,000**
Issued and fully paid		
At 1 July 2014	**1,045,988,904**	**104,599**
Issue of new shares upon exercise of share options (a)	**52,500**	**5**
Issue of shares in lieu of cash dividends (b)	**908,953**	**91**
At 31 December 2014	**1,046,950,357**	**104,695**

(a) During the six months ended 31 December 2014, options were exercised to subscribe for 52,500 shares in the Company at a consideration of approximately $670,000, of which $5,000 was credited to share capital and the balance of $665,000 was credited to the share premium account.

(b) On 3 September 2014, the board of directors declared a final dividend of 13 cents per share for the year ended 30 June 2014. The shareholders were provided with an option to receive the final dividend in form of scrip dividend. On 19 December 2014, 908,953 shares were issued at $11.00 per share in respect of the final dividend.

21 Share option scheme

(a) Movements in share options

	Unaudited	
	Average exercise price per share	Numbers of share options
At 1 July 2014	**$12.84**	**32,342,500**
Exercised	**$12.78**	**(52,500)**
Cancelled or lapsed	**$15.31**	**(600,000)**
At 31 December 2014	**$12.79**	**31,690,000**

At 31 December 2014, 31,690,000 share options were exercisable with average exercise price of $12.79 per share.

21 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 2014 Number of share options	Audited 30 June 2014 Number of share options
13 June 2011	13 June 2012 to 12 June 2016	$12.78	**30,797,500**	30,925,000
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
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	**300,000**	375,000
29 February 2012	1 March 2013 to 28 February 2017	$16.56	**–**	300,000
			31,690,000	32,342,500

(c) Details of share options exercised

Share options exercised during the period resulted in 52,500 (six months ended 31 December 2013: 12,000) shares being issued. The related weighted average share price at the time of exercise was $13.04 (six months ended 31 December 2013: $7.66) per share.

22 Commitments and contingent liabilities

(a) Capital commitments

	Unaudited 31 December 2014 $000	Audited 30 June 2014 $000
Fixed assets		
Contracted for	**146,421**	106,121
Authorised but not contracted for	**469,075**	–
	615,496	106,121

22 Commitments and contingent liabilities *(continued)*

(b) Operating lease commitments

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

At 31 December 2014, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	Unaudited 31 December 2014 $000	Audited 30 June 2014 $000
Land and buildings and transmission sites		
No later than 1 year	**561,697**	561,505
Later than 1 year and no later than 5 years	**424,466**	373,262
Later than 5 years	**22,956**	11,782
	1,009,119	946,549
Leased lines		
No later than 1 year	**193,773**	190,542
Later than 1 year and no later than 5 years	**754,907**	739,118
Later than 5 years	**570,315**	651,449
	1,518,995	1,581,109
Equipment		
No later than 1 year	**1,933**	3,930
	1,933	3,930

22 Commitments and contingent liabilities *(continued)*

(c) Performance bonds

	Unaudited 31 December 2014 $000	Audited 30 June 2014 $000
Hong Kong	**392,362**	523,357
Macau	**4,077**	3,883
	396,439	527,240

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

(d) During the six months ended 31 December 2014, a bank issued a standby letter of credit of $1,306,800,000 to a subsidiary of the Company in favor of the Office of Communications Authority ("OFCA") regarding the acceptance of the offer of the right of first refusal for the re-assignment of one of the spectrum.

A bank also issued a standby letter of credit with amount of $960,000,000 to a subsidiary of the Company in favor of OFCA for submission of a deposit to participate in the auction for one of the spectrum. This standby letter of credit will be cancelled and replaced by another letter of credit of $980,400,000, being the final amount of spectrum utilisation fees determined during the auction, to be issued in March 2015.

(e) At 31 December 2014, 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 $1,128,574,000) and $500,000,000, of which US$122,674,000 (approximately $951,556,000) and $500,000,000 of the banking facilities were utilised by the subsidiary.

23 Related party transactions

The Group is controlled by Cellular 8 Holdings Limited, which owns 64.43% of the Company's shares as at 31 December 2014. The remaining 35.57% of the shares are widely held, of which 2.76% 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.

23 Related party transactions *(continued)*

(a) During the six months ended 31 December 2014, 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	
	2014	2013
	$000	$000
Operating lease rentals for land and buildings and transmission sites (i)	**53,962**	51,705
Insurance expenses (ii)	**4,064**	4,336

(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 2014, rental and licence fees paid and payable to subsidiaries and associated companies of SHKP totalled $53,962,000 (2013: $51,705,000).

(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 2014, insurance premiums paid and payable were $4,064,000 (2013: $4,336,000).

(b) At 31 December 2014, 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.

23 Related party transactions *(continued)*

(c) Key management compensation

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

	Unaudited six months ended 31 December	
	2014	2013
	$000	$000
Salaries, bonuses and other short-term employee benefits	**21,762**	25,533
Share-based payments	**–**	2,025
	21,762	27,558

(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 2014 $000	Audited 30 June 2014 $000
Trade receivables (note 16)	**1,673**	1,155
Deposits and prepayments (note 16)	**12,363**	7,577
Other receivables (note 16)	**781**	391
Trade payables (note 18)	**2,368**	2,879
Other payables and accruals	**5,617**	10,796

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

24 Comparative figures

Certain comparative figures have been reclassified to conform to the current period's presentation. These reclassifications have no impact on the Group's total equity as at both 31 December 2014 and 30 June 2014, or on the Group's profit for the six months ended 31 December 2014 and 2013.

(Financial figures are expressed in Hong Kong dollars)

Interim dividend

The Directors declared an interim dividend of 27 cents per share for the six months ended 31 December 2014 (2013: 18 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, 17 March 2015.

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 Monday, 20 April 2015 to shareholders whose names appear on the Register of Members of the Company on Friday, 6 March 2015.

Closure of register of members

The record date for entitlement to the interim dividend is Friday, 6 March 2015. For determining the entitlement to the interim dividend, the Register of Members of the Company will be closed for one day on Friday, 6 March 2015 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, 5 March 2015.

Directors' and chief executive's interests

As at 31 December 2014, 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 Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Rules Governing the Listing of Securities on the HKSE (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	4,565,544 [1]	4,565,544	–	4,565,544	0.44
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 in the company 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	88,743	487,079,119[1]	487,167,862	100,000[2] (personal interests in share options) 9,435,067[3&4] (other interests in warrants)	496,702,929	17.59
David Norman Prince	2,000	–	2,000	166[3] (personal interests in warrants)	2,166	0
Siu Hon-wah, Thomas	–	7,000[5]	7,000	583[3&6] (other interests in warrants)	7,583	0
Li Ka-cheung, Eric	–	4,028[7]	4,028	335[3&8] (other interests in warrants)	4,363	0

(Financial figures are expressed in Hong Kong dollars)

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 2014	Granted during the period	Exercised during the period	Cancelled/ Lapsed during the period	Outstanding at 31 December 2014
12 July 2010	111.40	12 July 2011 to 11 July 2015	100,000	–	–	–	100,000

* The share options of SHKP 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 underlying shares of SHKP represented the warrants of SHKP (being regarded for the time being as listed physically settled equity derivatives). Each warrant entitles the holder thereof to subscribe at any time during the period from 23 April 2014 to 22 April 2016 (both days inclusive) for one fully paid new share in SHKP at an initial subscription price of $98.60 per new share (subject to adjustment).

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

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

6. These warrants of SHKP were held jointly by Mr. Siu Hon-wah, Thomas and his spouse.

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

8. These warrants of 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")

Name of Director	Number of shares held: Other interests	Number of shares held: 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, as at 31 December 2014, none of the Directors or chief executive of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and 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 to be notified to the Company and the HKSE pursuant to the Model Code.

(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 2014 are as follows:

				Number of share options				
Grantee	Date of grant	Exercise price $	Exercise period[1]	Outstanding at 1 July 2014	Granted during the period	Exercised during the period	Cancelled/ Lapsed during the period	Outstanding at 31 December 2014
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	13 June 2011	12.78	13 June 2012 to 12 June 2016	18,925,000	–	(52,500)[2]	(75,000)	18,797,500
	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	–	–	(75,000)	300,000
	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 $12.80 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.

Interests of substantial shareholder

As at 31 December 2014, the interests or short positions of the persons, other than Directors or chief executive of the Company, in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO, were as follows:

Long positions in shares of the Company

Name	Total number of shares	% of shares in issue
Sun Hung Kai Properties Limited ("SHKP")[1]	703,482,100	67.19%

Note:

1. TFS Development Company Limited ("TFS") and Cellular 8 Holdings Limited ("Cellular 8", a wholly owned subsidiary of TFS) held 28,905,733 shares and 674,576,367 shares in the Company respectively. For the purpose of Part XV of the SFO, TFS was deemed to be interested in 674,576,367 shares in the Company held by Cellular 8. Accordingly, TFS had interests and deemed interests in an aggregate of 703,482,100 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 703,482,100 shares in the Company.

Save as disclosed above, as at 31 December 2014, the Company had not been notified by any persons (other than Directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

Purchase, sale or redemption of shares

At no time during the six months ended 31 December 2014 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 chairman of the Committee is Dr. Li Ka-cheung, Eric (Independent Non-Executive Director with professional accounting expertise) and the other members are Mr. Ng Leung-sing (Independent Non-Executive Director), Mr. Gan Fock-kin, Eric (Independent Non-Executive Director) and Mr. Tsim Wing-kit, Alfred (Non-Executive Director). The majority of the members of the Committee are Independent Non-Executive Directors of the Company. The Committee members possess appropriate business or financial expertise and experience to provide relevant advice and recommendations to the Company.

The Audit Committee held a meeting on 11 February 2015 and reviewed the interim financial statements as well as the internal audit reports of the Group for the six months ended 31 December 2014. The Committee was satisfied that the accounting policies and methods of computation adopted by the Group are appropriate and in line with the market participants 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.

The interim financial statements for the six months ended 31 December 2014 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 2014, the Company has applied the principles and complied with the requirements set out in the Corporate Governance Code and Corporate Governance Report (the "CG Code") contained in Appendix 14 of the Listing Rules, except for the following deviations:

Code Provision A.4.1 of the CG Code provides that non-executive directors should be appointed for a specific term. 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.

Code Provision A.6.7 of the CG Code provides that independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Code Provision E.1.2 of the CG Code also provides that the chairman of the board should attend the annual general meeting. Mr. Kwok Ping-luen, Raymond, Non-Executive Director and Chairman of the Board, and Mr. Yang Xiang-dong, Mr. Gan Fock-kin, Eric and Mrs. Ip Yeung See-ming, Christine, Independent Non-Executive Directors, were unable to attend the annual general meeting of the Company held on 4 November 2014 due to overseas commitments or other prior engagements. The remaining eight Independent Non-Executive Directors and Non-Executive Directors (representing 67% of all independent non-executive and non-executive members of the Board) attended the said meeting in person to listen to the views expressed by the shareholders. Mr. Cheung Wing-yui, a Non-Executive Director of the Company, took the chair of the said meeting pursuant to the Bye-laws of the Company.

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

Compliance with model code for securities transactions

The Group adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct regarding Directors' transactions in the securities of the Company. Upon specific enquiry, each Director had confirmed that during the six months ended 31 December 2014, they had fully complied with the required standard set out in the Model Code regarding securities transactions and there was no event of non-compliance.

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

Hong Kong, 17 February 2015

As at the date of this report, the Executive Directors of the Company are Mr. Douglas LI (Chief Executive Officer) and Mr. CHAN Kai-lung, Patrick; Non-Executive Directors are Mr. KWOK Ping-luen, Raymond (Chairman), Mr. CHEUNG Wing-yui (Deputy Chairman), Mr. FUNG Yuk-lun, Allen (Deputy Chairman), Mr. David Norman PRINCE, 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.