2015 | 16
Interim Report

SmarTone Telecommunications Holdings Limited
Stock Code : 0315

CONTENTS

CHAIRMAN'S STATEMENT

(Financial figures are expressed in Hong Kong dollars)

I am pleased to report the results of the Group for the six months ended 31 December 2015.

Financial Highlights

In the period under review, total revenue increased to $10,228 million, an 18% growth over the same period last year and a 2% increase over the previous half. Handset and accessory sales were 26% higher over the same period last year, and service revenue increased 1%. Operating profit excluding the handset business increased to $540 million, 45% higher than the same period last year and 11% higher over the previous half, reflecting a solid improvement in the profitability of the service business. Handset and accessories EBIT decreased to $47 million, 81% lower compared to the same period last year and 65% lower than the previous half, due to lower handset margin. Group operating profit was $587 million, down 6% from both the same period last year and the previous half. Net profit decreased 14% from the same period last year to $403 million.

Dividend

The Board declares an interim dividend of 27 cents per share, same as the interim dividend for FY15. The dividend policy remains unchanged at 75% dividend payout ratio on a full-year basis. As the quality of earnings improved, it is the Board's intention, barring unforeseen circumstances, to keep the absolute full year FY16 dividend per share unchanged from the full year FY15 dividend. Shareholders have the option to receive new and fully paid shares in lieu of cash under a scrip dividend scheme.

Business Review

During the period under review, group service revenue was steady, recording a 1% increase over the same period last year and a modest 1% decline from the previous six months. Local mobile service revenue increased over the same period last year, which was partly offset by lower roaming revenue. Migration of customers from handset-bundled plans to SIM-only plans continued, with its impact on service revenue largely offset by a corresponding reduction in handset subsidy amortisation. Group service revenue, net of handset subsidy amortisation, increased 3% over the same period last year and remained steady over the previous six months.

Customer number stands at 1.97 million, a 1% increase over the previous six months while the average mobile postpaid churn rate improved year-on-year to 0.9%. Notwithstanding the continuing migration of customers from handset-bundled plans to SIM-only plans, postpaid ARPU continued to increase to $301, reflecting a 3% growth over the same period last year. Excluding 3G speed-capped plan customers, postpaid ARPU increased 6% compared to the same period last year.

The Company continued to exercise cost discipline without compromising quality, leading to reduction in operating costs, depreciation and amortisation. Both EBITDA and EBIT margin for the service business achieved steady improvements. Service EBITDA rose to $1,331 million, 9% higher than the same period last year and flat over the previous six months. Service EBIT grew to $540 million, increasing 45% over the same period last year and 11% over the previous six months.

The Company made substantial investments into enhancing network quality to deliver the capacity and speed for outstanding customer experience. Building on the success of the LTE900 and LTE1800 dual-band carrier aggregation ("CA"), SmarTone has successfully implemented tri-band CA on the 900MHz, 1,800MHz and 2,600MHz spectrum. The Company will continue to employ state-of-the-art LTE-A technologies, including quad-band CA, 4x4 MIMO and advanced 256QAM data coding. SmarTone has also commenced the deployment of small cells in selected high traffic locations. These initiatives will further increase both the capacity and speed of the Company's high-performing network.

SmarTone is passionate about listening to its customers, which provides insight into how the Company strives for continuous improvement. The Company has invested in systems, processes and training to further enhance the quality of customer service. Through customer satisfaction surveys at various touchpoints, customer feedback was analysed and turned into customer care improvement initiatives. In the period under review, customer satisfaction surveys at call centres and stores consistently scored at above 97% satisfaction levels.

Prospects

Despite increasing economic uncertainties, continuous increase in customer data usage offers opportunities for sustainable growth. SmarTone continues to invest in its network to provide customers with an outstanding user experience. In particular, the Company will extend its deployment of small cells in anticipation of customers' increasing demand for data services. Coupled with other state-of-the-art LTE-A technologies, small cells deployment is an essential element of the Company's high-capacity network, placing SmarTone in prime position to grow in an increasingly mobile-connected society.

Delighting customers has always been central to SmarTone's philosophy. The Company is working on a range of initiatives to redefine customer care and bring it to a new level.

With a strong brand and a robust financial position, the Company is well-placed to capture opportunities and bring value to both customers and shareholders over the long term.

Appreciation

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

Kwok Ping-luen, Raymond
Chairman

Hong Kong, 2 February 2016

MANAGEMENT DISCUSSION AND ANALYSIS

(Financial figures are expressed in Hong Kong dollars)

Review of financial results

During the period under review, Group's revenue increased by 18% to $10,228 million (first half of 2014/15: $8,673 million), comprising a 26% increase in handset and accessory sales and a 1% increase in service revenue. Group EBITDA fell by 6% to $1,377 million (first half of 2014/15: $1,469 million). Operating profit excluding the handset business ("Service EBIT") rose by 45% to $540 million (first half of 2014/15: $371 million) while handset EBIT fell by 81% to $47 million (first half of 2014/15: $252 million). As a result, Group operating profit fell by 6% to $587 million (first half of 2014/15: $623 million) and profit attributable to equity holders of the Company fell by 14% to $403 million (first half of 2014/15: $466 million).

Compared with the second half of 2014/15, Group's revenue increased by 2% to $10,228 million (second half of 2014/15: $9,986 million), comprising a 4% increase in handset and accessory sales, partly offset by a 1% decrease in service revenue. Group EBITDA fell by 6% to $1,377 million (second half of 2014/15: $1,463 million). Service EBIT rose by 11% to $540 million (second half of 2014/15: $486 million) while handset EBIT fell by 65% to $47 million (second half of 2014/15: $135 million). As a result, Group operating profit fell by 6% to $587 million (second half of 2014/15: $621 million) and profit attributable to equity holders of the Company fell by 14% to $403 million (second half of 2014/15: $469 million).

Revenues rose by $1,556 million or 18% to $10,228 million when compared with $8,673 million for the first half of 2014/15, and rose by $242 million or 2% when compared with $9,986 million for the second half of 2014/15.

- Service revenue rose by $32 million or 1% to $2,778 million (first half of 2014/15: $2,745 million) amid higher local mobile service revenue, partly offset by lower roaming revenue.

  Local service revenue increased by 2% amidst improvement in market environment, partly offset by continuing customers' migration from handset-bundled plans to SIM-only plans and decline in revenue from prepaid products.

  Customers' migration to SIM-only plans masked a stronger improvement in underlying service revenue as there was a corresponding reduction in handset subsidy amortisation. Group service revenue net of handset subsidy amortisation rose by 3% when compared with the same period last year.

  Roaming revenue fell 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. Roaming revenue made up of 15% of Group's service revenue (first half of 2014/15: 16%).

  Compared with the second half of 2014/15, service revenue fell by $41 million or 1% to $2,778 million (second half of 2014/15: $2,819 million) mainly amid customers' migration from handset-bundled plans to SIM-only plans and lower revenue from prepaid products. Group service revenue net of handset subsidy amortisation remained stable as compared with the second half of 2014/15.

  The Group achieved a 1% year-on-year growth in its Hong Kong customer base. Average mobile postpaid churn rate improved to 0.9% (first half of 2014/15: 1.0%). Postpaid ARPU improved to $301.

- Handset and accessory sales rose by $1,523 million or 26% to $7,451 million when compared with $5,927 million for the first half of 2014/15 and rose by $283 million or 4% when compared with $7,167 million for the second half of 2014/15. Increase was mainly due to increase in sales volume.

Cost of inventories sold rose by $1,728 million or 30% to $7,404 million when compared with $5,675 million for the first half of 2014/15 and rose by $371 million or 5% as compared with $7,032 million for the second half of 2014/15. Handset business profits were lower as margin declined.

Staff costs fell by $5 million or 1% to $351 million (first half of 2014/15: $356 million) mainly amid lower bonus provision, partly offset by annual salary adjustment. Compared with the second half of 2014/15, staff costs fell by $34 million or 9% (second half of 2014/15: $385 million) mainly amid decrease in headcounts as well as lower bonus provision.

Other operating expenses fell by $76 million or 7% to $1,096 million (first half of 2014/15: $1,172 million). Lower cost of services provided, network operating costs, sales and marketing expenses and general and administrative expenses were partly offset by higher rental and utilities. Compared with the second half of 2014/15, other operating expenses fell by $10 million or 1% to $1,096 million (second half of 2014/15: $1,106 million). Lower cost of services provided and network costs were partly offset by higher sales and marketing expenses, rental and utilities and general administrative expenses.

Depreciation and loss on disposal decreased by $17 million or 5% to $343 million when compared with $361 million for the first half of 2014/15 due to lower capital expenditure incurred during the period under review. Compared with the second half of 2014/15, depreciation and loss on disposal fell by $20 million or 6% (second half of 2014/15: $364 million) mainly amid lower disposal loss for dismantled sites and lower capital expenditure.

Handset subsidy amortisation fell by $38 million or 10% to $353 million when compared with $391 million for the first half of 2014/15 and fell by $31 million or 8% when compared with $383 million for the second half of 2014/15. Such decline was due to continuing customers' migration from handset-bundled plans to SIM-only plans in the past 12 months.

Mobile licence fee amortisation remained stable at $95 million (first half of 2014/15: $95 million; second half of 2014/15: $95 million).

Finance income fell slightly by $5 million to $27 million when compared with $32 million for the first half of 2014/15 and $2 million when compared with $29 million for the second half of 2014/15 amid lower return on surplus cash, partly offset by higher average balance of bank deposits and held-to-maturity debt securities.

Finance costs excluding exchange loss fell by $15 million to $81 million (first half of 2014/15: $96 million) amid lower handset instalment charges and accretion expenses on mobile license fee liabilities.

Compared with the second half of 2014/15, finance costs excluding exchange loss decreased by $4 million (second half of 2014/15: $86 million) driven by lower bank borrowings and accretion expenses on mobile license fee liabilities.

Exchange loss related to cash, bank deposits and borrowings amounted to $47 million (first half of 2014/15: gain of $5 million) mainly from conversion of RMB deposits into USD and HKD amid depreciation of RMB. Exchange gain related to cash, bank deposits and borrowings for the second half of 2014/15 amounted to $2 million. The Group had minimal exposure to RMB since September 2015, other than for operating needs.

Income tax expense amounted to $87 million (first half of 2014/15: $96 million), reflecting an effective tax rate of 17.9% (first half of 2014/15: 17.1%). Excluding the impact of non-taxable items, effective tax rate would have been 18.7% (first half of 2014/15: 18.3%).

MANAGEMENT DISCUSSION AND ANALYSIS

(Financial figures are expressed in Hong Kong dollars)

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 2015, the Group recorded share capital of $106 million, total equity of $4,025 million and total borrowings of $2,908 million.

The Group's cash resources remained robust with cash and bank balances (including pledged bank deposits and short-term bank deposits) of $3,128 million as at 31 December 2015 (30 June 2015: $4,145 million). The reduction was mainly due to the purchase of held-to-maturity debt securities of $860 million.

As at 31 December 2015, the Group had bank and other borrowings of $2,908 million (30 June 2015: $2,969 million) of which 81% were denominated in United States dollars and were arranged on a fixed rate basis. Cash and held-to-maturity debt securities, after deducting bank and other borrowings, amounted to $1,086 million as at 31 December 2015 (30 June 2015: $1,176 million).

The Group had net cash generated from operating activities and interest received of $902 million and $32 million respectively during the period ended 31 December 2015. The Group's major outflows of funds during the period were payments for additions of handset subsidies, purchase of fixed assets, held-to-maturity debt securities, 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 2016 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 and invested in held-to-maturity debt securities. Bank deposits and held-to-maturity debt securities are predominantly maintained in Hong Kong dollars and US dollars respectively.

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 2015, certain bank deposits of the Group, in aggregate amount of $6 million (30 June 2015: $3 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 $84 million as at 31 December 2015 (30 June 2015: $85 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 2015. The remaining 81% of the Group's borrowings are fixed rates borrowings. Hence, the Group is well protected from any potential rising interest rates. 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, held-to-maturity debt securities, 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 2015 under these performance bonds was $303 million (30 June 2015: $444 million).

In prior year, 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 of $980,400,000, being the final amount of spectrum utilisation fees determined during the auction.

Employees and share option scheme

The Group had 2,128 full-time employees as at 31 December 2015 (30 June 2015: 2,121), with the majority of them based in Hong Kong. Total staff costs were $351 million for the period ended 31 December 2015 (first half of 2014/15: $356 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; 4,657,500 share options were exercised; and 7,374,000 share options were cancelled or lapsed. 11,137,000 (30 June 2015: 23,168,500) share options were outstanding as at 31 December 2015.

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 the chairman and managing director, and an executive director of Sun Hung Kai Properties Limited ("SHKP"). 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 a member 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 2015, 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. and Tianjin Development Holdings 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 Honorary Council Member of The Hong Kong Institute of Directors Limited. Mr. Cheung was a non-executive director of SRE Group Limited (until December 2015), 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 2015, Mr. Cheung received a fee of HK$128,000. 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 a member of the General Committee of the Hong Kong General Chamber of Commerce. He is the President 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. Mr. Fung is an advisory member of the Faculty of Business and Economics at The University of Hong Kong, and a council member of Sir Edward Youde Memorial Fund.

For the financial year ended 30 June 2015, Mr. Fung received a fee of HK$128,000. Except the above fee, Mr. Fung did not receive any other emoluments during the said financial year.

CHAU Kam-kun, Stephen *Executive Director & Interim Chief Executive Officer*

Mr. Stephen Chau was appointed Executive Director of the Company in April 2015, and Interim Chief Executive Officer of the Company with effect from 1 September 2015. He has been with the Company since 1993. He joined the Company as Head of Operations and was made Chief Technology Officer since 1999. He has been responsible for the Company's information and communications technology strategy, roadmap and deployment; he has also led the Company in a number of commercial initiatives.

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

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

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

For the period from 2 April 2015 (date of appointment as a director of the Company) to 30 June 2015, Mr. Chau received salaries (including allowances and retirement scheme contributions) and director's fee of HK$1,263,000 and HK$30,000 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 2015, Mr. Chan received salaries (including allowances and retirement scheme contributions), bonus and director's fee of HK$4,968,000, HK$555,000 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 chair 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 2015, Mr. Prince received a fee of HK$120,000. Except the above fee, Mr. Prince did not receive any other emoluments during the said financial year.

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

Mr. Thomas Siu was appointed Director of the Company in July 2008. Mr. Siu is managing director of Wilson Group which is a major transport infrastructure services provider in Hong Kong. Wilson Group is a wholly-owned subsidiary of Sun Hung Kai Properties Limited. Prior to joining Wilson Group, Mr. Siu had more than 25 years experience in telecommunications and IT sectors. His experience covers finance, business operations and development. Mr. Siu is also a non-executive director of SUNeVision Holdings Ltd.

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

For the financial year ended 30 June 2015, 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, CPA Canada, 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 2015, 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.

DIRECTORS' PROFILE

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 previously a non-executive director of SUNeVision Holdings Ltd.

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 2015, 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 Beer (Holdings) Company Limited (formerly known as 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 previously a convenor-cum-member of the Financial Reporting Review Panel, 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 2015, 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 from June 2009 to May 2015 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 2015, 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 2015, 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 2015, 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 2015, 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.

There is an employment contract entered into between Mr. Chau Kam-kun, Stephen, Executive Director, and a subsidiary of the Company for his serving as the Company's Chief Technology Officer and Interim Chief Executive Officer. As the Chief Technology Officer and the Interim Chief Executive Officer, Mr. Chau 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 a discretionary bonus, the computation of which is based on his performance and profitability of the Group. Mr. Chau has no fixed term of service with the Company for acting as a director of the Company. Mr. Chau's appointment as a director of the Company 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. Chau is entitled to a director's fee which is determined by the Board under the authority granted by shareholders at annual general meetings. The fee is subject to annual assessment based on prevailing market rate of directors' fees for companies listed in Hong Kong.

The Company and Mr. Chan Kai-lung, Patrick, Executive Director, entered into an employment contract dated 1 May 2002 under which Mr. Chan has been appointed to act as Executive Director of the Group with effect from 15 May 2002 with no fixed term of service. He is entitled to a basic salary which is subject to review by the Board from time to time with reference to his responsibility and performance. He is also entitled to discretionary bonus, the computation of which is based on his performance and profitability of the Group. Mr. Chan's appointment as a director of the Company 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 2015 are disclosed in "Directors' and chief executive's interests" section on pages 43 to 46 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 17 to 42, which comprises the condensed consolidated balance sheet of SmarTone Telecommunications Holdings Limited (the "Company") and its subsidiaries (together, the "Group") as at 31 December 2015 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, 2 February 2016

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 31 December 2015
(Expressed in Hong Kong dollars)

	Note	Unaudited six months ended 31 December 2015 $000	2014 $000
Service revenue		**2,777,571**	2,745,469
Handset and accessory sales		**7,450,719**	5,927,270
Revenues	6	**10,228,290**	8,672,739
Cost of inventories sold		**(7,403,820)**	(5,675,402)
Staff costs		**(350,964)**	(355,975)
Other operating expenses		**(1,096,026)**	(1,172,477)
Depreciation, amortisation and loss on disposal	9	**(790,946)**	(846,081)
Operating profit		**586,534**	622,804
Finance income	7	**27,209**	32,365
Finance costs	8	**(127,693)**	(91,589)
Profit before income tax	9	**486,050**	563,580
Income tax expense	10	**(86,856)**	(96,344)
Profit after income tax		**399,194**	467,236
Attributable to			
Equity holders of the Company		**402,727**	466,289
Non-controlling interests		**(3,533)**	947
		399,194	467,236
Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in cents per share)	12		
Basic		**38.0**	44.6
Diluted		**38.0**	44.6

The notes on pages 24 to 42 are an integral part of these condensed consolidated Interim Financial Statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 December 2015
(Expressed in Hong Kong dollars)

	Unaudited six months ended 31 December	
	2015	2014
	$000	$000
Profit for the period	**399,194**	467,236
Other comprehensive income		
Items that may be reclassified subsequently to profit and loss:		
Fair value gain on financial investments, net of tax	**5,117**	4,777
Currency translation differences	**(3,758)**	433
Other comprehensive income for the period, net of tax	**1,359**	5,210
Total comprehensive income for the period	**400,553**	472,446
Total comprehensive income attributable to		
Equity holders of the Company	**404,086**	471,499
Non-controlling interests	**(3,533)**	947
	400,553	472,446

The notes on pages 24 to 42 are an integral part of these condensed consolidated Interim Financial Statements.

CONDENSED CONSOLIDATED BALANCE SHEET

As at 31 December 2015 and 30 June 2015
(Expressed in Hong Kong dollars)

	Note	Unaudited 31 December 2015 $000	Audited 30 June 2015 $000
Non-current assets			
Leasehold land and land use rights		**12,898**	14,038
Fixed assets	14	**3,162,336**	3,340,063
Interest in an associate		**3**	3
Financial investments	15	**867,099**	–
Intangible assets	16	**2,099,804**	2,318,714
Deposits and prepayments	17	**100,265**	98,766
Deferred income tax assets		**6,614**	6,803
		6,249,019	5,778,387
Current assets			
Inventories		**673,765**	82,252
Financial investments	15	**15,027**	9,910
Trade receivables	17	**306,857**	332,495
Deposits and prepayments	17	**163,498**	169,049
Other receivables	17	**50,274**	44,801
Tax reserve certificate		**252,362**	252,362
Pledged bank deposits		**6,269**	2,579
Short-term bank deposits		**527,059**	1,838,734
Cash and cash equivalents		**2,594,362**	2,303,783
		4,589,473	5,035,965
Current liabilities			
Trade payables	18	**1,084,228**	754,944
Other payables and accruals		**727,622**	863,191
Current income tax liabilities		**448,401**	543,525
Bank borrowings	19	**124,971**	124,351
Customer prepayments and deposits		**687,880**	556,482
Deferred income		**245,025**	253,222
Mobile licence fee liabilities		**173,390**	196,533
		3,491,517	3,292,248
Net current assets		**1,097,956**	1,743,717
Total assets less current liabilities		**7,346,975**	7,522,104
Non-current liabilities			
Customer prepayments and deposits		**139,872**	216,902
Asset retirement obligations		**50,364**	52,904
Bank and other borrowings	19	**2,783,470**	2,844,421
Mobile licence fee liabilities		**213,688**	365,922
Deferred income tax liabilities		**134,453**	134,002
		3,321,847	3,614,151
Net assets		**4,025,128**	3,907,953

CONDENSED CONSOLIDATED BALANCE SHEET

As at 31 December 2015 and 30 June 2015

(Expressed in Hong Kong dollars)

	Note	Unaudited 31 December 2015 $000	Audited 30 June 2015 $000
Capital and reserves			
Share capital	20	**106,193**	105,668
Reserves		**3,865,660**	3,745,477
Total equity attributable to equity holders of the Company		**3,971,853**	3,851,145
Non-controlling interests		**53,275**	56,808
Total equity		**4,025,128**	3,907,953

The notes on pages 24 to 42 are an integral part of these condensed consolidated Interim Financial Statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 31 December 2015
(Expressed in Hong Kong dollars)

	Unaudited six months ended 31 December	
	2015	2014
	$000	$000
Cash flows from operating activities	**1,083,495**	1,698,213
Income tax paid	**(181,335)**	(4,467)
Purchase of tax reserve certificate	**–**	(252,362)
Net cash generated from operating activities	**902,160**	1,441,384
Cash flows from investing activities		
Payment for purchase of fixed assets	**(258,663)**	(454,912)
Payment of mobile licence fees	**(203,470)**	(193,345)
Additions of handset subsidies	**(233,232)**	(722,816)
Decrease in short-term deposits	**1,298,656**	22,839
Payment for purchase of held-to-maturity debt securities	**(860,001)**	–
Other investing activities	**35,033**	32,241
Net cash used in investing activities	**(221,677)**	(1,315,993)
Cash flows from financing activities		
Proceeds from bank borrowings	**–**	218,839
Repayment of bank borrowings	**(66,338)**	(56,887)
Dividends paid to the Company's equity holders	**(342,901)**	(125,980)
Proceeds from shares issued under share option scheme	**59,523**	670
Other financing activities	**(3,690)**	(6,574)
Net cash (used in)/generated from financing activities	**(353,406)**	30,068
Net increase in cash and cash equivalents	**327,077**	155,459
Effect of foreign exchange rate change	**(36,498)**	929
Cash and cash equivalents at 1 July	**2,303,783**	1,836,773
Cash and cash equivalents at 31 December	**2,594,362**	1,993,161

The notes on pages 24 to 42 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 2015
(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	5	794	–	–	–	(129)	–	–	670	–	670
Share-based payments	–	–	–	–	–	157	–	–	157	–	157
Lapse of share option	–	–	–	–	2,041	(2,041)	–	–	–	–	–
Payment of 2014 final dividend	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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2015

(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 2015	105,668	466,254	8,012	10,949	25,053	53,444	8,826	3,172,939	3,851,145	56,808	3,907,953
Comprehensive income											
Profit for the period	–	–	–	–	–	–	–	402,727	402,727	(3,533)	399,194
Other comprehensive income											
Fair value gain on financial investments, net of tax	–	–	5,117	–	–	–	–	–	5,117	–	5,117
Currency translation differences	–	–	–	–	–	–	(3,758)	–	(3,758)	–	(3,758)
Total comprehensive income for the period ended 31 December 2015	–	–	5,117	–	–	–	(3,758)	402,727	404,086	(3,533)	400,553
Transactions with owners											
Issue of shares (note 20(a))	466	70,467	–	–	–	(11,410)	–	–	59,523	–	59,523
Lapse of share option	–	–	–	–	17,195	(17,195)	–	–	–	–	–
Payment of 2015 final dividend (note 20(b))	59	7,281	–	–	–	–	–	(350,241)	(342,901)	–	(342,901)
Total transactions with owners	525	77,748	–	–	17,195	(28,605)	–	(350,241)	(283,378)	–	(283,378)
At 31 December 2015	106,193	544,002	13,129	10,949	42,248	24,839	5,068	3,225,425	3,971,853	53,275	4,025,128

The notes on pages 24 to 42 are an integral part of these condensed consolidated Interim Financial Statements.

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 2 February 2016.

2 Basis of preparation

These Interim Financial Statements for the six months ended 31 December 2015 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 2015, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

3 Accounting policies

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 30 June 2015, as described in those annual financial statements.

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

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

(Expressed in Hong Kong dollars)

3 Accounting policies *(continued)*

The following new standards and amendments to standards have been issued but are not yet effective for the financial year beginning 1 July 2015 and have not been early adopted.

Annual Improvements Project	Annual Improvements 2012-2014 Cycle[1]
HKAS 1 (Amendments)	Disclosure Initiative[1]
HKAS 16 and HKAS 38 (Amendments)	Clarification of Acceptable Methods of Depreciation and Amortisation[1]
HKAS 16 and HKAS 41 (Amendments)	Agriculture: Bearer Plants[1]
HKAS 27 (Amendments)	Equity Method in Separate Financial Statements[1]
HKFRS 9	Financial Instruments[2]
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 10, HKFRS 12 and HKAS 28 (Amendments)	Investment Entities: Applying the Consolidation Exception[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[2]

1 Effective for annual periods beginning on or after 1 January 2016.
2 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 2015.

5 Financial risk management and financial instruments

(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 2015.

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 2015 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 2015 and 30 June 2015.

	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Assets				
Available-for-sale financial assets (note 15)				
At 31 December 2015 (Unaudited)	**–**	**15,027**	**–**	**15,027**
At 30 June 2015 (Audited)	–	9,910	–	9,910

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 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 2015			
	Hong Kong $000	**Macau $000**	**Elimination $000**	**Consolidated $000**
Revenues	**10,162,284**	**392,734**	**(326,728)**	**10,228,290**
EBITDA	**1,360,580**	**16,900**	**–**	**1,377,480**
Depreciation, amortisation and loss on disposal	**(762,383)**	**(28,616)**	**53**	**(790,946)**
Operating profit/(loss)	**598,197**	**(11,716)**	**53**	**586,534**
Finance income				**27,209**
Finance costs				**(127,693)**
Profit before income tax				**486,050**

	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

6 Segment information *(continued)*

(b) Segment assets/(liabilities)

	At 31 December 2015 (Unaudited)			
	Hong Kong $000	**Macau $000**	**Unallocated $000**	**Consolidated $000**
Segment assets	**9,241,061**	**456,326**	**1,141,105**	**10,838,492**
Segment liabilities	**(6,050,316)**	**(180,194)**	**(582,854)**	**(6,813,364)**

	At 30 June 2015 (Audited)			
	Hong Kong $000	Macau $000	Unallocated $000	Consolidated $000
Segment assets	10,184,261	361,013	269,078	10,814,352
Segment liabilities	(6,079,931)	(148,941)	(677,527)	(6,906,399)

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

7 Finance income

	Unaudited six months ended 31 December	
	2015 $000	2014 $000
Interest income from listed debt securities	**8,542**	–
Interest income from bank deposits	**18,409**	31,791
Accretion income	**258**	574
	27,209	32,365

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	
	2015	2014
	$000	$000
Interest expense		
Bank and other borrowings wholly repayable within 5 years	**4,583**	4,578
Bank and other borrowings not wholly repayable within 5 years	**44,433**	44,656
Bank charges for credit card instalment	**3,144**	10,528
Accretion expenses		
Mobile licence fee liabilities	**28,093**	35,651
Asset retirement obligations	**863**	1,029
Net exchange loss/(gain) on financing activities (note 11)	**46,577**	(4,853)
	127,693	91,589

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	
	2015	2014
	$000	$000
Charging:		
Cost of services provided	**183,803**	222,358
Operating lease rentals for land and buildings, transmission sites and leased lines	**505,294**	505,637
Impairment loss of trade receivables (note 17)	**6,530**	5,906
Net exchange loss (note 11)	**53,086**	385
Loss on disposal of fixed assets	**4,437**	2,194
Depreciation of fixed assets, leasehold land and land use rights	**338,771**	358,677
Amortisation of handset subsidies	**352,829**	390,536
Amortisation of mobile licence fees	**94,909**	94,910
Share-based payments	**–**	157
Crediting:		
Reversal of impairment loss of inventories	**1,182**	3,634
Gain on disposal of financial investments	**–**	236

10 Income tax expense

Hong Kong profits tax has been provided at the rate of 16.5% (2014: 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	
	2015	2014
	$000	$000
Current income tax		
Hong Kong profits tax	**86,846**	96,148
Overseas tax	**731**	1,256
(Over)/under-provision in prior years		
Hong Kong profits tax	**(1,361)**	–
Overseas tax	**–**	151
	86,216	97,555
Deferred income tax	**640**	(1,211)
	86,856	96,344

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

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

	Unaudited six months ended 31 December	
	2015	2014
	$000	$000
Other operating expenses	**6,509**	5,238
Finance costs (note 8)	**46,577**	(4,853)
	53,086	385

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	
	2015	2014
Profit attributable to equity holders of the Company ($000)	**402,727**	466,289
Weighted average number of ordinary shares in issue	**1,059,979,044**	1,046,048,469
Basic earnings per share (cents per share)	**38.0**	44.6

(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	
	2015	2014
Profit attributable to equity holders of the Company ($000)	**402,727**	466,289
Weighted average number of ordinary shares in issue	**1,059,979,044**	1,046,048,469
Adjustment for dilutive share options	**1,218,996**	2,525
Weighted average number of ordinary shares for diluted earnings per share	**1,061,198,040**	1,046,050,994
Diluted earnings per share (cents per share)	**38.0**	44.6

13 Dividends

(a) In respect of the period

	Unaudited six months ended 31 December	
	2015	2014
	$000	$000
Interim dividend declared of 27 cents (2014: 27 cents) per share	**286,722**	282,693

At a meeting held on 2 February 2016, the directors declared an interim dividend of 27 cents per share for the year ending 30 June 2016. 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 2016.

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	
	2015	2014
	$000	$000
Final dividend of 33 cents (2014: 13 cents) per share	**350,241**	135,979

14 Fixed assets

	Unaudited
	$000
Opening net book amount at 1 July 2015	**3,340,063**
Additions	**169,243**
Disposals	**(7,684)**
Exchange differences	**(855)**
Depreciation	**(338,431)**
Closing net book amount at 31 December 2015	**3,162,336**
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

14 Fixed assets *(continued)*

During the six months ended 31 December 2015, major fixed assets acquired by the Group included network and testing equipment, including network under construction amounting to $133,966,000.

At 31 December 2015, buildings with carrying amount of $83,716,000 (30 June 2015: $84,935,000) were pledged as security for bank borrowings of the Group (note 19).

15 Financial investments

	Unaudited 31 December 2015 $000	Audited 30 June 2015 $000
Available-for-sale financial assets (a)	**15,027**	9,910
Held-to-maturity debt securities (b)	**867,099**	–
	882,126	9,910
Less: held-to-maturity debt securities maturing after 1 year included under non-current assets	**(867,099)**	–
Total current portion of financial investments	**15,027**	9,910

(a) Available-for-sale financial assets

	Unaudited $000
At 1 July 2015	**9,910**
Fair value gain transferred to equity	**5,117**
At 31 December 2015	**15,027**

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.

15 Financial investments *(continued)*

(b) Held-to-maturity debt securities

	Unaudited $000
At 1 July 2015	–
Additions	**860,001**
Amortisation	**7,064**
Exchange differences	**34**
At 31 December 2015	**867,099**

The held-to-maturity debt securities are denominated in US dollars.

The carrying amounts approximate their fair values.

During the six months ended 31 December 2015, no gain or loss arose on the disposal of held-to-maturity debt securities.

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

16 Intangible assets

	Unaudited		
	Handset subsidies $000	Mobile licence fees $000	Total $000
Opening net book amount at 1 July 2015	**823,932**	**1,494,782**	**2,318,714**
Additions	**233,232**	**–**	**233,232**
Amortisation	**(352,829)**	**(94,909)**	**(447,738)**
Disposal	**(4,404)**	**–**	**(4,404)**
Closing net book amount at 31 December 2015	**699,931**	**1,399,873**	**2,099,804**
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

17 Trade and other receivables

	Unaudited 31 December 2015 $000	Audited 30 June 2015 $000
Trade receivables	**318,682**	344,391
Less: provision for impairment of trade receivables	**(11,825)**	(11,896)
Trade receivables – net	**306,857**	332,495
Deposits and prepayments	**263,763**	267,815
Other receivables	**50,274**	44,801
	620,894	645,111
Less: deposits and prepayments included under non-current assets	**(100,265)**	(98,766)
Current assets	**520,629**	546,345

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 2015 $000	Audited 30 June 2015 $000
Current to 30 days	**266,408**	296,580
31 – 60 days	**22,385**	17,603
61 – 90 days	**6,902**	5,420
Over 90 days	**11,162**	12,892
	306,857	332,495

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 $6,530,000 (2014: $5,906,000) for the impairment of its trade receivables during the six months ended 31 December 2015. The loss has been included in "other operating expenses" in the condensed consolidated profit and loss account.

18 Trade payables

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

	Unaudited 31 December 2015 $000	Audited 30 June 2015 $000
Current to 30 days	**984,343**	715,044
31 – 60 days	**41,900**	16,187
61 – 90 days	**28,878**	1,595
Over 90 days	**29,107**	22,118
	1,084,228	754,944

19 Bank and other borrowings

	Unaudited 31 December 2015 $000	Audited 30 June 2015 $000
Secured bank borrowings	**66,000**	66,000
Unsecured bank borrowings	**1,315,389**	1,377,016
Guaranteed notes (a)	**1,527,052**	1,525,756
	2,908,441	2,968,772
Less: Bank borrowings included under current liabilities	**(124,971)**	(124,351)
Non-current portion	**2,783,470**	2,844,421

(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.

19 Bank and other borrowings *(continued)*

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

	Unaudited 31 December 2015 $000	Audited 30 June 2015 $000
Between 1 and 2 years	**129,648**	126,131
Between 2 and 5 years	**902,608**	899,918
Over 5 years	**1,751,214**	1,818,372
	2,783,470	2,844,421

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 2015				
Secured bank borrowings	**–**	**66,000**	**–**	**66,000**
Unsecured bank borrowings	**–**	**1,065,301**	**–**	**1,065,301**
Guaranteed notes	**1,479,666**	**–**	**–**	**1,479,666**
Total	**1,479,666**	**1,131,301**	**–**	**2,610,967**

	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
At 30 June 2015				
Secured bank borrowings	–	66,000	–	66,000
Unsecured bank borrowings	–	1,118,598	–	1,118,598
Guaranteed notes	1,453,392	–	–	1,453,392
Total	1,453,392	1,184,598	–	2,637,990

At 31 December 2015, secured bank borrowings are secured by certain buildings of the Group (note 14) (30 June 2015: same).

20 Share capital

	Unaudited	
	Shares of $0.1 each	$000
Authorised		
At 30 June 2015 and 31 December 2015	**2,000,000,000**	**200,000**
Issued and fully paid		
At 1 July 2015	**1,056,681,910**	**105,668**
Issue of new shares upon exercise of share options (a)	**4,657,500**	**466**
Issue of shares in lieu of cash dividends (b)	**595,398**	**59**
At 31 December 2015	**1,061,934,808**	**106,193**

(a) During the six months ended 31 December 2015, options were exercised to subscribe for 4,657,500 shares in the Company at a consideration of approximately $59,523,000, of which $466,000 was credited to share capital and the balance of $59,057,000 was credited to the share premium account.

In respect of share options exercised, an amount of $11,410,000 was reversed from the employee share-based compensation reserve and credited to the share premium account of the Group.

(b) On 1 September 2015, the board of directors declared a final dividend of 33 cents per share for the year ended 30 June 2015. The shareholders were provided with an option to receive the final dividend in form of scrip dividend. On 22 December 2015, 595,398 shares were issued at $12.328 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 2015	**$12.79**	**23,168,500**
Exercised	**$12.78**	**(4,657,500)**
Cancelled or lapsed	**$12.78**	**(7,374,000)**
At 31 December 2015	**$12.79**	**11,137,000**

At 31 December 2015, 11,137,000 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 2015 Number of share options	Audited 30 June 2015 Number of share options
13 June 2011	13 June 2012 to 12 June 2016	$12.78	**10,784,500**	22,778,500
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	**75,000**	112,500
			11,137,000	23,168,500

(c) Details of share options exercised

Share options exercised during the period resulted in 4,657,500 (six months ended 31 December 2014: 52,500) shares being issued. The related weighted average share price at the time of exercise was $14.10 (six months ended 31 December 2014: $13.04) per share.

22 Commitments and contingent liabilities

(a) Capital commitments

	Unaudited 31 December 2015 $000	Audited 30 June 2015 $000
Fixed assets		
Contracted for	**18,522**	46,223
Authorised but not contracted for	**432,657**	–
	451,179	46,223

22 Commitments and contingent liabilities *(continued)*

(b) Operating lease commitments

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

At 31 December 2015, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	Unaudited 31 December 2015 $000	Audited 30 June 2015 $000
Land and buildings and transmission sites		
No later than 1 year	**541,735**	559,461
Later than 1 year and no later than 5 years	**383,978**	386,902
Later than 5 years	**14,768**	19,079
	940,481	965,442
Leased lines		
No later than 1 year	**207,283**	203,693
Later than 1 year and no later than 5 years	**764,102**	788,424
Later than 5 years	**486,951**	484,260
	1,458,336	1,476,377

(c) Performance bonds

	Unaudited 31 December 2015 $000	Audited 30 June 2015 $000
Hong Kong	**301,243**	442,362
Macau	**2,136**	2,136
	303,379	444,498

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.

22 Commitments and contingent liabilities *(continued)*

(d) In prior year, 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 another standby letter of credit with amount of $980,400,000, being the final amount of spectrum utilisation fees determined during the auction.

(e) At 31 December 2015, 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 $1,127,730,000) and $500,000,000, of which US$108,962,000 (approximately $844,561,000) 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 63.52% of the Company's shares as at 31 December 2015. The remaining 36.48% of the shares are widely held, of which 2.72% is held by another subsidiary of Sun Hung Kai Properties Limited ("SHKP"). The ultimate holding company of the Group is SHKP, a company incorporated in Hong Kong.

(a) During the six months ended 31 December 2015, 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	
	2015	2014
	$000	$000
Operating lease rentals for land and buildings and transmission sites (i)	**59,583**	53,962
Insurance expenses (ii)	**3,419**	4,064

(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 2015, rental and licence fees paid and payable to subsidiaries and associated companies of SHKP totalled $59,583,000 (2014: $53,962,000).

(ii) Insurance services

Sun Hung Kai Properties Insurance Limited, a wholly owned subsidiary of SHKP, provides general insurance services to the Group. For the six months ended 31 December 2015, insurance premiums paid and payable were $3,419,000 (2014: $4,064,000).

23 Related party transactions *(continued)*

(b) At 31 December 2015, the Group had an interest in an associate, the major shareholder of which is a subsidiary of SHKP. The principal activity of the associate is to invest in an equity fund which primarily invests in technology related companies in the People's Republic of China.

(c) Key management compensation

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

	Unaudited six months ended 31 December	
	2015	2014
	$000	$000
Salaries, bonuses and other short-term employee benefits	**26,501**	21,762

(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 2015	Audited 30 June 2015
	$000	$000
Trade receivables (note 17)	**2,305**	1,534
Deposits and prepayments (note 17)	**12,202**	8,445
Other receivables (note 17)	**322**	108
Trade payables (note 18)	**2,837**	2,491
Other payables and accruals	**9,689**	7,069

The trading balances are unsecured, interest-free, repayable on similar terms to those offered to unrelated parties and arises from the ordinary course of business from provision of goods and services.

(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 2015 (2014: 27 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 Wednesday, 2 March 2016.

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 Tuesday, 5 April 2016 to shareholders whose names appear on the Register of Members of the Company on Monday, 22 February 2016.

Closure of register of members

The record date for entitlement to the interim dividend is Monday, 22 February 2016. For determining the entitlement to the interim dividend, the Register of Members of the Company will be closed for one day on Monday, 22 February 2016 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 Friday, 19 February 2016.

Directors' and chief executive's interests

As at 31 December 2015, 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	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	–	4,565,544 [1]	4,565,544	–	4,565,544	0.43
Chau Kam-kun, Stephen	–	11,000 [2]	11,000	2,000,000 [3]	2,011,000	0.19
Chan Kai-lung, Patrick	–	–	–	1,529,500 [3]	1,529,500	0.14
Fung Yuk-lun, Allen	247,500	–	247,500	–	247,500	0.02

(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 shares in the Company were held by the spouse of Mr. Chau Kam-kun, Stephen.

3. 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")

Name of Director	Number of shares held: Personal interests (held as beneficial owner)	Number of shares held: Other interests	Number of shares held: Total	Number of underlying shares held under equity derivatives	Total	% of shares in issue
Kwok Ping-luen, Raymond	188,743	501,957,186[1]	502,145,929	–	502,145,929	17.35
Chau Kam-kun, Stephen	1,000	–	1,000	83[2] (personal interests in warrants)	1,083	0
David Norman Prince	2,000	–	2,000	166[2] (personal interests in warrants)	2,166	0
Siu Hon-wah, Thomas	–	7,000[4]	7,000	583[2&5] (other interests in warrants)	7,583	0
Tsim Wing-kit, Alfred	–	–	–	48,000[3] (persoanl interests in share options)	48,000	0
John Anthony Miller	–	–	–	48,000[3] (persoanl interests in share options)	48,000	0
Li Ka-cheung, Eric	–	4,028[6]	4,028	335[2&7] (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 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).

3. 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				
Name of Director	Date of grant	Exercise price $	Exercise period *	Outstanding at 1 July 2015	Granted during the period	Exercised during the period	Cancelled/ Lapsed during the period	Outstanding at 31 December 2015
Tsim Wing-kit, Alfred	11 July 2014	106.80	11 July 2015 to 10 July 2019	48,000	–	–	–	48,000
John Anthony Miller	11 July 2014	106.80	11 July 2015 to 10 July 2019	48,000	–	–	–	48,000

* 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.

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

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

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

7. 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: Personal interests (held as beneficial owner)	Number of shares held: Other interests	Number of shares held: Total	Number of underlying shares held under equity derivatives	Total	% of shares in issue
Kwok Ping-luen, Raymond	–	3,485,000 [1]	3,485,000	–	3,485,000	0.15
Chau Kam-kun, Stephen	50,000	–	50,000	–	50,000	0

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 2015, 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 2015 are as follows:

				Number of share options				
Grantee	Date of grant	Exercise price $	Exercise period [1]	Outstanding at 1 July 2015	Granted during the period	Exercised during the period	Cancelled/ Lapsed during the period	Outstanding at 31 December 2015
Share options granted under the Old Scheme								
Directors								
Chau Kam-kun, Stephen	13 June 2011	12.78	13 June 2012 to 12 June 2016	2,000,000	–	–	–	2,000,000
Chan Kai-lung, Patrick	13 June 2011	12.78	13 June 2012 to 12 June 2016	2,000,000	–	(470,500) [2]	–	1,529,500
Douglas Li [3]	13 June 2011	12.78	13 June 2012 to 12 June 2016	9,400,000	–	(2,255,000) [4]	(7,145,000)	–
Employees under continuous contracts	13 June 2011	12.78	13 June 2012 to 12 June 2016	9,378,500	–	(1,932,000) [5]	(191,500)	7,255,000
	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	112,500	–	–	(37,500)	75,000

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 these share options were exercised was $14.77 per share.

3. Mr. Douglas Li resigned as Director of the Company with effect from 1 September 2015.

4. The weighted average closing price of the shares of the Company immediately before the date on which these share options were exercised was $13.60 per share.

5. The weighted average closing price of the shares of the Company immediately before the date on which these share options were exercised was $14.53 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 2015, 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	66.24%

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 2015, 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 2015 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 27 Janaury 2016 and reviewed the interim financial statements as well as the internal audit reports of the Group for the six months ended 31 December 2015. 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 2015 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 2015, 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, Mr. David Norman Prince, Non-Executive Director, and Mr. Yang Xiang-dong and Mr. Gan Fock-kin, Eric, both Independent Non-Executive Directors, were unable to attend the annual general meeting of the Company held on 4 November 2015 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.

OTHER INFORMATION

(Financial figures are expressed in Hong Kong dollars)

Compliance with model code for securities transactions by Directors

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 2015, they had fully complied with the required standard set out in the Model Code and there was no event of non-compliance.

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

Hong Kong, 2 February 2016

As at the date of this report, the Executive Directors of the Company are Mr. CHAU Kam-kun, Stephen (Interim 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.