Interim Report 2016/17

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 2016.

Financial Highlights and Review

Group service revenue was $2,674 million, a decline of 4% over the same period last year and a slight decline of 1% over the previous half. The decline in service revenue was due to customers continuing to migrate to SIM Only plans, weakness in the prepaid segment and the increasing use of OTT services affecting voice roaming revenues. Net profit was $393 million, down 2% over the previous year and unchanged compared to the previous six months.

Customer migration from handset-bundled plans to SIM Only plans had a limited impact on profitability because the decrease in service revenue was largely offset by the reduction in handset subsidy amortisation. Postpaid service revenue net of handset subsidy amortisation recorded a 2% increase over the same period last year and a 2% growth over the previous half.

Handset and accessory sales decreased by 64% year-on-year from $7,451 million to $2,699 million, weighing on total revenue which declined by 47% year-on-year and 34% half-on-half. While revenue has decreased substantially, the impact on profitability was limited as margin improved. Handset EBIT was $44 million, up 3% from the previous six-month period.

Hong Kong customer numbers increased to 2 million and mobile postpaid ARPU was stable at $299. Average postpaid churn rate for the period was 1.2%.

The Company continued its drive for efficiency, with operating costs increasing by only 1% over the same period last year, despite a substantial increase in customers' data usage.

During the six months, the Company accelerated on strengthening new services and offerings. Early results have been promising as shown in the take up rate of our roaming packages and Family Plans. SmarTone has also seen healthy growth at its Enterprise Solutions business, which offers tailored services to corporations beyond connectivity. Leveraging channels such as online stores, websites and mobile apps, the Company has been using digital platforms to drive sales and strengthen customer engagement.

The Company has reinforced its brand proposition, and underpinned it with excellent customer service and technology leadership. It has introduced innovative service ideas such as free Powerbank Rental and the market-first Flexi-switch contract feature, which gives customers greater flexibility to change their plans. These initiatives have been warmly received by customers.

In terms of technology, SmarTone is proud to have conducted Hong Kong's first demonstration of 5G. The Company has also joined forces with Ericsson to create an Innovation Hub that will focus on 5G development, foster cross industry collaboration and application in Internet of Things (IoT) and Cloud.

Dividend

With a strong operating cash flow and a healthy balance sheet, the Board is pleased to announce an interim dividend of 27 cents per share. It is the Board's intention, barring unforeseen circumstances, to keep the absolute full-year FY17 dividend per share unchanged from the full-year FY16 dividend. Shareholders have the option to receive new and fully paid shares in lieu of cash under a scrip dividend scheme.

(Financial figures are expressed in Hong Kong dollars)

Outlook

The macroeconomic environment is increasingly challenging and the mobile industry in Hong Kong remains intensely competitive. With rising spectrum costs, weaker handset business, and lower roaming revenue due to ongoing migration to OTT services, the Company expects pressure on profitability in the second half of FY17.

A lack of clarity about spectrum supply from the Government is causing uncertainty in the industry. As such, the Company urges the Government to accelerate the supply of more spectrum to the market and provide a clear spectrum supply roadmap. This is crucial for long-term planning by industry players and in ensuring Hong Kong does not fall behind other regional telecommunications markets on the path to 5G.

SmarTone will push forward with its focus on its core mobile business. This will mean targeting different market segments with tailored services and offerings, while actively exploring new income streams. The Company will continue to invest to strengthen its brand proposition, enhance the overall customer experience and extend its technology leadership.

The Board is confident that the Company is well placed to face the challenges and seek new opportunities to serve customers and meet the requirements of shareholders.

Appreciation

During the period under review, Mr. Tsim Wing-kit, Alfred retired by rotation as Non-Executive Director. I would like to thank Mr. Tsim for his valuable contribution at SmarTone over the years. 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, 16 February 2017

MANAGEMENT DISCUSSION AND ANALYSIS

(Financial figures are expressed in Hong Kong dollars)

Review of financial results

During the period under review, service revenue fell by $104 million or 4% to $2,674 million (first half of 2015/16: $2,778 million), and 1% from $2,693 million in second half of 2015/16. Local mobile service revenue fell 3% when compared with first half of 2015/16 amidst customer migration from handset-bundled plans to SIM-only plans and a decline in revenue from prepaid products. This was partly offset by a revenue increase from existing customers upgrading to the latest tariffs upon contract expiry.

The Group's postpaid mobile business has been sustained and stable. Although the shift by customers to SIM-only plans has moderately impacted local service revenue, there was a corresponding reduction in handset subsidy amortisation. As a result, Group service revenue net of handset subsidy amortisation only fell by 1% when compared with the same period last year. Postpaid service revenue net of handset subsidy amortisation rose 2% when compared with the same period last year. When compared to the second half of 2015/16, Group service revenue net of handset subsidy amortisation and postpaid service revenue net of handset subsidy amortisation both rose by 2%.

During the period under review, Group revenue decreased 47% to $5,372 million (first half of 2015/16: $10,228 million), comprising a 4% decrease in service revenue, and 64% decline in handset and accessory sales mainly due to changes in market conditions. Group EBITDA fell 9% to $1,249 million (first half of 2015/16: $1,377 million). Group profit attributable to equity holders of the Company dropped by 2% to $393 million (first half of 2015/16: $403 million).

Compared with the second half of 2015/16, Group revenue fell 34% (second half of 2015/16: $8,127 million), with the change comprising a 50% decrease in handset and accessory sales and a 1% decrease in service revenue. Group EBITDA dropped 3% (second half of 2015/16: $1,283 million), while Group profit attributable to equity holders of the Company remained stable at $393 million (second half of 2015/16: $394 million).

Roaming revenue, which made up of 14% of Group's service revenue (first half of 2015/16: 15%), decreased due to cannibalisation of voice and SMS usage by over-the-top (OTT) applications and a continuing global downward trend in inter-operator tariffs. However, data roaming usage also increased and this partly offsets the overall drop in roaming revenue.

Changing customer patterns and the increasing use of OTT applications for communications resulted in lower revenue from prepaid products.

Group service operating profit was $484 million, representing a 10% decline over the previous year and a 2% growth over the second half of 2015/16.

The Group continually strives to enhance the quality of its products and services while broadening its customer base and driving real value for customers. During the period under review, Hong Kong customer numbers increased by 1% year-on-year to 2 million. Although average mobile postpaid churn rate rose to 1.2% (first half of 2015/16: 0.9%) amid a concentration of contract expirations, the Group's postpaid ARPU remained a market-leading $299 with minimal dilution (first half of 2015/16: $301).

Group's handset and accessory sales fell 64% to $2,699 million when compared with $7,451 million for the first half of 2015/16 and down $2,735 million or 50% when compared with $5,434 million for the second half of 2015/16. While handset revenue declined substantially, average margin has improved, resulted only in a marginal decline in handset profits.

Cost of inventories sold fell $4,749 million or 64% to $2,655 million when compared with $7,404 million for the first half of 2015/16 and fell $2,736 million or 51% as compared with $5,391 million for the second half of 2015/16. This decline was broadly in line with the decrease in handset and accessory sales.

Staff costs rose by $21 million or 6% to $372 million (first half of 2015/16: $351 million) mainly amid an increase in share-based payments, one-off redundancy costs and annual salary adjustments during the period under review and the departure of a director during the same period last year. Compared with the second half of 2015/16, staff costs remained stable at $372 million (second half of 2015/16: $371 million).

Other operating expenses remained stable at $1,096 million (first half of 2015/16: $1,096 million). Compared with the second half of 2015/16, other operating expenses rose by $14 million or 1% to $1,096 million (second half of 2015/16: $1,083 million). Higher network operating costs, sales and marketing and general administrative expenses were partly offset by lower cost of services provided, rentals and utilities.

Depreciation and loss on disposal fell slightly by $1 million to $342 million when compared with $343 million for the first half of 2015/16. Compared with the second half of 2015/16, depreciation and loss on disposal fell by $5 million or 1% (second half of 2015/16: $347 million) mainly amid lower disposal loss for dismantled sites.

Handset subsidy amortisation fell by $88 million or 25% to $265 million when compared with $353 million for the first half of 2015/16 and fell by $58 million or 18% when compared with $323 million for the second half of 2015/16. This decline was due to continuing customer migration from handset-bundled plans to SIM-only plans.

Mobile licence fee amortisation rose by $19 million or 20% to $114 million (first half of 2015/16: $95 million; second half of 2015/16: $95 million) amidst commencement of amortisation of licence fee for the renewed and additional 2100 MHz spectrum.

Finance income rose slightly by $1 million to $28 million (first half of 2015/16: $27 million). Compared with the second half of 2015/16, finance income fell by $5 million (second half of 2015/16: $33 million) amid significantly lower average balance of bank deposits after payment for the renewed and additional 2100MHz spectrum.

Finance costs excluding exchange gain fell by $11 million to $70 million when compared with $81 million for the first half of 2015/16 and fell by $3 million when compared with $73 million for the second half of 2015/16 amid lower accretion expenses on mobile license fee liabilities.

Exchange gain related to cash, bank deposits and borrowings amounted to $1 million (first half of 2015/16: loss of $47 million from RMB deposits). Exchange loss related to cash, bank deposits and borrowings for the second half of 2015/16 amounted to $2 million. The Group had minimal exposure to RMB, other than for operating needs.

Income tax expenses amounted to $97 million (first half of 2015/16: $87 million), reflecting an effective tax rate of 19.9% (first half of 2015/16: 17.9%). In light of uncertainty of the tax deductibility of certain upfront payments for spectrum utilisation fees, these payments have been treated as non-deductible on cash or amortisation basis, Group effective tax is therefore higher than 16.5%.

The increase in the effective tax rate was due to a higher amortisation expense for upfront spectrum utilisation fees (treated as non-deductible expense) for the renewal and additional 2100 MHz spectrum and lower non-taxable interest income from significantly reduced cash deposits.

Capital structure, liquidity and financial resources

The Group maintained a strong balance sheet for the period under review. During the period, the Group was financed by share capital, internally generated funds and bank and other borrowings. As at 31 December 2016, the Group recorded share capital of $109 million, total equity of $4,500 million and total borrowings of $2,789 million.

The Group's cash resources remained robust with cash and bank balances (including pledged bank deposits and short-term bank deposits) of $849 million as at 31 December 2016 (30 June 2016: $3,242 million). The reduction was mainly due to payment of $2,287 million for the renewal and additional 2100MHz spectrum. The Group also has unutilised committed revolving banking facilities of $500 million as at 31 December 2016.

As at 31 December 2016, the Group had bank and other borrowings of $2,789 million (30 June 2016: $2,850 million) of which 80% were denominated in United States dollars and were arranged on a fixed rate basis. Net debt, after deducting cash and held-to-maturity debt securities, amounted to $1,110 million (30 June 2016: net cash of $1,262 million). Net debt to EBITDA (annualised) was 0.4X as at 31 December 2016 (30 June 2016: net cash to EBITDA at 0.5X).

The Group's net cash generated from operating activities and interest received was $826 million and $34 million respectively during the period ended 31 December 2016. The Group's major outflows of funds during the period were payments for mobile licence fees, dividends, additions of handset subsidies and purchases of fixed assets.

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 2017 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.

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 2016, certain bank deposits of the Group, in aggregate amount of $2 million (30 June 2016: $2 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 $81 million as at 31 December 2016 (30 June 2016: $82 million).

Interest rate exposure

The Group is exposed to interest rate changes that affect bank borrowings denominated in Hong Kong dollars which accounted for 20% of the Group's total borrowings at 31 December 2016. The remaining 80% 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 2016 under these performance bonds was $305 million (30 June 2016: $305 million).

Employees and share option scheme

The Group had 2,083 full-time employees as at 31 December 2016 (30 June 2016: 2,140), with the majority of them based in Hong Kong. Total staff costs were $372 million for the period ended 31 December 2016 (first half of 2015/16: $351 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, 3,000,000 new share options were granted; and 352,500 share options were cancelled or lapsed. 3,000,000 (30 June 2016: 352,500) share options were outstanding as at 31 December 2016.

DIRECTORS' PROFILE

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 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 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 2016, Mr. Kwok received a fee of HK$180,000. 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 was awarded an honorary degree of Doctor of Business Administration from The Open University of Hong Kong in 2016. 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 2016, Mr. Cheung received a fee of HK$162,000. 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, an Honorary Treasurer of the Hong Kong Federation of Youth Groups and a council member of The Hong Kong Management Association. Mr. Fung is a council member of Sir Edward Youde Memorial Fund and a member of the Board of the Asian Youth Orchestra.

Mr. Fung is also a member of the Remuneration Committee of the Company.

For the financial year ended 30 June 2016, Mr. Fung received a fee of HK$162,000. Except the above fee, Mr. Fung did not receive any other emoluments during the said financial year.

Anna YIP *Executive Director & Chief Executive Officer*

Ms. Anna Yip was appointed Executive Director and Chief Executive Officer of the Company in June 2016.

Ms. Yip holds a Bachelor degree in Business Administration from The Chinese University of Hong Kong and both MPhil and DPhil degrees in Management Studies from the University of Oxford.

Ms. Yip was Head of Hong Kong and Macau, MasterCard Asia/Pacific, taking responsibility for the overall performance of MasterCard across the two markets. Prior to joining MasterCard, Ms. Yip was the Managing Director for Corporate Planning and International Strategy at United Overseas Bank in Singapore. Previously, she was a Partner with McKinsey & Company in Greater China where she led the Asia Payments practice and co-led the Asia Financial Institutional Group. Ms. Yip has rich experience in leading organisations to build a strong service culture and drive superior customer engagement across multiple channels.

Ms. Yip is a Council member of The Open University of Hong Kong, and the chairperson and a member of its Audit Committee and Tender Board Committee respectively. She has also been appointed as a member of the Joint Committee on Student Finance.

Ms. Yip is also a director of certain subsidiaries of the Company.

For the period from 16 June 2016 (date of appointment as a director of the Company) to 30 June 2016, Ms. Yip received salaries and director's fee of HK$280,000 and HK$6,000 respectively.

DIRECTORS' PROFILE

CHAN Kai-lung, Patrick *Executive Director*

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

Mr. Chan 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 2016, Mr. Chan received salaries (including allowances, retirement scheme contributions and estimated money value of other benefits), bonus and director's fee of HK$5,757,000, HK1,187,000 and HK$144,000 respectively.

CHAU Kam-kun, Stephen *Executive Director*

Mr. Stephen Chau was appointed Executive Director of the Company in April 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 financial year ended 30 June 2016, Mr. Chau received salaries (including allowances, retirement scheme contributions and estimated money value of other benefits), bonus and director's fee of HK$6,014,000, HK1,187,000 and HK$144,000 respectively.

David Norman PRINCE *Non-Executive Director*

Mr. David Prince was appointed Director of the Company in July 2005. Mr. Prince has over 20 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 has been appointed as a non-executive director of SUNeVision Holdings Ltd. with effect from 29 October 2016. He is also a director of Wilson Group Limited and a consultant of Sun Hung Kai Real Estate Agency Limited, both are wholly-owned subsidiaries of Sun Hung Kai Properties Limited.

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 of Ark Therapeutics plc.

Mr. Prince 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. 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 also a member of the Nomination Committee of the Company.

For the financial year ended 30 June 2016, Mr. Prince received a fee of HK$144,000. 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 2016, Mr. Siu received a fee of HK$144,000. Except the above fee, Mr. Siu 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.

Mr. Miller was previously a non-executive director of SUNeVision Holdings Ltd. He was also chairman of Hong Kong Business Aviation Centre Limited, a partly-owned subsidiary of Sun Hung Kai Properties Limited until mid-2016.

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 2016, Mr. Miller received a fee of HK$144,000. 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., HonDSocSc (EdUHK), 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 and Roadshow Holdings Limited.

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 2016, Dr. Li received a fee of HK$288,000 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 chairman of Bank of China (Hong Kong) Trustees Limited, vice-chairman of Chiyu Banking Corporation Limited and a director of the BOCHK Charitable Foundation. He has been an independent non-executive director of MTR Corporation Limited (since December 2007), Nine Dragons Paper (Holdings) Limited (since March 2013) and Hanhua Financial Holding Co., Ltd. (since June 2013).

Mr. Ng is a Hong Kong Deputy to the 10th, 11th and 12th National People's Congress, P.R.C. He is also a director of the Hong Kong Mortgage Corporation Limited (from April 2014).

Mr. Ng was general manager of the Bank-wide Operation Department of Bank of China (Hong Kong) Limited from 2005 to 2009, and executive director and general manager of The China and South Sea Bank Limited, Hong Kong from 1990 to 1998. He was also the Chinese Representative of the Sino-British Land Commission and the trustee of Hong Kong Government Land Fund from 1988 to 1997, 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 and from 2012 to 2016, a member of the Hong Kong Housing Authority from 1996 to 2004, a member of the Court of Lingnan University from 1999 to 2011, a member of the managing board of the Kowloon-Canton Railway Corporation from 2004 to 2007, and a member of the board of management of the Chinese Permanent Cemeteries from 2009 to 2015.

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 2016, Mr. Ng received a fee of HK$288,000 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 is Managing Director and Chairman of Carlyle Asia, leading all corporate private equity investments in Asia (ex-Japan). He joined The Carlyle Group in 2001 as Co-Head of the Asia buyout advisory team. Prior to joining Carlyle, Mr. Yang spent nine years at Goldman Sachs, where he was a Managing Director and Co-Head of Private Equity Investment Asia ex-Japan.

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 2016, Mr. Yang received a fee of HK$144,000. 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 2016, Mr. Gan received a fee of HK$288,000 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 joined United Overseas Bank Limited ("UOB") in 2011. She is a Managing Director responsible for developing the Bank's Greater China strategy. Mrs. Ip has been appointed as CEO of UOB Hong Kong since 2012 and CEO Greater China with effect from 1 July 2016.

Mrs. Ip is a seasoned banker with more than 29 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 2016, Mrs. Ip received a fee of HK$144,000. 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.

Ms. Anna Yip, Executive Director, entered into an employment contract with the Company for her serving as Executive Director and Chief Executive Officer of the Company, with no fixed term of service. She is entitled to a basic salary which is subject to review by the Board from time to time with reference to her responsibility and performance. She is also entitled to a discretionary performance bonus, the computation of which is based on her performance and contributions to the Group. Ms. Yip'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. Ms. Yip 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.

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. As the Chief Technology 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 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 2016 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 2016 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, 16 February 2017

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 31 December 2016

(Expressed in Hong Kong dollars)

	Note	Unaudited six months ended 31 December 2016 $000	2015 $000
Service revenue		**2,673,627**	2,777,571
Handset and accessory sales		**2,698,677**	7,450,719
Revenues	6	**5,372,304**	10,228,290
Cost of inventories sold		**(2,655,218)**	(7,403,820)
Staff costs		**(372,037)**	(350,964)
Other operating expenses		**(1,096,478)**	(1,096,026)
Depreciation, amortisation and loss on disposal	9	**(721,207)**	(790,946)
Operating profit		**527,364**	586,534
Finance income	7	**28,247**	27,209
Finance costs	8	**(69,701)**	(127,693)
Profit before income tax	9	**485,910**	486,050
Income tax expense	10	**(96,576)**	(86,856)
Profit after income tax		**389,334**	399,194
Attributable to			
Equity holders of the Company		**393,399**	402,727
Non-controlling interests		**(4,065)**	(3,533)
		389,334	399,194
Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in cents per share)	12		
Basic		**36.4**	38.0
Diluted		**36.4**	38.0

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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 2016
(Expressed in Hong Kong dollars)

	Unaudited six months ended 31 December	
	2016	2015
	$000	$000
Profit for the period	**389,334**	399,194
Other comprehensive (loss)/income		
Items that may be reclassified subsequently to profit and loss:		
Fair value (loss)/gain on financial investments, net of tax	**(1,624)**	5,117
Currency translation differences	**(1,859)**	(3,758)
Other comprehensive (loss)/income for the period, net of tax	**(3,483)**	1,359
Total comprehensive income for the period	**385,851**	400,553
Total comprehensive income attributable to		
Equity holders of the Company	**389,916**	404,086
Non-controlling interests	**(4,065)**	(3,533)
	385,851	400,553

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 2016 and 30 June 2016
(Expressed in Hong Kong dollars)

	Note	Unaudited 31 December 2016 $000	Audited 30 June 2016 $000
Non-current assets			
Leasehold land and land use rights		**11,436**	12,264
Fixed assets	14	**3,054,707**	3,235,992
Interest in an associate		**3**	3
Financial investments	15	**709,015**	747,924
Intangible assets	16	**3,859,746**	1,757,113
Deposits and prepayments	17	**108,387**	117,296
Deferred income tax assets		**6,164**	6,497
		7,749,458	5,877,089
Current assets			
Inventories		**321,531**	340,770
Financial investments	15	**129,674**	133,180
Trade receivables	17	**289,926**	274,456
Deposits and prepayments	17	**166,377**	192,387
Other receivables	17	**44,968**	90,809
Tax reserve certificate		**252,362**	252,362
Pledged bank deposits		**2,385**	2,385
Short-term bank deposits		**–**	341,053
Cash and cash equivalents		**846,377**	2,898,512
		2,053,600	4,525,914
Current liabilities			
Trade payables	18	**521,599**	577,913
Other payables and accruals		**701,108**	853,473
Current income tax liabilities		**326,326**	545,292
Bank borrowings	19	**129,697**	126,228
Customer prepayments and deposits		**242,954**	325,633
Deferred income		**222,239**	228,047
Mobile licence fee liabilities		**59,278**	206,325
		2,203,201	2,862,911
Non-current liabilities			
Customer prepayments and deposits		**84,349**	73,871
Asset retirement obligations		**46,800**	47,839
Bank and other borrowings	19	**2,658,860**	2,724,195
Mobile licence fee liabilities		**180,051**	203,506
Deferred income tax liabilities		**129,529**	126,846
		3,099,589	3,176,257
Net assets		**4,500,268**	4,363,835

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CONDENSED CONSOLIDATED BALANCE SHEET

As at 31 December 2016 and 30 June 2016
(Expressed in Hong Kong dollars)

	Note	Unaudited 31 December 2016 $000	Audited 30 June 2016 $000
Capital and reserves			
Share capital	20	**109,088**	108,118
Reserves		**4,348,177**	4,208,649
Total equity attributable to equity holders of the Company		**4,457,265**	4,316,767
Non-controlling interests		**43,003**	47,068
Total equity		**4,500,268**	4,363,835

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 2016
(Expressed in Hong Kong dollars)

	Unaudited six months ended 31 December	
	2016	2015
	$000	$000
Cash flows from operating activities	**1,138,984**	1,083,495
Income tax paid	**(312,514)**	(181,335)
Net cash generated from operating activities	**826,470**	902,160
Cash flows from investing activities		
Payment for purchase of fixed assets	**(299,332)**	(258,663)
Payment of mobile licence fees	**(2,476,723)**	(203,470)
Additions of handset subsidies	**(196,733)**	(233,232)
Decrease in short-term deposits	**341,053**	1,298,656
Payment for purchase of held-to-maturity debt securities	**–**	(860,001)
Proceeds from disposal of held-to-maturity debt securities	**35,771**	–
Other investing activities	**35,832**	35,033
Net cash used in investing activities	**(2,560,132)**	(221,677)
Cash flows from financing activities		
Payment for repurchase of shares	**(23,635)**	–
Repayment of bank borrowings	**(66,385)**	(66,338)
Dividends paid to the Company's equity holders	**(227,796)**	(342,901)
Proceeds from shares issued under share option scheme	**–**	59,523
Other financing activities	**–**	(3,690)
Net cash used in financing activities	**(317,816)**	(353,406)
Net (decrease)/increase in cash and cash equivalents	**(2,051,478)**	327,077
Effect of foreign exchange rate change	**(657)**	(36,498)
Cash and cash equivalents at 1 July	**2,898,512**	2,303,783
Cash and cash equivalents at 31 December	**846,377**	2,594,362

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 2016
(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	466	70,467	–	–	–	(11,410)	–	–	59,523	–	59,523
Lapse of share option	–	–	–	–	17,195	(17,195)	–	–	–	–	–
Payment of 2015 final dividend	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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2016
(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 2016	108,118	797,046	9,079	10,949	53,394	1,096	3,959	3,333,126	4,316,767	47,068	4,363,835
Comprehensive income											
Profit for the period	–	–	–	–	–	–	–	393,399	393,399	(4,065)	389,334
Other comprehensive loss											
Fair value loss on financial investments, net of tax	–	–	(1,624)	–	–	–	–	–	(1,624)	–	(1,624)
Currency translation differences	–	–	–	–	–	–	(1,859)	–	(1,859)	–	(1,859)
Total comprehensive income for the period ended 31 December 2016	–	–	(1,624)	–	–	–	(1,859)	393,399	389,916	(4,065)	385,851
Transactions with owners											
Share-based payments	–	–	–	–	–	2,013	–	–	2,013	–	2,013
Lapse of share option	–	–	–	–	1,096	(1,096)	–	–	–	–	–
Repurchase of shares (note 20(a))	(189)	–	–	189	(23,446)	–	–	(189)	(23,635)	–	(23,635)
Payment of 2016 final dividend (note 20(b))	1,159	127,212	–	–	–	–	–	(356,167)	(227,796)	–	(227,796)
Total transactions with owners	970	127,212	–	189	(22,350)	917	–	(356,356)	(249,418)	–	(249,418)
At 31 December 2016	109,088	924,258	7,455	11,138	31,044	2,013	2,100	3,370,169	4,457,265	43,003	4,500,268

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 16 February 2017.

2 Basis of preparation

These Interim Financial Statements for the six months ended 31 December 2016 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 2016, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The Group's current liabilities exceeded its current assets by $149,601,000 as at 31 December 2016. Subscriptions of handset bundled plans resulted in handset subsidies included in non-current assets, and non-refundable customer prepayments included in current and non-current liabilities. Both handset subsidy and non-refundable customer prepayment will reduce gradually over the contract term of each subscription. Excluding the non-refundable customer prepayments of $200,149,000 (30 June 2016: $299,262,000) included in current liabilities, the Group would have net current assets of $50,548,000 as at 31 December 2016 (30 June 2016: $1,962,265,000). Based on the Group's history of its operating performance, availability of banking facilities and its expected future working capital requirements, there are sufficient financial resources available to the Group to meet its obligations as and when they fall due. Accordingly, these Interim Financial Statements have been prepared on a going concern basis.

(Expressed in Hong Kong dollars)

3 Accounting policies

The accounting policies applied are consistent with those of the annual financial statements for the year ended 30 June 2016, as described in those annual financial statements except for the adoption of amendments to HKFRSs effective for the financial year ending 30 June 2017.

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

The following amendments to standards are mandatory and relevant to the Group for the financial year beginning on 1 July 2016.

Annual Improvements Project	Annual Improvements 2012-2014 Cycle
HKAS 1 (Amendments)	Disclosure Initiative
HKAS 16 and HKAS 38 (Amendments)	Clarification of Acceptable Methods of Depreciation and Amortisation
HKAS 27 (Amendments)	Equity Method in Separate Financial Statements

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

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

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

The following new standards and amendments to standards have been issued but are not yet effective for the financial year beginning 1 July 2016 and have not been early adopted.

HKAS 7 (Amendments)	Statement of Cash Flows[1]
HKAS 12 (Amendments)	Income Taxes[1]
HKFRS 9	Financial Instruments[2]
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
HKFRS 15	Revenue from Contracts with Customers[2]
HKFRS 16	Leases[3]

1 Effective for annual periods beginning on or after 1 January 2017.
2 Effective for annual periods beginning on or after 1 January 2018.
3 Effective for annual periods beginning on or after 1 January 2019.
4 Effective for annual periods beginning on or after a date to be determined.

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 2016.

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 2016.

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 2016 by valuation method. The different levels have been defined as follows:

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

(ii) Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

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

The following table presents the Group's assets that are measured at fair value at 31 December 2016 and 30 June 2016.

	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Asset				
Available-for-sale financial assets (note 15)				
At 31 December 2016 (Unaudited)	**–**	**9,353**	**–**	**9,353**
At 30 June 2016 (Audited)	–	10,977	–	10,977

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 2016			
	Hong Kong	**Macau**	**Elimination**	**Consolidated**
	$000	**$000**	**$000**	**$000**
Revenues	**5,292,994**	**217,481**	**(138,171)**	**5,372,304**
EBITDA	**1,236,712**	**11,859**	**–**	**1,248,571**
Depreciation, amortisation and loss on disposal	**(692,605)**	**(28,611)**	**9**	**(721,207)**
Operating profit/(loss)	**544,107**	**(16,752)**	**9**	**527,364**
Finance income				**28,247**
Finance costs				**(69,701)**
Profit before income tax				**485,910**

	Unaudited six months ended 31 December 2015			
	Hong Kong	Macau	Elimination	Consolidated
	$000	$000	$000	$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

6 Segment information *(continued)*

(b) Segment assets/(liabilities)

	At 31 December 2016 (Unaudited)			
	Hong Kong	**Macau**	**Unallocated**	**Consolidated**
	$000	**$000**	**$000**	**$000**
Segment assets	**8,384,715**	**321,125**	**1,097,218**	**9,803,058**
Segment liabilities	**(4,700,118)**	**(146,817)**	**(455,855)**	**(5,302,790)**

	At 30 June 2016 (Audited)			
	Hong Kong	Macau	Unallocated	Consolidated
	$000	$000	$000	$000
Segment assets	8,898,894	364,143	1,139,966	10,403,003
Segment liabilities	(5,201,513)	(165,517)	(672,138)	(6,039,168)

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	
	2016	2015
	$000	$000
Interest income from listed debt securities	**21,868**	8,542
Interest income from bank deposits	**6,062**	18,409
Accretion income	**317**	258
	28,247	27,209

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	
	2016	2015
	$000	$000
Interest expense		
Bank and other borrowings	**48,187**	49,016
Bank charges for credit card instalment	**2,310**	3,144
Accretion expenses		
Mobile licence fee liabilities	**19,021**	28,093
Asset retirement obligations	**741**	863
Net exchange (gain)/loss on financing activities (note 11)	**(558)**	46,577
	69,701	127,693

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	
	2016	2015
	$000	$000
Charging:		
Cost of services provided	**161,522**	183,803
Operating lease rentals for land and buildings, transmission sites and leased lines	**516,781**	505,294
Impairment loss of trade receivables (note 17)	**10,396**	6,530
Net exchange loss (note 11)	**–**	53,086
Loss on disposal of fixed assets	**960**	4,437
Depreciation of fixed assets, leasehold land and land use rights	**341,408**	338,771
Amortisation of handset subsidies	**265,309**	352,829
Amortisation of mobile licence fees	**113,530**	94,909
Share-based payments	**2,013**	–
Crediting:		
Reversal of impairment loss of inventories	**4,624**	1,182
Net exchange gain (note 11)	**1,041**	–

10 Income tax expense

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 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	
	2016	2015
	$000	$000
Current income tax		
Hong Kong profits tax	**95,980**	86,846
Overseas tax	**768**	731
Over-provision in prior years		
Hong Kong profits tax	**–**	(1,361)
Overseas tax	**(3,188)**	–
	93,560	86,216
Deferred income tax	**3,016**	640
	96,576	86,856

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 (gain)/loss

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

	Unaudited six months ended 31 December	
	2016	2015
	$000	$000
Other operating expenses	**(483)**	6,509
Finance costs (note 8)	**(558)**	46,577
	(1,041)	53,086

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	
	2016	2015
Profit attributable to equity holders of the Company ($000)	**393,399**	402,727
Weighted average number of ordinary shares in issue	**1,080,874,643**	1,059,979,044
Basic earnings per share (cents per share)	**36.4**	38.0

(b) Diluted

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

	Unaudited six months ended 31 December	
	2016	2015
Profit attributable to equity holders of the Company ($000)	**393,399**	402,727
Weighted average number of ordinary shares in issue	**1,080,874,643**	1,059,979,044
Adjustment for dilutive share options	**–**	1,218,996
Weighted average number of ordinary shares for diluted earnings per share	**1,080,874,643**	1,061,198,040
Diluted earnings per share (cents per share)	**36.4**	38.0

13 Dividends

(a) In respect of the period

	Unaudited six months ended 31 December	
	2016	2015
	$000	$000
Interim dividend declared of 27 cents (2015: 27 cents) per share	**294,130**	286,722

At a meeting held on 16 February 2017, the directors declared an interim dividend of 27 cents per share for the year ending 30 June 2017. 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 2017.

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	
	2016	2015
	$000	$000
Final dividend of 33 cents (2015: 33 cents) per share	**356,167**	350,241

14 Fixed assets

	Unaudited
	$000
Opening net book amount at 1 July 2016	**3,235,992**
Additions	**162,667**
Disposals	**(2,494)**
Exchange differences	**(369)**
Depreciation	**(341,089)**
Closing net book amount at 31 December 2016	**3,054,707**
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

14 Fixed assets *(continued)*

During the six months ended 31 December 2016, major fixed assets acquired by the Group included network and testing equipment, including network under construction amounting to $134,559,000.

At 31 December 2016, buildings with carrying amount of $81,278,000 (30 June 2016: $82,497,000) were pledged as security for bank borrowings of the Group (note 19).

15 Financial investments

	Unaudited 31 December 2016 $000	Audited 30 June 2016 $000
Available-for-sale financial assets (a)	**9,353**	10,977
Held-to-maturity debt securities (b)	**829,336**	870,127
	838,689	881,104
Less: held-to-maturity debt securities maturing after 1 year included under non-current assets	**(709,015)**	(747,924)
Total current portion of financial investments	**129,674**	133,180

(a) Available-for-sale financial assets

	Unaudited $000
At 1 July 2016	**10,977**
Fair value loss transferred to equity	**(1,624)**
At 31 December 2016	**9,353**

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 2016	**870,127**
Disposal	**(35,726)**
Amortisation	**(4,578)**
Exchange differences	**(487)**
At 31 December 2016	**829,336**

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 2016, the Group has recognised a gain on disposal of held-to-maturity debt securities of $45,000 upon exercise of call option by an issuer (2015: nil).

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 2016	**452,150**	**1,304,963**	**1,757,113**
Additions	**196,733**	**2,287,200**	**2,483,933**
Amortisation	**(265,309)**	**(113,530)**	**(378,839)**
Disposal	**(2,461)**	**–**	**(2,461)**
Closing net book amount at 31 December 2016	**381,113**	**3,478,633**	**3,859,746**
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

17 Trade and other receivables

	Unaudited 31 December 2016 $000	Audited 30 June 2016 $000
Trade receivables	**303,648**	286,697
Less: provision for impairment of trade receivables	**(13,722)**	(12,241)
Trade receivables – net	**289,926**	274,456
Deposits and prepayments	**274,764**	309,683
Other receivables	**44,968**	90,809
	609,658	674,948
Less: deposits and prepayments included under non-current assets	**(108,387)**	(117,296)
Current assets	**501,271**	557,652

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 2016 $000	Audited 30 June 2016 $000
Current to 30 days	**261,827**	244,690
31 – 60 days	**20,422**	19,385
61 – 90 days	**5,078**	4,362
Over 90 days	**2,599**	6,019
	289,926	274,456

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 $10,396,000 (2015: $6,530,000) for the impairment of its trade receivables during the six months ended 31 December 2016. 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 2016 $000	Audited 30 June 2016 $000
Current to 30 days	**342,745**	514,218
31 – 60 days	**97,383**	32,851
61 – 90 days	**34,939**	7,262
Over 90 days	**46,532**	23,582
	521,599	577,913

19 Bank and other borrowings

	Unaudited 31 December 2016 $000	Audited 30 June 2016 $000
Secured bank borrowings	**66,000**	66,000
Unsecured bank borrowings	**1,191,730**	1,254,292
Guaranteed notes (a)	**1,530,827**	1,530,131
	2,788,557	2,850,423
Less: Bank borrowings included under current liabilities	**(129,697)**	(126,228)
Non-current portion	**2,658,860**	2,724,195

(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 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 2016				
Secured bank borrowings	**–**	**62,633**	**–**	**62,633**
Unsecured bank borrowings	**–**	**959,369**	**–**	**959,369**
Guaranteed notes	**1,511,999**	**–**	**–**	**1,511,999**
Total	**1,511,999**	**1,022,002**	**–**	**2,534,001**

	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
At 30 June 2016				
Secured bank borrowings	–	66,000	–	66,000
Unsecured bank borrowings	–	1,012,646	–	1,012,646
Guaranteed notes	1,582,470	–	–	1,582,470
Total	1,582,470	1,078,646	–	2,661,116

At 31 December 2016, secured bank borrowings are secured by certain buildings of the Group (note 14) (30 June 2016: same).

20 Share capital

	Unaudited	
	Shares of $0.1 each	$000
Authorised		
At 30 June 2016 and 31 December 2016	**2,000,000,000**	**200,000**
Issued and fully paid		
At 1 July 2016	**1,081,177,540**	**108,118**
Repurchase of shares (a)	**(1,885,000)**	**(189)**
Issue of shares in lieu of cash dividends (b)	**11,585,801**	**1,159**
At 31 December 2016	**1,090,878,341**	**109,088**

(Expressed in Hong Kong dollars)

20 Share capital *(continued)*

(a) During the six months ended 31 December 2016, the Company repurchased and cancelled 1,885,000 shares on the HKSE. The total amount paid to acquire these cancelled shares of $23,635,000 was deducted from equity attributable to equity holders.

(b) On 26 August 2016, the board of directors declared a final dividend of 33 cents per share for the year ended 30 June 2016. The shareholders were provided with an option to receive the final dividend in form of scrip dividend. On 16 December 2016, 11,585,801 shares were issued at $11.08 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 2016	**$13.13**	**352,500**
Granted	**$14.28**	**3,000,000**
Cancelled or lapsed	**$13.13**	**(352,500)**
At 31 December 2016	**$14.28**	**3,000,000**

At 31 December 2016, no share options were exercisable.

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

Date of grant	Exercise period	Exercise price per share	**Unaudited 31 December 2016 Number of share options**	Audited 30 June 2016 Number of share options
30 November 2011	30 November 2012 to 29 November 2016	$13.02	**–**	277,500
30 December 2011	30 December 2012 to 29 December 2016	$13.52	**–**	75,000
25 July 2016	25 July 2017 to 24 July 2021	$14.28	**3,000,000**	–
			3,000,000	352,500

(c) Details of share options exercised

No share options were exercised during the six months ended 31 December 2016.

Share options exercised during the six months ended 31 December 2015 resulted in 4,657,500 shares being issued. The related weighted average share price at the time of exercise was $14.10 per share.

22 Commitments and contingent liabilities

(a) Capital commitments

	Unaudited 31 December 2016 $000	Audited 30 June 2016 $000
Fixed assets		
Contracted for	104,110	117,144
Authorised but not contracted for	290,048	–
	394,158	117,144

(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 2016, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	Unaudited 31 December 2016 $000	Audited 30 June 2016 $000
Land and buildings and transmission sites		
No later than 1 year	569,411	591,012
Later than 1 year and no later than 5 years	321,816	375,181
Later than 5 years	13,115	18,738
	904,342	984,931
Leased lines		
No later than 1 year	237,925	234,808
Later than 1 year and no later than 5 years	717,327	719,386
Later than 5 years	364,559	441,241
	1,319,811	1,395,435

22 Commitments and contingent liabilities *(continued)*

(c) Performance bonds

	Unaudited 31 December 2016 $000	Audited 30 June 2016 $000
Hong Kong	**301,243**	301,243
Macau	**3,883**	3,883
	305,126	305,126

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

(d) At 31 December 2016, the Company and certain of its subsidiaries have provided corporate guarantee for general banking facilities granted to a wholly owned subsidiary of US$145,495,000 (approximately $1,128,167,000) and $500,000,000, of which US$91,845,000 (approximately $712,163,000) 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 63.77% of the Company's shares as at 31 December 2016. The remaining 36.23% of the shares are widely held, of which 3.61% is held by another subsidiary of Sun Hung Kai Properties Limited ("SHKP"). The ultimate holding company of the Group is SHKP, a company incorporated in Hong Kong.

23 Related party transactions *(continued)*

(a) During the six months ended 31 December 2016, 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	
	2016	2015
	$000	$000
Operating lease rentals for land and buildings and transmission sites (i)	**62,400**	59,583
Insurance expenses (ii)	**2,758**	3,419

(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 2016, rental and licence fees paid and payable to subsidiaries and associated companies of SHKP totalled $62,400,000 (2015: $59,583,000).

(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 2016, insurance premiums paid and payable were $2,758,000 (2015: $3,419,000).

(b) At 31 December 2016, the Group had an interest in an associate, the major shareholder of which is a subsidiary of SHKP. The principal activity of the associate is to invest in an equity fund which primarily invests in technology related companies in the People's Republic of China.

23 Related party transactions *(continued)*

(c) Key management compensation

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

	Unaudited six months ended 31 December	
	2016	2015
	$000	$000
Salaries, bonuses and other short-term employee benefits	**19,831**	26,501
Share-based payments	**2,013**	–
	21,844	26,501

(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 2016 $000	Audited 30 June 2016 $000
Trade receivables (note 17)	**1,416**	1,772
Deposits and prepayments (note 17)	**14,216**	9,669
Other receivables (note 17)	**430**	322
Trade payables (note 18)	**978**	193
Other payables and accruals	**8,197**	13,920

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 2016 (2015: 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 Monday, 13 March 2017.

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

The interim dividend will be distributed, and the share certificates issued under the Scrip Dividend Scheme will be sent on or about Wednesday, 12 April 2017 to shareholders whose names appear on the Register of Members of the Company on Friday, 3 March 2017.

Closure of register of members

The record date for entitlement to the interim dividend is Friday, 3 March 2017. For determining the entitlement to the interim dividend, the Register of Members of the Company will be closed for one day on Friday, 3 March 2017 during which no transfer of shares will be effected. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Thursday, 2 March 2017.

Directors' and chief executive's interests

As at 31 December 2016, 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	–	4,708,523 [1]	4,708,523	–	4,708,523	0.43
Fung Yuk-lun, Allen	402,841	–	402,841	–	402,841	0.04
Anna Yip	–	–	–	3,000,000 [2]	3,000,000	0.28
Chau Kam-kun, Stephen	–	11,000 [3]	11,000	–	11,000	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 the Company by virtue of him being a beneficiary of a discretionary trust for the purpose of Part XV of the SFO.

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

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

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

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

	Number of shares held					
Name of Director	Personal interests (held as beneficial owner)	Other interests	Total	Number of underlying shares held under equity derivatives	Total	% of shares in issue
Kwok Ping-luen, Raymond	188,743	514,093,186 [1]	514,281,929	–	514,281,929	17.76
Chau Kam-kun, Stephen	1,000	–	1,000	–	1,000	0
David Norman Prince	2,000	–	2,000	–	2,000	0
Siu Hon-wah, Thomas	–	7,000 [2]	7,000	–	7,000	0
John Anthony Miller	–	–	–	48,000 [3] (personal interests in share options)	48,000	0
Li Ka-cheung, Eric	–	4,028 [4]	4,028	–	4,028	0

Notes:

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

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

(Financial figures are expressed in Hong Kong dollars)

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:

Name of Director	Date of grant	Exercise price $	Exercise period *	Number of share options: Outstanding at 1 July 2016	Granted during the period	Exercised during the period	Cancelled/ Lapsed during the period	Outstanding at 31 December 2016
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 by the spouse of Dr. Li Ka-cheung, Eric.

(b) SUNeVision Holdings Ltd. ("SUNeVision")

Name of Director	Number of shares held: Personal interests (held as beneficial owner)	Other interests	Total	Number of underlying shares held under equity derivatives	Total	% of shares in issue
Kwok Ping-luen, Raymond	–	3,485,000[1]	3,485,000	–	3,485,000	0.15
Fung Yuk-lun, Allen	–	–	–	4,000,000[2]	4,000,000	0.17
Chau Kam-kun, Stephen	50,000	–	50,000	–	50,000	0

Notes:

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.

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

Name of Director	Date of grant	Exercise price $	Exercise period *	Number of share options: Outstanding at 1 July 2016	Granted during the period	Exercised during the period	Cancelled/ Lapsed during the period	Outstanding at 31 December 2016
Fung Yuk-lun, Allen	8 March 2016	2.45	8 March 2017 to 7 March 2021	4,000,000	–	–	–	4,000,000

(Financial figures are expressed in Hong Kong dollars)

* The share options of SUNeVision 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.

(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 2016, 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.

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.

(Financial figures are expressed in Hong Kong dollars)

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 2016 are as follows:

				Number of share options				
Grantee	Date of grant	Exercise price $	Exercise period [1]	Outstanding at 1 July 2016	Granted during the period	Exercised during the period	Cancelled/ Lapsed during the period	Outstanding at 31 December 2016
Share options granted under the Old Scheme								
Employees under continuous contracts	30 November 2011	13.02	30 November 2012 to 29 November 2016	277,500	–	–	(277,500)	–
Share options granted under the New Scheme								
Director								
Anna Yip	25 July 2016	14.28	25 July 2017 to 24 July 2021	N/A	3,000,000 [2]	–	–	3,000,000
Employees under continuous contracts	30 December 2011	13.52	30 December 2012 to 29 December 2016	75,000	–	–	(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 closing price of the shares of the Company immediately before the date on which the options were granted was $13.82 per share.

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.

Valuation of share options granted during the period

On 25 July 2016, the Company granted share options to a director of the Company under the New Scheme to subscribe for up to a total of 3,000,000 shares in the capital of the Company. The value of these share options, as calculated by using the Binominal option pricing model, was $7,544,000.

The Binominal model is one of the generally accepted methodologies to calculate the value of an option. The significant inputs into the model were:

Annual risk-free interest rate	0.72% [1]
Expected option life	5 years [2]
Volatility	38.04% [3]
Dividend yield	4.5% [4]
Exercise price	$14.28
Share price at date of grant	$14.28

(Financial figures are expressed in Hong Kong dollars)

Notes:

1. This represents the rate of safety investment, which is based on the market yield rates of Hong Kong government bond (maturing 6 December 2021) as of the valuation date.

2. This represents the life of the options as measured from the date of grant.

3. This represents the average standard deviation of historical share price movement of the Company in the relevant periods matching expected life of the share options.

4. This represents the dividend yield determined by reference to the forecast 2016 dividend yield of the Company as extracted from Bloomberg.

The value of the share options is subject to a number of assumptions and with regard to the limitation of model. Therefore, the value may be subjective and would change should any of the assumptions change.

Interests of substantial shareholder

As at 31 December 2016, 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]	735,070,674	67.38%

Note:

1. TFS Development Company Limited ("TFS") and Cellular 8 Holdings Limited ("Cellular 8", a wholly owned subsidiary of TFS) held 39,368,484 shares and 695,702,190 shares in the Company respectively. For the purpose of Part XV of the SFO, TFS was deemed to be interested in 695,702,190 shares in the Company held by Cellular 8. Accordingly, TFS had interests and deemed interests in an aggregate of 735,070,674 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 735,070,674 shares in the Company.

Save as disclosed above, as at 31 December 2016, 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.

(Financial figures are expressed in Hong Kong dollars)

Purchase, sale or redemption of shares

During the six months ended 31 December 2016, the Company repurchased 3,391,500 shares of the Company on the HKSE. Of these repurchased shares, 1,885,000 shares were cancelled prior to 31 December 2016 and the balance of 1,506,500 shares were cancelled subsequently after 31 December 2016. Details of the repurchases were as follows:

Month of repurchase	Number of shares repurchased	Price per share Highest $	Price per share Lowest $	Aggregate price paid $
August 2016	1,394,000	12.88	12.20	17,426,000
September 2016	491,000	12.68	12.58	6,209,000
December 2016	1,506,500	10.36	10.22	15,507,000
	3,391,500			39,142,000

The Directors considered that the repurchases could lead to an enhancement of the Company's net asset value per share and/or the earnings per share. Save as disclosed above, at no time during the six months ended 31 December 2016 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) and Mr. Gan Fock-kin, Eric (Independent Non-Executive Director). All 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 9 February 2017 and reviewed the interim financial statements as well as the internal audit reports of the Group for the six months ended 31 December 2016. 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 2016 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.

OTHER INFORMATION

(Financial figures are expressed in Hong Kong dollars)

Corporate governance

The Company is committed to building and maintaining high standards of corporate governance. Throughout the six months ended 31 December 2016, 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. Mr. Tsim Wing-kit, Alfred, Non-Executive Director, and Dr. Li Ka-cheung, Eric, Mr. Yang Xiang-dong, Mr. Gan Fock-kin, Eric and Mrs. Ip Yeung See-ming, Christine, Independent Non-Executive Directors, were unable to attend the annual general meeting of the Company held on 1 November 2016 due to overseas commitments or other prior engagements. The remaining seven Independent Non-Executive Directors and Non-Executive Directors (representing 58% 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.

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

Compliance with model code for securities transactions 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 2016, 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, 16 February 2017

As at the date of this report, the Executive Directors of the Company are Ms. Anna YIP (Chief Executive Officer), Mr. CHAN Kai-lung, Patrick and Mr. CHAU Kam-kun, Stephen; 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 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.