SmarTone Telecommunications Holdings Limited

**Stock Code : 0315**

# Annual Report 2016/17

4.5G POWERFUL NETWORK

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# ABOUT US

**SmarTone Telecommunications Holdings Limited** (0315.HK) is a leading telecommunications company with operating subsidiaries in Hong Kong and Macau, providing voice, multimedia and mobile broadband services, as well as fixed fibre broadband services for the consumer and corporate markets. Its goal is to deliver unbeatable and valuable experiences to customers through its powerful network, purposeful apps and passionate service. The company has been listed in Hong Kong since 1996. It is a subsidiary of Sun Hung Kai Properties Limited (0016.HK).

# DIRECTORS AND CORPORATE INFORMATION

## Board of Directors

| | |
|---|---|
| * | Mr. KWOK Ping-luen, Raymond<br>*Chairman* |
| * | Mr. CHEUNG Wing-yui<br>*Deputy Chairman* |
| * | Mr. FUNG Yuk-lun, Allen<br>*Deputy Chairman* |
| | Ms. Anna YIP<br>*Chief Executive Officer* |
| | Mr. CHAN Kai-lung, Patrick |
| | Mr. CHAU Kam-kun, Stephen |
| * | Mr. David Norman PRINCE |
| * | Mr. SIU Hon-wah, Thomas |
| * | Mr. John Anthony MILLER |
| ** | Dr. LI Ka-cheung, Eric, *JP* |
| ** | Mr. NG Leung-sing, *JP* |
| ** | Mr. YANG Xiang-dong |
| ** | Mr. GAN Fock-kin, Eric |
| ** | Mrs. IP YEUNG See-ming, Christine |
| ** | Mr. LAM Kwok-fung, Kenny |

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

## Company Secretary

Mr. MAK Yau-hing, Alvin

## Authorised Representatives

Ms. Anna YIP
Mr. MAK Yau-hing, Alvin

## Registered Office

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

## Head Office and Principal Place of Business

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

## Auditors

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

## Hong Kong Share Registrar

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

## Principal Share Registrar

MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke HM 08
Bermuda

## Principal Bankers

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

## Legal Advisors to the Company

*As to Hong Kong law*
Slaughter and May

*As to Bermuda law*
Conyers, Dill & Pearman

## Bermuda Resident Representative

Conyers Corporate Services (Bermuda) Limited
Clarendon House, 2 Church Street,
Hamilton HM 11, Bermuda

# FINANCIAL HIGHLIGHTS

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

| | Year ended or as at 30 June 2017 | 2016 |
|---|---|---|
| **Consolidated profit and loss account** | | |
| Revenues | **8,715** | 18,356 |
| Profit attributable to equity holders of the Company | **672** | 797 |
| Basic earnings per share ($) | **0.62** | 0.75 |
| Total dividends per share ($) | **0.60** | 0.60 |
| **Consolidated balance sheet** | | |
| Total assets | **9,776** | 10,403 |
| Current liabilities | **(2,185)** | (2,863) |
| Total assets less current liabilities | **7,591** | 7,540 |
| Non-current liabilities | **(2,956)** | (3,176) |
| Non-controlling interests | **(41)** | (47) |
| Net assets | **4,594** | 4,317 |
| Share capital | **111** | 108 |
| Reserves | **4,483** | 4,209 |
| Total equity attributable to equity holders of the Company | **4,594** | 4,317 |

| | Year ended 30 June 2017 | 2016 |
|---|---|---|
| **Consolidated cash flows** | | |
| Net cash generated from operating activities | **1,750** | 1,513 |
| Interest received | **61** | 64 |
| Payment for purchase of fixed assets | **(575)** | (606) |
| Proceeds from disposal of held-to-maturity debt securities | **152** | — |
| Payment of mobile licence fees | **(2,501)** | (203) |
| Additions of handset subsidies | **(282)** | (309) |
| Payment for purchase of held-to-maturity debt securities | **—** | (860) |
| Dividends paid | **(306)** | (464) |
| Repayment of bank borrowings (net) | **(183)** | (133) |
| Proceeds from shares issued under share option scheme | **—** | 136 |
| Payment for repurchase of shares | **(88)** | — |
| Others | **1** | 9 |
| Net decrease in pledged bank deposits, short-term bank deposits, and cash and cash equivalents | **(1,971)** | (853) |

# CHAIRMAN'S STATEMENT

(Financial figures are expressed in Hong Kong dollars)

I am pleased to report the results of the Company for the year ended 30 June 2017.

The period under review has been dominated by challenging market conditions. Core postpaid service revenue (net of handset subsidy amortisation) has remained steady while net profit declined 16% to $672 million. The drop in profit was due to the increase in spectrum costs, declining voice roaming revenues, lower handset profits and severe competitive pressure. To mitigate against these factors, the Company is taking active steps to implement productivity improvements, while continuing to invest in business fundamentals, including its customer-centric strategy and superior network performance.

## Financial Highlights and Review

Group service revenue was $5,160 million, a drop of 6% over the previous year, due to increased migration from handset-bundled plans to SIM Only plans, weakness in the prepaid segment and a decline in voice roaming revenues. However, net of handset subsidy amortisation, the underlying postpaid service revenue has shown resilience and remained unchanged from the prior year. Local mobile postpaid service revenue net of handset subsidy amortisation has increased by 2%, reflecting the strength of the core local mobile business.

SmarTone increased its Hong Kong customer number by 4% to 2.06 million. This was driven by a number of measures, including a focus on customer acquisition through segmented offerings and retention through loyalty initiatives. The Company has continued to invest in branding and marketing to grow its customer base. During the reporting period, churn rate was 1.0% and mobile postpaid ARPU was $285.

The Company has continued to focus on operational efficiency and OPEX remained stable while CAPEX fell by 14%.

During the year under review, SmarTone reinforced its network superiority and technological leadership with the aim of providing the best customer experience in Hong Kong. At the same time, the Company has remained agile to changing customer needs and has developed platforms to enhance customer engagement across a number of digital touchpoints. These include the company website, 24/7 Live Chat, online store and the SmarTone CARE app. SmarTone strengthened its position as a technology leader through the well-received "Powerful Network" campaign to highlight superior network performance, particularly along the MTR lines.

SmarTone continued to invest in expanding capacity and delivering superior network performance to support the growing customer demand for data services. As part of its ongoing investment in 4.5G/5G technologies, the Company has made substantial progress in the implementation of quad-band Carrier Aggregation, 256QAM and 4X4 MIMO. These upgrades will further enhance overall network performance and customer experience. In addition, SmarTone became the first mobile operator in Hong Kong to successfully complete the LAA trial, an innovative technology combining licensed and unlicensed spectrum to uplift LTE data speed. The Company is also in the process of modernising its core network, an important step to support the network evolution from 4.5G to 5G.

## Dividend

The Board is pleased to declare a final dividend of 33 cents per share, making a full-year dividend of 60 cents per share. Shareholders have the option to receive new and fully paid shares in lieu of cash under a scrip dividend scheme. The Company's payout policy remains unchanged at 75%.

# CHAIRMAN'S STATEMENT

(Financial figures are expressed in Hong Kong dollars)

## Outlook

The challenging operating environment is expected to continue. A number of factors, including higher spectrum costs, declining voice roaming revenues, lower handset profits and severe competitive pressure will weigh on profitability. SmarTone is taking proactive steps to mitigate the impact of these factors. The Company's priority is to improve productivity throughout the business while maintaining investments to deliver the best network experience. The Company also aims to accelerate growth of new revenue sources, such as the ICT (Information, Communications & Technology) business, internet of things (IoT), artificial intelligence (AI) and machine-to-machine (M2M) applications. As part of its customer-centric strategy, SmarTone will continue to deepen its segmented offerings and invest in a number of new digital platforms and services that better suit customers' increasingly digital lifestyle.

SmarTone welcomes the Government's move to clarify the spectrum supply roadmap. It is critical for the industry to have sufficient supply of spectrum at a reasonable price to spur innovation and the adoption of services enabled by new technologies & 5G. This is essential to Hong Kong's position as a competitive and global economy.

The Board is confident that the Company is taking the necessary steps to navigate the current industry environment, while also building the revenue streams that will deliver growth and long-term value to shareholders.

## Appreciation

During the year 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. In addition, Mr. Lam Kwok-fung, Kenny, has been appointed as an Independent Non-Executive Director of SmarTone. I would like to welcome Mr. Lam to the Board.

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, 29 August 2017

# MANAGEMENT DISCUSSION AND ANALYSIS

(Financial figures are expressed in Hong Kong dollars)

## Review of financial results

The Group's service revenue fell by $311 million or 6% to $5,160 million (2015/16: $5,471 million) amidst continuing customer migration from handset-bundled plans to SIM Only plans, structural decline in voice roaming and a decline in revenue from prepaid products.

Customer migration from handset bundled plans to SIM Only plans masked a better underlying trend in revenue as there was a corresponding reduction in handset subsidy amortisation. Handset subsidy amortisation fell by $240 million or 35% to $436 million (2015/16: $676 million). Netting off the handset subsidy amortisation, Group postpaid service revenue remained stable while the underlying postpaid local service revenue increased 2%.

Hong Kong customer number increased by 4% year-on-year to 2.06 million, as a result of a number of initiatives including a focus on segmented offerings for acquisitions and loyalty programs for retention. During the reporting period, average mobile postpaid churn rate was 1.0% (2015/16: 0.9%) and mobile postpaid ARPU was $285 (2015/16: $301).

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

The Group's total revenue decreased by 53% to $8,715 million (2015/16: $18,356 million) mainly due to decline in handset sales revenue in the absence of hero handsets in the year under review. Group's handset and accessory sales fell by $9,330 million or 72% to $3,555 million (2015/16: $12,885 million). Both sales volume and average unit selling price declined.

Cost of inventories sold fell by $9,291 million or 73% to $3,504 million (2015/16: $12,795 million). Such decline was broadly in line with the decrease in handset and accessory sales.

Staff costs rose by $11 million or 2% to $733 million (2015/16: $722 million) mainly amid an increase in share-based payments and one-off redundancy costs.

# MANAGEMENT DISCUSSION AND ANALYSIS

(Financial figures are expressed in Hong Kong dollars)

Other operating expenses remained stable at $2,182 million (2015/16: $2,179 million). Higher network operating costs and sales and marketing expenses were offset by lower cost of services provided, rentals and utilities and general administrative expenses.

Depreciation and loss on disposal decreased by $15 million or 2% to $675 million (2015/16: $690 million) amid lower capital expenditure and impact of fully depreciated assets.

Spectrum utilisation fee amortisation rose by $66 million or 35% to $256 million (2015/16: $190 million) amid higher amortisation for the renewed and additional 2100MHz spectrum.

Finance income fell slightly by $8 million to $52 million (2015/16: $60 million) amid significantly lower average balance of bank deposits after payment for the renewed and additional 2100MHz spectrum.

Finance costs excluding exchange loss fell by $22 million to $132 million (2015/16: $154 million) amid lower accretion expenses on mobile licence fee liabilities as the liabilities declined over time.

Exchange loss related to bonds, cash, bank deposits and borrowings amounted to $5 million (2015/16: $48 million mainly from RMB deposits). The Group had minimal exposure to RMB, other than for operating needs.

Income tax expense amounted to $177 million (2015/16: $175 million), reflecting an effective tax rate of 21.0% (2015/16: 18.2%). In light of the 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 rate is therefore higher than 16.5%.

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

Macau operations reported an operating loss of $24 million (2015/16: $33 million).

Group EBITDA fell by 14% to $2,296 million (2015/16: $2,661 million). Group service operating profit was $878 million, representing a 13% decline as compared with last year due to increase in spectrum fee amortisation, declining voice roaming and lower handset profit. Group profit attributable to equity holders of the Company fell by 16% to $672 million (2015/16: $797 million).



(Financial figures are expressed in Hong Kong dollars)

## Capital structure, liquidity and financial resources

The Group maintained a strong balance sheet for the year under review. During the year under review, the Group was financed by share capital, internally generated funds and bank and other borrowings. As at 30 June 2017, the Group recorded share capital of $111 million, total equity of $4,634 million and total borrowings of $2,691 million.

The Group's cash resources remained robust with cash and bank balances (including pledged bank deposits and short-term bank deposits) of $1,274 million as at 30 June 2017 (30 June 2016: $3,242 million). The reduction was mainly due to payment of $2,287 million for the renewed and additional 2100MHz spectrum.

As at 30 June 2017, the Group had bank and other borrowings of $2,691 million (30 June 2016: $2,850 million) of which 81% 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 $705 million as at 30 June 2017 (30 June 2016: net cash of $1,262 million). Net debt to EBITDA was 0.3X as at 30 June 2017 (30 June 2016: net cash to EBITDA at 0.5X).

The Group had net cash generated from operating activities and interest received of $1,750 million and $61 million respectively during the year ended 30 June 2017. The Group's major outflows of funds during the year were payments for spectrum utilisation fees, dividends, additions of handset subsidies and purchase 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 2018 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.

# MANAGEMENT DISCUSSION AND ANALYSIS

(Financial figures are expressed in Hong Kong dollars)

## Charges on assets

As at 30 June 2017, 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 $80 million as at 30 June 2017 (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 19% of the Group's total borrowings at 30 June 2017. The remaining 81% of the Group's borrowings are fixed rates borrowings. Hence, the Group is well protected from any potential rising interest rates in the future. The Group does not currently undertake any interest rate hedging.

## Functional currency and foreign exchange exposure

The functional currency of the Company is the Hong Kong dollar. The Group is exposed to other currency movements, principally in terms of certain trade receivables, bank deposits, held-to-maturity debt securities, available-for-sale financial assets, trade payables and bank and other borrowings denominated in 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 30 June 2017 under these performance bonds was $305 million (30 June 2016: $305 million).

## Employees and share option scheme

The Group had 1,994 full-time employees as at 30 June 2017 (30 June 2016: 2,140) with majority of them based in Hong Kong. Total staff costs were $733 million for the year ended 30 June 2017 (2015/16: $722 million).

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

The Group has share option schemes under which the Company may grant options to participants, including directors and employees, to subscribe for shares of the Company. During the year under review, 3,000,000 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 30 June 2017.

# CORPORATE GOVERNANCE REPORT

## Corporate Governance

The Company is committed to building and maintaining high standards of corporate governance. Throughout the year ended 30 June 2017, 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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 at the time) 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.

## The Board

### Roles of Directors

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

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

### Corporate governance function

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

# CORPORATE GOVERNANCE REPORT

## Composition

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

During the year, Mr. Tsim Wing-kit, Alfred retired as Non-Executive Director of the Company by rotation at the annual general meeting of the Company held on 1 November 2016; Mr. Lam Kwok-fung, Kenny was appointed Independent Non-Executive Director of the Company with effect from 1 March 2017.

As at 30 June 2017, the Board comprises three Executive Directors, six Non-Executive Directors and six Independent Non-Executive Directors. The presence of twelve Non-Executive Directors, of whom six are independent, is considered by the Board to be a reasonable balance between Executive and Non-Executive Directors.

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

Except for those relationships disclosed in the biographical details of the Directors set out on pages 40 to 47 of this Annual Report, the Directors have no other financial, business, family or other material/relevant relationships with each other.

The Company has received from each Independent Non-Executive Director a written annual confirmation of his or her independence pursuant to the Listing Rules, and considers that all the Independent Non-Executive Directors are independent.

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

## Appointment and re-election of Directors

All Directors are required to retire from office by rotation and are subject to re-election by shareholders at annual general meeting once every three years.

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

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

## Chairman and Chief Executive Officer

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

## Board process

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

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

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

# CORPORATE GOVERNANCE REPORT

## Directors' attendance at Board meetings and general meeting

Four Board meetings and a general meeting were held during the year ended 30 June 2017. The attendance record of the Directors at the meetings is set out below:

| Directors | Meetings attended/held during the term of office | |
|---|---|---|
| | **Board Meetings** | **General Meeting** |
| ***Executive Directors*** | | |
| Ms. Anna Yip *(Chief Executive Officer)* | 4/4 | 1/1 |
| Mr. Chan Kai-lung, Patrick | 4/4 | 1/1 |
| Mr. Chau Kam-kun, Stephen | 4/4 | 1/1 |
| ***Non-Executive Directors*** | | |
| Mr. Kwok Ping-luen, Raymond *(Chairman)* | 4/4 | 1/1 |
| Mr. Cheung Wing-yui *(Deputy Chairman)* | 4/4 | 1/1 |
| Mr. Fung Yuk-lun, Allen *(Deputy Chairman)* | 4/4 | 1/1 |
| Mr. David Norman Prince | 4/4 | 1/1 |
| Mr. Siu Hon-wah, Thomas | 4/4 | 1/1 |
| Mr. John Anthony Miller | 4/4 | 1/1 |
| Mr. Tsim Wing-kit, Alfred[1] | 2/2 | 0/1 |
| ***Independent Non-Executive Directors*** | | |
| Dr. Li Ka-cheung, Eric | 4/4 | 0/1 |
| Mr. Ng Leung-sing | 4/4 | 1/1 |
| Mr. Yang Xiang-dong | 1/4 | 0/1 |
| Mr. Gan Fock-kin, Eric | 3/4 | 0/1 |
| Mrs. Ip Yeung See-ming, Christine | 2/4 | 0/1 |
| Mr. Lam Kwok-fung, Kenny[2] | 1/1 | 0/0 |

***Notes:***

1. Mr. Tsim Wing-kit, Alfred retired as Non-Executive Director of the Company by rotation at the annual general meeting of the Company held on 1 November 2016.

2. Mr. Lam Kwok-fung, Kenny was appointed Independent Non-Executive Director of the Company with effect from 1 March 2017.

## Directors' training

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

Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. The Company organised a training seminar for the Directors in April 2017 which was presented by representatives from a renowned professional firm covering the topic "HK/IFRS 15 — Revenue from contracts with customers".

All Directors have provided to the Company a record of the training they received during the year ended 30 June 2017, which includes attending seminars, giving talks at seminars and/or reading materials relevant to the Company's business or to the Directors' duties and responsibilities.

During the year ended 30 June 2017, the Directors participated in the following trainings:

| Directors | Type of trainings |
|---|---|
| ***Executive Directors*** | |
| Ms. Anna Yip *(Chief Executive Officer)* | A, C |
| Mr. Chan Kai-lung, Patrick | A, C |
| Mr. Chau Kam-kun, Stephen | A, C |
| ***Non-Executive Directors*** | |
| Mr. Kwok Ping-luen, Raymond *(Chairman)* | A, B, C |
| Mr. Cheung Wing-yui *(Deputy Chairman)* | A, B, C |
| Mr. Fung Yuk-lun, Allen *(Deputy Chairman)* | A, B, C |
| Mr. David Norman Prince | A, B, C |
| Mr. Siu Hon-wah, Thomas | A, C |
| Mr. John Anthony Miller | A, C |
| Mr. Tsim Wing-kit, Alfred | A, C |
| ***Independent Non-Executive Directors*** | |
| Dr. Li Ka-cheung, Eric | A, C |
| Mr. Ng Leung-sing | A, C |
| Mr. Yang Xiang-dong | C |
| Mr. Gan Fock-kin, Eric | A, C |
| Mrs. Ip Yeung See-ming, Christine | A, C |
| Mr. Lam Kwok-fung, Kenny | A, C |

A: attending seminars and/or conferences and/or forums and/or briefings
B: giving talks at seminars and/or conferences and/or forums and/or briefings
C: reading newspapers, journals and/or other materials

## Board Committees

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

### Board Supervisory Committee (the "BSC")

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

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

## Remuneration Committee

The chairman of the Committee is Dr. Li Ka-cheung, Eric (Independent Non-Executive Director) and the other members are Mr. Ng Leung-sing (Independent Non-Executive Director) and Mr. Fung Yuk-lun, Allen (Non-Executive Director). The majority of the members of the Remuneration Committee are Independent Non-Executive Directors of the Company.

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

The Remuneration Committee has the delegated responsibility to determine the remuneration packages of individual Executive Directors and senior management. The specific terms of reference of the Remuneration Committee is available on the Company's website.

During the year ended 30 June 2017, the Remuneration Committee passed two written resolutions for approving and/or recommending the emoluments to Directors and senior management.

Remuneration policy for Directors and senior management

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

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

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

## Nomination Committee

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

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

During the year ended 30 June 2017, the Nomination Committee passed two written resolutions for reviewing the size, structure and composition of the Board and recommending new appointment and re-election of Directors.

The Nomination Committee has reviewed and recommended the re-election of those retiring Directors who offer themselves for re-election at the forthcoming 2017 Annual General Meeting.

Board diversity

The Company adopted a board diversity policy for the Group. The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance. With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. Board diversity has been considered from a number of factors, including but not limited to gender, age, cultural and educational background, and professional experience. Candidates for Board appointment will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

The current Board comprises male and female Directors of different age groups, length of services in the Group, cultural and educational background, and professional experience (see the section "The Board — Composition" of this Corporate Governance Report and the biographical details of the Directors set out on pages 40 to 47 of this Annual Report). The Nomination Committee considers the current composition and structure of the Board as appropriate.

The Nomination Committee monitors the implementation of the board diversity policy and will review the policy, as appropriate, to ensure the effectiveness of the Policy.

## Audit Committee

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

The chairman of the Committee is Dr. Li Ka-cheung, Eric (Independent Non-Executive Director with professional accounting expertise) and the other members are Mr. Ng Leung-sing (Independent Non-Executive Director), Mr. Gan Fock-kin, Eric (Independent Non-Executive Director) and Mr. Tsim Wing-kit, Alfred (Non-Executive Director, ceased to be a member from 1 November 2016 upon his retirement as a director of the Company by rotation on the same date). All the existing 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's primary duties include ensuring the Group's financial statements, annual and interim reports, and the auditor's report present a true and balanced assessment of the Group's financial position; reviewing the Group's financial control, internal control and risk management systems; reviewing the Group's financial and accounting policies and practices; and recommending the appointment and remuneration of external auditor. The duties of the Audit Committee are set out in its specific terms of reference, which is available on the Company's website. The Audit Committee is provided with sufficient resources enabling it to discharge its duties.

The Audit Committee held two meetings during the year ended 30 June 2017 to review with management and the Company's internal and external auditors the Group's significant internal controls and financial matters as set out in the Committee's terms of reference. The Committee's review covers the audit plans and findings of internal and external auditors, external auditor's independence, the Group's accounting principles and practices, Listing Rules and statutory compliance, internal controls, risk management and financial reporting matters (including the interim and annual financial statements for the Board's approval).

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

| **Directors** | **Meetings attended/held during the term of office** |
|---|---|
| Dr. Li Ka-cheung, Eric *(Chairman)* | 2/2 |
| Mr. Ng Leung-sing | 2/2 |
| Mr. Gan Fock-kin, Eric | 1/2 |
| Mr. Tsim Wing-kit, Alfred | 1/1 |

The Audit Committee also held a meeting on 24 August 2017 and reviewed the financial statements as well as the internal audit reports of the Group for the year ended 30 June 2017. 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 disclosure of data and explanations shown in the financial statements. The Committee was also satisfied that adequate and effective risk management and internal control systems have been maintained by the Group for the year ended 30 June 2017.

External auditor's independence

The nature and ratio of annual fees to external auditor for non-audit services and for audit services are subject to scrutiny by the Audit Committee. The provision of non-audit services by the external auditor requires prior approval of Audit Committee so as to ensure that the independence and objectivity of the external auditor will not be impaired. Details of the fees paid or payable to the auditor for the year ended 30 June 2017 are as follows:

| | HK$ |
|---|---|
| Audit services | 2,527,000 |
| Non-audit services | |
| Taxation | 175,000 |
| Review of interim financial statements | 337,000 |
| Others[1] | 474,000 |
| | 986,000 |
| Total fees | 3,513,000 |

***Note:***

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

The consolidated financial statements of the Company and its subsidiaries as at and for the year ended 30 June 2017 have been audited by PricewaterhouseCoopers. Before the commencement of the said audit, the Committee received written confirmation from PricewaterhouseCoopers confirming that they are independent accountants with respect to the Company within the meaning of the requirements of section 290 of the Code of Ethics for Professional Accountants of the Hong Kong Institute of Certified Public Accountants.

The Committee was satisfied with the findings of their review of the audit fees, process and effectiveness, independence and objectivity of PricewaterhouseCoopers and had recommended the Board to propose a resolution of their re-appointment as the Company's external auditor at the forthcoming 2017 Annual General Meeting.

# CORPORATE GOVERNANCE REPORT

## Directors' and auditor's responsibilities for the consolidated financial statements

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

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The responsibilities of the auditor for the consolidated financial statements are set out in the Independent Auditor's Report on pages 49 to 53 of this Annual Report.

## Risk management and internal control systems

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

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

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

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

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

The Board, through the Audit Committee, conducted a review on the effectiveness of the Group's risk management and internal control systems and concluded that adequate and effective risk management and internal control systems have been maintained for the year ended 30 June 2017. The review considered the adequacy of resources, qualifications and experience of staff of the Group's accounting, financial reporting and internal audit functions, and their training programmes and budget. The review covered all material controls, including financial, operational and compliance controls and risk management functions. It was based on a framework which assesses the Group's risk management and internal control systems against control environment, risk management, control activities, information and communication and monitoring activities on all major business and operational processes. The review also considered (a) the changes, since the last annual review, in the nature and extent of significant risks, and the Group's ability to respond to changes in its business and the external environment; (b) the scope and quality of management's ongoing monitoring of risks and of the internal control systems, the work of its internal audit function and other assurance providers; (c) the extent and frequency of communication of monitoring results to the Board which enables it to assess control of the Group and the effectiveness of risk management; (d) significant control failings or weaknesses that have been identified during the period and the extent to which they have resulted in unforeseen outcomes or contingencies that have had, could have had or may in the future have, a material impact on the Group's financial performance or condition; and (e) the effectiveness of the Group's processes for financial reporting and Listing Rule compliance.

In respect of the handling and dissemination of inside information, the Group's Code of Conduct for employees stipulates the prohibition on unauthorised use of inside information of the Company. Employees who are privy or have access to inside information have also been notified on observing the restrictions pursuant to the Securities and Futures Ordinance.

## Compliance with model code for securities transactions by Directors

The Group adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of 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 year ended 30 June 2017, they had fully complied with the required standard set out in the Model Code and there was no event of non-compliance.

## Shareholders' rights

### Right to convene special general meeting

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

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

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

### Right to put enquiries to the Board

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

### Right to put forward proposals at general meetings

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

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

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

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

## Investor relations

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

# REPORT OF THE DIRECTORS

(Financial figures are expressed in Hong Kong dollars)

The Directors submit their report together with the audited financial statements for the year ended 30 June 2017.

## Principal activities and geographical analysis of operations

The principal activity of the Company is investment holding. The activities of its principal subsidiaries are shown in note 19 to the consolidated financial statements.

An analysis of the Group's performance for the year by operating segment is set out in Note 6 to the consolidated financial statements.

## Business review

The Chairman's Statement on pages 5 to 6 and the Management Discussion and Analysis on pages 7 to 10 of this Annual Report provide a fair review of the Group's business for the year and indication of likely future development in the Group's business. The discussion thereon forms part of this Report of the Directors.

Further discussion on the Group's business is set out below:

### (i) Principal risks and uncertainties facing the Group

As set out in the section "Risk management and internal control systems" of the Corporate Governance Report on pages 11 to 22, effective risk management framework is in place to provide a consistent approach on the risk management process in identification, assessment, treatment and reporting of all the risks which are critical to Group's operations and business.

The Group is exposed to various risks which may affect its operations and business. The followings are the key risks that are considered to be most significant to the Group at the time.

***Competition*** — The Group is operating in markets with fierce competitions, which had led to pricing pressure and increased marketing costs.

***Information Technology*** — The Group requires reliable and effective information technology systems for its key business processes in daily operations. Any successful cyber-attack against the systems may cause disruption in operations and affect the service to customers.

***Compliance*** — The Group is operating in the mobile industry which is highly regulated. The Group has to make sure that its operations are in full compliance with the relevant laws and regulations. Contravention to the laws and regulations will result in legal penalty, business disruption and/or damage to brand image.

Details about the Group's financial risk management are set out in note 5 to the consolidated financial statements.

## (ii) Environmental policies and performance

The Group is committed to environmental protection. It makes efficient use of resources, promotes green awareness within the Group, follows eco-friendly management practices and supports community events to build a green living environment.

The Group has implemented a number of measures to help protecting the environment. A "paperless" retail process is adopted for retail stores so that the use of hard copies for sales documents and promotion leaflets are kept to the minimum. LED lighting fixtures are used to reduce energy consumption. The Group also participates in community-run environmental campaigns like moon-cake boxes recycling.

## (iii) Compliance with laws and regulations

The Group recognises the importance of compliance with legal and regulatory requirements and risks of non-compliance with such requirements. The Group conducts on-going review of newly enacted/revised laws and regulations affecting the operations of the Group and provides relevant trainings and guidance to staff. To the best knowledge of the Directors, the Group has complied in all material respects the relevant laws and regulations that have significant impact on the operations of the Group for the year ended 30 June 2017.

## (iv) Relationship with employees

People are the Group's most valuable asset. The Group believes in communicating with staff and giving them training and career development opportunities. It also recognises good performance. It provides a variety of activities for staff to help them achieve a balance between work and life.

The Group has established good relationship with its employees throughout the years.

## (v) Relationship with customers

The Group strives to deliver outstanding experiences and meaningful value to customers. To ensure continuous improvement of the quality of service, the Group pro-actively seeks customer feedback through focus group discussion, market survey, hotline, Facebook and online live chat, etc.

The Group's superior service has been widely recognised, as evidenced by the service awards received from various reputable organisations during the past years.

## (vi) Relationship with suppliers

The Group has established long standing cooperation relationship with its suppliers. The Group has stringent anti-bribery policy in place and Group's staff are required to strictly comply with the policy when dealing with suppliers.

# REPORT OF THE DIRECTORS

(Financial figures are expressed in Hong Kong dollars)

## Results

The results of the Group for the year ended 30 June 2017 are set out in the consolidated profit and loss account on page 54.

## Dividend

An interim dividend of $0.27 per share (2015/16: $0.27 per share) was paid on 12 April 2017. The Directors recommended a final dividend of $0.33 per share (2015/16: $0.33 per share), making a total dividend of $0.60 per share for the full year ended 30 June 2017 (2015/16: $0.60 per share). The proposed final dividend, if approved at the forthcoming annual general meeting of the Company, will be payable in cash, with an option for the shareholders of the Company to receive new fully paid shares of nominal value of $0.10 each in the share capital of the Company in lieu of cash, or partly in cash and partly in new shares under a scrip dividend scheme.

## Five year financial summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is shown on page 48.

## Distributable reserves

Distributable reserves of the Company at 30 June 2017, calculated under the Company's Bye-laws and the Bermuda laws, amounted to $2,095,045,000 (30 June 2016: $2,832,074,000).

## Donations

During the year, charitable and other donations made by the Group amounted to $31,000 (2015/16: $170,000).

## Shares issued in the year

Details of the shares issued in the year ended 30 June 2017 are shown in note 30 to the consolidated financial statements.

# REPORT OF THE DIRECTORS

(Financial figures are expressed in Hong Kong dollars)

## Directors

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

| | |
|---|---|
| * | Mr. Kwok Ping-luen, Raymond<br>*Chairman* |
| * | Mr. Cheung Wing-yui<br>*Deputy Chairman* |
| * | Mr. Fung Yuk-lun, Allen<br>*Deputy Chairman* |
| | Ms. Anna Yip<br>*Chief Executive Officer* |
| | Mr. Chan Kai-lung, Patrick |
| | Mr. Chau Kam-kun, Stephen |
| * | Mr. David Norman Prince |
| * | Mr. Siu Hon-wah, Thomas |
| * | Mr. John Anthony Miller |
| * | Mr. Tsim Wing-kit, Alfred[2] |
| ** | Dr. Li Ka-cheung, Eric, *JP* |
| ** | Mr. Ng Leung-sing, *JP* |
| ** | Mr. Yang Xiang-dong |
| ** | Mr. Gan Fock-kin, Eric |
| ** | Mrs. Ip Yeung See-ming, Christine |
| ** | Mr. Lam Kwok-fung, Kenny[1] |

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

***Notes:***

1. Mr. Lam Kwok-fung, Kenny was appointed Independent Non-Executive Director of the Company with effect from 1 March 2017.

2. Mr. Tsim Wing-kit, Alfred retired as Non-Executive Director of the Company by rotation at the annual general meeting of the Company held on 1 November 2016.

In accordance with Bye-law No. 84 of the Company's Bye-laws, Mr. Fung Yuk-lun, Allen, Mr. Chan Kai-lung, Patrick, Mr. Chau Kam-kun, Stephen, Mr. Ng Leung-sing and Mr. Yang Xiang-dong retire by rotation at the forthcoming annual general meeting. In accordance with Bye-law No. 83(2), Mr. Lam Kwok-fung, Kenny also retires at the forthcoming annual general meeting. Other than Mr. Yang Xiang-dong who will not offer himself for re-election, the remaining retiring Directors, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The term of office of the Non-Executive Directors shall be governed by the provisions of Bye-law No. 84 of the Company's Bye-laws.

None of the Directors proposed for re-election at the forthcoming annual general meeting has a service agreement with the Company or any of its subsidiaries which is not determinable within one year without payment of compensation, other than statutory compensation.

The Company has received from each Independent Non-Executive Director a written annual confirmation of his or her independence pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), and considers that all the Independent Non-Executive Directors are independent.

## Directors' emoluments

The directors' fees payable to the Directors of the Company 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. Other emoluments, if any, payable to the Directors of the Company are based on terms of the respective service contracts. Details of the emoluments paid and payable to the Directors of the Company for the financial year ended 30 June 2017 are shown in note 35 to the consolidated financial statements.

## Directors' material interests in transactions, arrangements and contracts that are significant in relation to the Company's business

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

## Biographical details of Directors

Brief biographical details of the Directors are set out on pages 40 to 47.

# REPORT OF THE DIRECTORS

(Financial figures are expressed in Hong Kong dollars)

## Directors' and chief executive's interests

As at 30 June 2017, 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 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 | — | 4,833,749[1] | 4,833,749 | — | 4,833,749 | 0.44 |
| Fung Yuk-lun, Allen | 413,554 | — | 413,554 | — | 413,554 | 0.04 |
| Anna Yip | — | — | — | 3,000,000[2] | 3,000,000 | 0.27 |
| Chau Kam-kun, Stephen | — | 11,000[3] | 11,000 | — | 11,000 | 0.00 |

***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.

(Financial figures are expressed in Hong Kong dollars)

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

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

| Name of Director | Number of shares held: Personal interests (held as beneficial owner) | Other interests | Total | Number of underlying shares held under equity derivatives | Total | % of shares in issue |
|---|---|---|---|---|---|---|
| Kwok Ping-luen, Raymond | 188,743 | 514,093,186[1] | 514,281,929 | — | 514,281,929 | 17.76 |
| Chau Kam-kun, Stephen | 1,000 | — | 1,000 | — | 1,000 | 0.00 |
| David Norman Prince | 2,000 | — | 2,000 | — | 2,000 | 0.00 |
| Siu Hon-wah, Thomas | — | 7,000[2] | 7,000 | — | 7,000 | 0.00 |
| John Anthony Miller | — | — | — | 48,000[3] (personal interests in share options) | 48,000 | 0.00 |
| Li Ka-cheung, Eric | — | 4,028[4] | 4,028 | — | 4,028 | 0.00 |

***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 year | Exercised during the year | Cancelled/ Lapsed during the year | Outstanding at 30 June 2017 |
|---|---|---|---|---|---|---|---|---|
| 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 | 0.00 |

***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.

(Financial figures are expressed in Hong Kong dollars)

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:

| | | | | Number of share options | | | | |
|---|---|---|---|---|---|---|---|---|
| Name of Director | Date of grant | Exercise price $ | Exercise period* | Outstanding at 1 July 2016 | Granted during the year | Exercised during the year | Cancelled/ Lapsed during the year | Outstanding at 30 June 2017 |
| Fung Yuk-lun, Allen | 8 March 2016 | 2.45 | 8 March 2017 to 7 March 2021 | 4,000,000 | — | — | — | 4,000,000 |

* 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 30 June 2017, 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 Old Scheme and the New Scheme (collectively the "Schemes"), the Company granted/may grant options to participants, including Directors and employees of the Group, to subscribe for the shares of the Company. No further options can be granted under the Old Scheme upon its termination. However, for the outstanding options granted and yet to be exercised under the Old Scheme, the existing rights of the grantees are not affected.

### 1. Principal terms of the Schemes

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

(a) Purpose

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

(b) Participants

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

(c) Maximum number of shares available for issue

The Company can issue options so that the total number of shares that may be issued upon exercise of all options to be granted under all the share option schemes of the Company does not in aggregate exceed 10% of the shares in issue on the respective date of adoption of each of the Schemes. In respect of the New Scheme, the Company may renew this limit at any time, subject to shareholders' approval and the issue of a circular and in accordance with the Listing Rules provided that the number of shares to be issued upon exercise of all outstanding options granted and yet to be exercised under all the share option schemes of the Company does not exceed 30% of the shares in issue from time to time. At 29 August 2017, the number of shares available for issue in respect thereof is 102,761,185 shares which represents approximately 9.30% of the issued shares of the Company.

Each option gives the holder the right to subscribe for one share of the Company.

(d) Maximum entitlement of each participant

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

(e) Time of exercise of option

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

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

(f) Payment on acceptance of option

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

(g) Basis of determining the exercise price

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

(h) Remaining life

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

(Financial figures are expressed in Hong Kong dollars)

## 2. Movements of share options

Movements of the share options granted to the participants pursuant to the Schemes during the year ended 30 June 2017 are as follows:

| | | | | Number of share options | | | | |
|---|---|---|---|---|---|---|---|---|
| Grantee | Date of grant | Exercise price $ | Exercise period[1] | Outstanding at 1 July 2016 | Granted during the year | Exercised during the year | Cancelled/ Lapsed during the year | Outstanding at 30 June 2017 |
| **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.

As at 29 August 2017, options to subscribe for a total of 3,000,000 shares were still outstanding under the Schemes which represents approximately 0.27% of the issued shares of the Company.

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

Valuation of share options granted during the year

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.

(Financial figures are expressed in Hong Kong dollars)

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 |

***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 30 June 2017, 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] | 754,620,424 | 68.24% |

***Note:***

1. TFS Development Company Limited ("TFS") and Cellular 8 Holdings Limited ("Cellular 8", a wholly owned subsidiary of TFS) held 40,415,517 shares and 714,204,907 shares in the Company respectively. For the purpose of Part XV of the SFO, TFS was deemed to be interested in 714,204,907 shares in the Company held by Cellular 8. Accordingly, TFS had interests and deemed interests in an aggregate of 754,620,424 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 754,620,424 shares in the Company.

Save as disclosed above, as at 30 June 2017, 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.

## Arrangement to acquire shares or debentures

Saved as disclosed in the sections entitled "Directors' and chief executive's interests" and "Share option schemes" above, at no time during the year, (i) the Directors and chief executive of the Company (including their spouse and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for shares (or warrants or debentures, if applicable) of the Company, its specified undertakings and its other associated corporations required to be disclosed pursuant to the SFO and the Hong Kong Companies Ordinance (Cap. 622); and (ii) was the Company, its subsidiaries, its fellow subsidiaries, its parent company or its other associated corporations a party to any arrangement to enable the Directors and chief executive of the Company (including their spouse and children under 18 years of age) to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company or its specified undertakings or other associated corporation.

## Directors' interests in competing business

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

## Permitted indemnity provision

The Bye-laws of the Company provide that every Director or other officer of the Company shall be entitled to be indemnified and secured harmless out of the assets of the Company from and against all losses or liabilities which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto, to the extent permitted by the laws.

The Company has also taken out and maintained Directors' and officers' liabilities insurance throughout the year, which provides appropriate cover for certain legal actions that may be brought against its Directors and officers.

## Sufficiency of public float

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

(Financial figures are expressed in Hong Kong dollars)

## Purchase, sale or redemption of shares

During the year ended 30 June 2017, the Company repurchased 8,192,000 shares of the Company on the HKSE. These repurchased shares were cancelled prior to 30 June 2017. 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 |
| March 2017 | 1,769,500 | 10.08 | 10.00 | 17,749,000 |
| April 2017 | 3,031,000 | 10.20 | 10.08 | 30,824,000 |
| | 8,192,000 | | | 87,715,000 |

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 year ended 30 June 2017 was there any purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's shares.

## Pre-emptive rights

There is no provision for pre-emptive rights under the Company's Bye-laws and there was no restriction against such rights under the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## Equity-linked agreements

Saved for the share option schemes as set out in this report, no equity-linked agreement that would or might result in the Company issuing shares, or that requiring the Company to enter into an agreement that would or might result in the Company issuing shares, was entered into by the Company during the year or subsisted at the end of the year.

## Management contracts

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

(Financial figures are expressed in Hong Kong dollars)

## Major suppliers and customers

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

| | |
|---|---|
| Percentage of purchases attributable to the Group's largest supplier | 54% |
| Percentage of purchases attributable to the Group's five largest suppliers | 63% |
| Percentage of revenues attributable to the Group's largest customer | 29% |
| Percentage of revenues attributable to the Group's five largest customers | 33% |

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

## Connected transactions

1. Certain related party transactions as disclosed in note 33 to the consolidated financial statements also constituted connected transactions. The following transactions between certain connected persons (as defined in the Listing Rules) and the Group have been entered into and/or are continuing for which relevant announcements, if necessary, had been made by the Company in accordance with the requirements of the Listing Rules.

   (a) Certain subsidiaries and associated companies of SHKP, the controlling shareholder of the Company, have leased premises to the Group for use as offices, retail stores and warehouses and have granted licences to the Group for the installation of base stations, antennae and telephone cables on certain premises owned by them. For the year ended 30 June 2017, rental and licence fees paid and payable to subsidiaries and associated companies of SHKP totalled $127,529,000.

   (b) Sun Hung Kai Properties Insurance Limited, a wholly-owned subsidiary of SHKP, provides general insurance services to the Group. For the year ended 30 June 2017, insurance premiums paid and payable were $4,398,000.

   The above continuing connected transactions have been reviewed by the Company's Independent Non-Executive Directors. The Independent Non-Executive Directors confirmed that these transactions were entered into in the ordinary and usual course of business of the Group; on normal commercial terms or better; and according to the agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

   The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules", issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued its unqualified letter containing its findings and conclusions in respect of the continuing connected transactions disclosed by the Group under this section in accordance with paragraph 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to HKSE.

2. At 30 June 2017, the Group had an interest in an associate, the major shareholder of which is a subsidiary of SHKP. The principal activity of the associate is to invest in an equity fund which primarily invests in technology related companies in the People's Republic of China.

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

## Auditor

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

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

Hong Kong, 29 August 2017

# DIRECTORS PROFILE

## Directors

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

Mr. Raymond Kwok (aged 64) 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.

### CHEUNG Wing-yui *Deputy Chairman & Non-Executive Director*

Mr. Cheung Wing-yui (aged 67) 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 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, an independent non-executive director of Hop Hing Group Holdings Limited (resigned on August 2017), 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.

## FUNG Yuk-lun, Allen *Deputy Chairman & Non-Executive Director*

Mr. Allen Fung (aged 49) 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. He is also a member of the Advisory Committee on Gifted Education of Education Bureau, The Government of Hong Kong Special Administrative Region.

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

## Anna YIP *Executive Director & Chief Executive Officer*

Ms. Anna Yip (aged 47) 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.

## CHAN Kai-lung, Patrick *Executive Director*

Mr. Patrick Chan (aged 57) 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.

## CHAU Kam-kun, Stephen *Executive Director*

Mr. Stephen Chau (aged 56) 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.

# DIRECTORS PROFILE

## David Norman PRINCE *Non-Executive Director*

Mr. David Prince (aged 66) 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.

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.

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

Mr. Thomas Siu (aged 64) 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.

## John Anthony MILLER *Non-Executive Director*

Mr. John Anthony Miller (aged 67), SBS, OBE, was appointed Director of the Company in November 2010. Mr. Miller is a non-executive director of RoadShow Holdings Limited.

Mr. Miller was previously a non-executive director of SUNeVision Holdings Ltd, Transport International Holdings Limited (retired on 18 May 2017) and The Kowloon Motor Bus Company (1933) Limited (retired on 18 May 2017). He was also chairman of Hong Kong Business Aviation Centre Limited, a partly-owned subsidiary of Sun Hung Kai Properties Limited until mid-2016.

# DIRECTORS PROFILE

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.

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

Dr. Eric Li (aged 64), 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.

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

Mr. Ng Leung-sing (aged 68) was appointed Director of the Company in June 1997. Mr. Ng is chairman of Bank of China (Hong Kong) Trustees Limited and a director of the BOCHK Charitable Foundation. He has been an independent non-executive director of 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 vice-chairman of Chiyu Banking Corporation Limited (until March 2017), independent non-executive director of MTR Corporation Limited (until May 2017), 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.

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

Mr. Yang Xiang-dong (aged 52) 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.

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

Mr. Eric Gan (aged 54) 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.

# DIRECTORS PROFILE

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

Mrs. Christine Ip (aged 53) 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 30 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.

## LAM Kwok-fung, Kenny, *Independent Non-Executive Director*

Mr. Kenny Lam (aged 43) was appointed Director of the Company in March 2017. Mr. Lam is currently Group President of Noah Holdings Limited ("Noah"), a company listed on the New York Stock Exchange. It provides comprehensive financial services such as wealth management, overseas asset allocation, high-end insurance and high-end education for enterprises and high networth customers. Mr. Lam oversees all of Noah's management and operations and is responsible for driving all key strategic initiatives in both China and overseas.

Prior to Noah, Mr. Lam was a Global Partner at McKinsey & Company ("McKinsey") based in Hong Kong, a co-Leader of its Asia Financial Institution Practice, and Head of Asia Wealth and Asset Management Practice. For 16 years, he has led transformational programs for leading financial institutions across Asia.

Mr. Lam has strong expertise in bringing innovations to enhancing customer service. He also has rich knowledge of "fintech" developments in Asia.

Before McKinsey, Mr. Lam was with American law firm Shearman & Sterling in New York and Hong Kong, counseling multinational corporations in various M&A transactions and NYSE/Nasdaq public offerings.

Mr. Lam is a member of the Asia Business Leaders Advisory Council for the Government of Canada (under the Asia Pacific Foundation).

Mr. Lam graduated with a MA (Honours) in Law from Oxford University and magna cum laude with a BS in Finance from the Wharton School of the University of Pennsylvania, where he was a Joseph Wharton Scholar and a Benjamin Franklin Scholar.

***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 details of the emoluments of the Directors on a named basis for the year ended 30 June 2017 are disclosed in note 35 to the consolidated financial statements.

The Directors' interests in shares of the Company or any of its associated corporations, if any, within the meaning of Part XV of the Securities and Futures Ordinance as at 30 June 2017 are disclosed in "Directors' and chief executive's interests" section of the Report of the Directors on pages 28 to 31 of this Annual Report.

## Senior Management

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

# GROUP FINANCIAL SUMMARY

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

| | **2017** | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| **Consolidated profit and loss account** | | | | | |
| Revenues | **8,715** | 18,356 | 18,659 | 13,244 | 12,067 |
| Profit attributable to equity holders of the Company | **672** | 797 | 935 | 537 | 843 |
| Basic earnings per share ($) | **0.62** | 0.75 | 0.89 | 0.52 | 0.81 |
| Dividends | | | | | |
| Total dividends | **659** | 644 | 634 | 323 | 685 |
| Total per share for the year ($) | **0.60** | 0.60 | 0.60 | 0.31 | 0.66 |
| **Consolidated balance sheet** | | | | | |
| Total assets | **9,776** | 10,403 | 10,814 | 9,792 | 9,628 |
| Current liabilities | **(2,185)** | (2,863) | (3,292) | (2,949) | (2,696) |
| Total assets less current liabilities | **7,591** | 7,540 | 7,522 | 6,843 | 6,932 |
| Non-current liabilities | **(2,956)** | (3,176) | (3,614) | (3,593) | (3,884) |
| Non-controlling interests | **(41)** | (47) | (57) | (57) | (62) |
| Net assets | **4,594** | 4,317 | 3,851 | 3,193 | 2,986 |
| Share capital | **111** | 108 | 106 | 105 | 104 |
| Reserves | **4,483** | 4,209 | 3,745 | 3,088 | 2,882 |
| Total equity attributable to equity holders of the Company | **4,594** | 4,317 | 3,851 | 3,193 | 2,986 |

# INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

**To the Shareholders of**
**SmarTone Telecommunications Holdings Limited**
*(incorporated in Bermuda with limited liability)*

## Opinion

### What we have audited

The consolidated financial statements ("Consolidated Financial Statements") of SmarTone Telecommunications Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 54 to 118, which comprise:

- the consolidated balance sheet as at 30 June 2017;
- the consolidated profit and loss account for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the Consolidated Financial Statements, which include a summary of significant accounting policies.

### Our opinion

In our opinion, the Consolidated Financial Statements give a true and fair view of the consolidated financial position of the Group as at 30 June 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

### Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Consolidated Financial Statements of the current period. These matters were addressed in the context of our audit of the Consolidated Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Revenue recognition
- Capitalisation of assets and useful lives

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| Revenue recognition<br><br>Refer to Accounting Policies notes 3(v) to the Consolidated Financial Statements<br><br>The accuracy of revenue amounts recorded in the Consolidated Financial Statements is an inherent risk in the telecom industry. Significant effort was spent auditing the revenue recognised because systems are complex, involving frequent changes in tariff structures as well as processing a high volume of transactions from a combination of different hardware or services sold, some of which are multiple-element contracts requiring higher levels of management judgements and estimates on the allocation of revenue. | Our procedures in relation to revenue recognition included:<br><br>• Testing the relevant IT control environment in which the billing, rating and other support systems reside;<br><br>• Testing the key controls over calculation and allocation of revenue to appropriate periods and the separable elements of multiple-element contracts;<br><br>• Testing, on a sample basis, the accuracy of sales transactions and the allocation of revenue in multiple-element contracts to the underlying invoices, respective customer contracts and cash receipts; and<br><br>• Testing, on a sample basis, of non-systematic adjustments which are outside the IT system billing process. These included revenue deferrals and the write-back to the income statement of credits applied to customer accounts. |

## Key Audit Matters *(continued)*

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| Capitalisation of assets and useful lives<br><br>Refer to Accounting Policies note 3(g) and note 4(a) Critical Accounting Estimates and Judgements to the Consolidated Financial Statements<br><br>There are a number of areas where management judgement impacts the carrying value of fixed assets, and their respective depreciation profiles.<br><br>These include:<br><br>• the decision to capitalise or expense costs;<br><br>• the timeliness of the transfer from assets in the course of construction; and<br><br>• the annual asset life review by management to assess the appropriateness of their estimated economic useful lives. | We evaluated the design and tested the key controls in respect of the capitalisation of fixed assets. We tested, on a sample basis, the nature of costs incurred for network under construction and network and testing equipment to the underlying supporting invoices and assessed whether these expenditure met the capitalisation criteria.<br><br>We also tested on a sample basis, the timing of transfer of network under construction to network and testing equipment during the year, to the engineering status reports and supporting documents.<br><br>We tested the key controls over the annual review of asset lives. We assessed the asset lives by considering our knowledge of the business, the practice as well as technology development in the telecom industry. |

## Other Information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the Consolidated Financial Statements and our auditor's report thereon.

Our opinion on the Consolidated Financial Statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Consolidated Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Consolidated Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

# INDEPENDENT AUDITOR'S REPORT

## Responsibilities of Directors and the Audit Committee for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the Consolidated Financial Statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of Consolidated Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Consolidated Financial Statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee are responsible for overseeing the Group's financial reporting process.

## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the Consolidated Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Consolidated Financial Statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Consolidated Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements *(continued)*

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Consolidated Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the Consolidated Financial Statements, including the disclosures, and whether the Consolidated Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Consolidated Financial Statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the Consolidated Financial Statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Tse Ming Yee.

**PricewaterhouseCoopers**
*Certified Public Accountants*

Hong Kong, 29 August 2017

# CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 30 June 2017
(Expressed in Hong Kong dollars)

| | Note | 2017<br>$000 | 2016<br>$000 |
|---|---|---|---|
| Service revenue | | **5,160,306** | 5,470,880 |
| Handset and accessory sales | | **3,555,106** | 12,884,731 |
| Revenues | 6 | **8,715,412** | 18,355,611 |
| Cost of inventories sold | | **(3,503,986)** | (12,794,787) |
| Staff costs | 7 | **(732,747)** | (721,616) |
| Other operating expenses | | **(2,182,417)** | (2,178,680) |
| Depreciation, amortisation and loss on disposal | 10 | **(1,367,617)** | (1,556,150) |
| Operating profit | | **928,645** | 1,104,378 |
| Finance income | 8 | **51,774** | 60,253 |
| Finance costs | 9 | **(137,220)** | (202,239) |
| Profit before income tax | 10 | **843,199** | 962,392 |
| Income tax expense | 11 | **(177,431)** | (174,982) |
| Profit after income tax | | **665,768** | 787,410 |
| Attributable to | | | |
| Equity holders of the Company | | **672,102** | 797,150 |
| Non-controlling interests | | **(6,334)** | (9,740) |
| | | **665,768** | 787,410 |
| Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in cents per share) | 15 | | |
| Basic | | **61.7** | 74.9 |
| Diluted | | **61.7** | 74.8 |

The notes on pages 62 to 118 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2017
(Expressed in Hong Kong dollars)

| | 2017 $000 | 2016 $000 |
|---|---|---|
| Profit for the year | **665,768** | 787,410 |
| Other comprehensive loss | | |
| Items that may be reclassified subsequently to profit and loss: | | |
| Fair value (loss)/gain on financial investments, net of tax | **(2,965)** | 1,067 |
| Currency translation differences | **(2,631)** | (4,867) |
| Other comprehensive loss for the year, net of tax | **(5,596)** | (3,800) |
| Total comprehensive income for the year | **660,172** | 783,610 |
| Total comprehensive income attributable to | | |
| Equity holders of the Company | **666,506** | 793,350 |
| Non-controlling interests | **(6,334)** | (9,740) |
| | **660,172** | 783,610 |

The notes on pages 62 to 118 are an integral part of these consolidated financial statements.

# CONSOLIDATED BALANCE SHEET

At 30 June 2017
(Expressed in Hong Kong dollars)

| | Note | 2017 $000 | 2016 $000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Leasehold land and land use rights | 17 | **11,383** | 12,264 |
| Fixed assets | 18 | **3,071,725** | 3,235,992 |
| Interest in an associate | 20 | **3** | 3 |
| Financial investments | 21 | **672,528** | 747,924 |
| Intangible assets | 22 | **3,631,399** | 1,757,113 |
| Deposits and prepayments | 23 | **91,076** | 117,296 |
| Deferred income tax assets | 24 | **6,130** | 6,497 |
| | | **7,484,244** | 5,877,089 |
| **Current assets** | | | |
| Inventories | 25 | **181,703** | 340,770 |
| Financial investments | 21 | **47,568** | 133,180 |
| Trade receivables | 23 | **321,450** | 274,456 |
| Deposits and prepayments | 23 | **167,188** | 192,387 |
| Other receivables | 23 | **47,002** | 90,809 |
| Tax reserve certificate | | **252,362** | 252,362 |
| Pledged bank deposits | 26 | **2,385** | 2,385 |
| Short-term bank deposits | 26 | **124,893** | 341,053 |
| Cash and cash equivalents | 26 | **1,146,795** | 2,898,512 |
| | | **2,291,346** | 4,525,914 |
| **Current liabilities** | | | |
| Trade payables | 27 | **357,393** | 577,913 |
| Other payables and accruals | 27 | **804,562** | 853,473 |
| Current income tax liabilities | | **399,342** | 545,292 |
| Bank borrowings | 28 | **133,636** | 126,228 |
| Customer prepayments and deposits | | **224,202** | 325,633 |
| Deferred income | | **206,023** | 228,047 |
| Mobile licence fee liabilities | 29 | **60,040** | 206,325 |
| | | **2,185,198** | 2,862,911 |
| **Non-current liabilities** | | | |
| Customer prepayments and deposits | | **47,044** | 73,871 |
| Asset retirement obligations | | **47,378** | 47,839 |
| Bank and other borrowings | 28 | **2,557,049** | 2,724,195 |
| Mobile licence fee liabilities | 29 | **167,886** | 203,506 |
| Deferred income tax liabilities | 24 | **136,738** | 126,846 |
| | | **2,956,095** | 3,176,257 |
| **Net assets** | | **4,634,297** | 4,363,835 |

# CONSOLIDATED BALANCE SHEET

At 30 June 2017
(Expressed in Hong Kong dollars)

| | Note | 2017 $000 | 2016 $000 |
|---|---|---|---|
| **Capital and reserves** | | | |
| Share capital | 30 | **110,581** | 108,118 |
| Reserves | | **4,482,982** | 4,208,649 |
| **Total equity attributable to equity holders of the Company** | | **4,593,563** | 4,316,767 |
| Non-controlling interests | | **40,734** | 47,068 |
| **Total equity** | | **4,634,297** | 4,363,835 |

The financial statements on pages 54 to 118 were approved by the Board of Directors on 29 August 2017 and were signed on its behalf.

**Kwok Ping-luen, Raymond**
*Director*

**Anna Yip**
*Director*

The notes on pages 62 to 118 are an integral part of these consolidated financial statements.

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30 June 2017
(Expressed in Hong Kong dollars)

| | Note | 2017 $000 | 2016 $000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before income tax | | **843,199** | 962,392 |
| Adjustments for: | | | |
| Depreciation of fixed assets | 18 | **669,931** | 679,890 |
| Amortisation of leasehold land and land use rights | 17 | **638** | 670 |
| Amortisation of intangible assets | 22 | **692,713** | 865,877 |
| Loss on disposal of fixed assets | 10 | **4,335** | 9,713 |
| Finance income | 8 | **(51,774)** | (60,253) |
| Finance costs | 9 | **137,220** | 202,239 |
| Share-based payments | 7 | **4,291** | — |
| | | **2,300,553** | 2,660,528 |
| Changes in working capital | | | |
| Decrease/(increase) in inventories | | **159,067** | (258,518) |
| Decrease/(increase) in trade receivables, deposits, prepayments and other receivables | | **46,733** | (68,427) |
| Decrease in trade and other payables, accruals and deferred income | | **(230,744)** | (184,948) |
| Decrease in customer prepayments and deposits | | **(125,712)** | (369,203) |
| Cash generated from operations | | **2,149,897** | 1,779,432 |
| Interest paid | | **(87,088)** | (86,445) |
| Income tax paid | | **(313,117)** | (180,056) |
| Net cash generated from operating activities | | **1,749,692** | 1,512,931 |
| **Cash flows from investing activities** | | | |
| Payment for purchase of fixed assets | | **(575,358)** | (606,014) |
| Proceeds from disposal of fixed assets | | **3,400** | 8,776 |
| Proceeds from disposal of held-to-maturity debt securities | | **152,190** | — |
| Payment of mobile licence fees | | **(2,500,793)** | (203,470) |
| Additions of handset subsidies | 22 | **(282,345)** | (308,953) |
| Decrease in short-term bank deposits | | **216,857** | 1,484,663 |
| Payment for purchase of held-to-maturity debt securities | | **—** | (860,001) |
| Interest received | | **61,184** | 64,328 |
| Net cash used in investing activities | | **(2,924,865)** | (420,671) |

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30 June 2017
(Expressed in Hong Kong dollars)

| | Note | **2017** **$000** | 2016 $000 |
|---|---|---|---|
| **Cash flows from financing activities** | | | |
| Proceeds from shares issued under share option scheme | 30(a) | **—** | 136,152 |
| Payment for repurchase of shares | | **(87,715)** | — |
| Decrease in pledged bank deposits | | **—** | 194 |
| Proceeds from bank borrowings | | **450,000** | — |
| Repayment of bank borrowings | | **(632,863)** | (132,731) |
| Payment of transaction costs of bank borrowings | | **(2,400)** | — |
| Dividends paid to the Company's equity holders | | **(306,286)** | (463,880) |
| Net cash used in financing activities | | **(579,264)** | (460,265) |
| **Net (decrease)/increase in cash and cash equivalents** | | **(1,754,437)** | 631,995 |
| Cash and cash equivalents at 1 July | | **2,898,512** | 2,303,783 |
| Effect of foreign exchange rates changes | | **2,720** | (37,266) |
| **Cash and cash equivalents at 30 June** | 26 | **1,146,795** | 2,898,512 |

| | **2017** **$000** | 2016 $000 |
|---|---|---|
| In the consolidated cash flow statement, proceeds from disposal of fixed assets comprise: | | |
| Net book amount of disposed fixed assets (note 18) | **7,735** | 18,489 |
| Loss on disposal of fixed assets | **(4,335)** | (9,713) |
| Proceeds from disposal of fixed assets | **3,400** | 8,776 |

The notes on pages 62 to 118 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2017
(Expressed in Hong Kong dollars)

| | Attributable to equity holders of the Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital $000 | Share premium $000 | Revaluation reserve $000 | Capital redemption reserve $000 | Contributed surplus $000 | Employee share-based compensation reserve $000 | Exchange reserve $000 | Retained profits $000 | Total $000 | Non-controlling interests $000 | Total $000 |
| At 1 July 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 year | — | — | — | — | — | — | — | 797,150 | 797,150 | (9,740) | 787,410 |
| Other comprehensive (loss)/income | | | | | | | | | | | |
| Fair value gain on financial investments, net of tax | — | — | 1,067 | — | — | — | — | — | 1,067 | — | 1,067 |
| Currency translation differences | — | — | — | — | — | — | (4,867) | — | (4,867) | — | (4,867) |
| Total comprehensive income for the year ended 30 June 2016 | — | — | 1,067 | — | — | — | (4,867) | 797,150 | 793,350 | (9,740) | 783,610 |
| **Transactions with owners** | | | | | | | | | | | |
| Issue of shares (note 30(a)) | 1,066 | 159,093 | — | — | — | (24,007) | — | — | 136,152 | — | 136,152 |
| Lapse of share option | — | — | — | — | 28,341 | (28,341) | — | — | — | — | — |
| Payment of 2015 final dividend (note 30(b)) | 59 | 7,281 | — | — | — | — | — | (350,241) | (342,901) | — | (342,901) |
| Payment of 2016 interim dividend (note 16) | 1,325 | 164,418 | — | — | — | — | — | (286,722) | (120,979) | — | (120,979) |
| Total transactions with owners | 2,450 | 330,792 | — | — | 28,341 | (52,348) | — | (636,963) | (327,728) | — | (327,728) |
| **At 30 June 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 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2017
(Expressed in Hong Kong dollars)

| | Attributable to equity holders of the Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital $000 | Share premium $000 | Revaluation reserve $000 | Capital redemption reserve $000 | Contributed surplus $000 | Employee share-based compensation reserve $000 | Exchange reserve $000 | Retained profits $000 | Total $000 | Non-controlling interests $000 | Total $000 |
| At 1 July 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 year | – | – | – | – | – | – | – | 672,102 | 672,102 | (6,334) | 665,768 |
| Other comprehensive loss | | | | | | | | | | | |
| Fair value loss on financial investments, net of tax | – | – | (2,965) | – | – | – | – | – | (2,965) | – | (2,965) |
| Currency translation differences | – | – | – | – | – | – | (2,631) | – | (2,631) | – | (2,631) |
| Total comprehensive income for the year ended 30 June 2017 | – | – | (2,965) | – | – | – | (2,631) | 672,102 | 666,506 | (6,334) | 660,172 |
| **Transactions with owners** | | | | | | | | | | | |
| Share-based payments (note 7) | – | – | – | – | – | 4,291 | – | – | 4,291 | – | 4,291 |
| Lapse of share option | – | – | – | – | 1,096 | (1,096) | – | – | – | – | – |
| Repurchase of shares (note 30(c)) | (820) | – | – | 820 | (51,983) | – | – | (35,732) | (87,715) | – | (87,715) |
| Payment of 2016 final dividend (note 30(b)) | 1,159 | 127,212 | – | – | – | – | – | (356,167) | (227,796) | – | (227,796) |
| Payment of 2017 interim dividend (note 16) | 2,124 | 213,516 | – | – | – | – | – | (294,130) | (78,490) | – | (78,490) |
| Total transactions with owners | 2,463 | 340,728 | – | 820 | (50,887) | 3,195 | – | (686,029) | (389,710) | – | (389,710) |
| **At 30 June 2017** | 110,581 | 1,137,774 | 6,114 | 11,769 | 2,507 | 4,291 | 1,328 | 3,319,199 | 4,593,563 | 40,734 | 4,634,297 |

The notes on pages 62 to 118 are an integral part of these consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 1 General information

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

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

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

These consolidated financial statements are presented in Hong Kong dollars, unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 29 August 2017.

## 2 Summary of significant accounting policies

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

## 3 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS") and disclosure requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention, as modified by revaluation of certain available-for-sale financial assets, which are carried at fair value.

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

(Expressed in Hong Kong dollars)

# 3 Basis of preparation *(continued)*

## (a) Changes in accounting policy and disclosures

(i) Amended standards relevant to and adopted by the Group

The following amendments to standards are relevant to and have been adopted by 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 these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

(ii) New standards, amendments to standards and interpretations to existing standards not yet adopted

The following new standards, amendments to standards and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 July 2017 or later periods but which the Group has not early adopted.

| | |
|---|---|
| Annual Improvements Project | Annual Improvements 2014–2016 Cycle[2] |
| HKAS 7 (Amendments) | Statement of Cash Flows[1] |
| HKAS 12 (Amendments) | Income Taxes[1] |
| HKAS 28 (Amendment) | Investments in Associates and Joint Ventures[2] |
| HKFRS 1 (Amendment) | First Time Adoption of HKFRS[2] |
| HKFRS 2 (Amendments) | Classification and Measurement of Share-based Payment Transactions[2] |
| HKFRS 4 (Amendments) | Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[2] |
| 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[3] |
| HKFRS 12 (Amendments) | Disclosure of Interest in Other Entities[1] |
| HKFRS 15 | Revenue from Contracts with Customers[2] |
| HKFRS 16 | Leases[3] |
| HK (IFRIC) 22 | Foreign Currency Transactions and Advance Consideration[2] |
| HK (IFRIC) 23 | Uncertainty over Income Tax Treatments[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.

The adoption of HKFRS 15 and HKFRS 16 will likely have a significant impact. The Group is in the process of assessing the impact. For other new standards, amendments to standards and interpretations to existing standards, the Group is assessing the impact and is not yet in a position to state whether they would have a significant impact on the Group's results of operation and financial position.

## 3 Basis of preparation *(continued)*

### (b) Consolidation

Subsidiaries

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(i) Changes in ownership interests in subsidiaries without change of control

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

(ii) Disposal of subsidiaries

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

(iii) Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes directly attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

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

## 3 Basis of preparation *(continued)*

### (c) An associate

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investment in an associate is accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

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

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

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

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associate. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the assets transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

### (d) Segment reporting

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

## 3 Basis of preparation *(continued)*

### (e) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

Foreign exchange gains and losses that relate to bank and other borrowings, held-to-maturity debt securities, pledged bank deposits, short-term bank deposits and cash and cash equivalents are presented in the consolidated profit and loss account within "finance costs". All other foreign exchange gains and losses are presented in the consolidated profit and loss account within "other operating expenses".

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

(iii) Group companies

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

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

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

c. all resulting currency translation differences are recognised in other comprehensive income.

## 3 Basis of preparation *(continued)*

### (e) Foreign currency translation *(continued)*

(iii) Group companies *(continued)*

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

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

### (f) Intangible assets

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

(i) Mobile licence fees

Spectrum utilisation fees represent the payments for using the assigned spectrum to provide telecommunication services in Hong Kong within a specified period. The upfront payments and the present value of the annual fixed fees payable over the period are recorded as intangible assets, together with the related obligations. Amortisation is provided on a straight-line basis over the remaining assignment period from the date when the asset is ready for its intended use.

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

Variable annual payments are recognised in the consolidated profit and loss account as incurred.

(ii) Handset subsidies

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

## 3 Basis of preparation *(continued)*

### (g) Fixed assets

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

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

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

| | |
|---|---|
| Leasehold improvements | Over the lease term |
| Buildings | Over the lease term |
| Network and testing equipment | 10%–50% |
| Computer, billing and office telephone equipment | 20%–$33^1/_3$% |
| Other fixed assets | 20%–$33^1/_3$% |

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

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

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

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

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

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

### (h) Leasehold land and land use rights

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

## 3 Basis of preparation *(continued)*

### (i) Leased assets

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated profit and loss account on a straight-line basis over the period of the lease.

### (j) Impairment of non-financial assets

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

### (k) Financial assets

Classification

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

(i) Loans and receivables

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

(ii) Held-to-maturity debt securities

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

## 3 Basis of preparation *(continued)*

### (k) Financial assets *(continued)*

Classification *(continued)*

(iii) Available-for-sale financial assets

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

Recognition and measurement

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

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

Dividends on available-for-sale equity instruments are recognised in the consolidated profit and loss account when the Group's right to receive payments is established.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more results that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

## 3 Basis of preparation *(continued)*

### (k) Financial assets *(continued)*

Impairment of financial assets *(continued)*

In the case of held-to-maturity debt securities, a significant or prolonged deterioration of credit rating is considered as an indicator that the held-to-maturity debt securities are impaired. If any such evidence exists for held-to-maturity debt securities, the loss (measured as the difference between the amortised cost and the current fair value) is recognised in the consolidated profit and loss account.

In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the investment below its cost is considered as an evidence that the assets are impaired. If any such evidence exists, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the consolidated profit and loss account) is removed from equity and recognised in the consolidated profit and loss account. Impairment losses recognised in the consolidated profit and loss account on equity instruments are not reversed through the consolidated profit and loss account.

### (l) Inventories

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

### (m) Trade and other receivables

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

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

## 3 Basis of preparation *(continued)*

### (m) Trade and other receivables *(continued)*

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated profit and loss account.

### (n) Cash and cash equivalents

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

### (o) Share capital

Ordinary shares are classified as equity.

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

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

### (p) Trade payables

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

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

### (q) Borrowings and borrowing costs

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

## 3 Basis of preparation *(continued)*

### (q) Borrowings and borrowing costs *(continued)*

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

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished and the consideration paid, including any non-cash assets transferred or liability assumed, is recognised in the consolidated profit or loss account as finance costs.

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

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

### (r) Current and deferred income tax

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

(i) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries and the associate operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. The current tax liability includes liability for uncertain tax position measured using the single best estimate of the most likely outcome of the amounts to be paid to the tax authorities.

## 3 Basis of preparation *(continued)*

### (r) Current and deferred income tax *(continued)*

(ii) Deferred income tax

Inside basis differences

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

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

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries and an associate, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates except where there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries and an associate only to the extent that it is probable that the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(iii) Offsetting

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

# 3 Basis of preparation *(continued)*

## (s) Provisions

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

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

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

## (t) Employee benefits

(i) Employee leave entitlements

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

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

(ii) Bonus plans

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

(iii) Retirement benefits

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

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

## 3 Basis of preparation *(continued)*

### (t) Employee benefits *(continued)*

(iii) Retirement benefits *(continued)*

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

(iv) Share-based payments

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

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

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

### (u) Contingent assets and liabilities

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

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

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

## 3 Basis of preparation *(continued)*

### (u) Contingent assets and liabilities *(continued)*

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

### (v) Revenue recognition

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

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

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

(i) Sales of goods

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

(ii) Provision of services

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

(iii) Multiple-element arrangements

For bundled transactions involving provision of mobile telecommunication services and sale of devices, the Group has adopted a residual value method by first determining the fair value of the service component and the remaining consideration would be allocated to the remaining components delivered to the customers (i.e. devices).

(iv) Interest income

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

## 3 Basis of preparation *(continued)*

### (v) Revenue recognition *(continued)*

(v) Dividend income

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

### (w) Dividend distribution

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

### (x) Financial guarantee

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

### (y) Related parties

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

## 4 Critical accounting estimates and judgements

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

## 4 Critical accounting estimates and judgements *(continued)*

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

### (a) Useful lives of fixed assets

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

### (b) Asset retirement obligations

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

### (c) Impairment of assets

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

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

### (d) Current and deferred income tax

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

## 4 Critical accounting estimates and judgements *(continued)*

### (d) Current and deferred income tax *(continued)*

The Group has exercised its critical judgement in determining the taxability of certain income and deductibility of certain payments in assessing the Group's current and deferred taxation, which are revisited from time to time. In prior years, the Group had taken the position in the past to treat the one-off upfront payments for spectrum utilisation fees as tax-deductible on the same basis as for annual payments. Commencing from the year ended 30 June 2014, in light of the uncertainty of the outcome of the tax deductibility of the spectrum utilisation fee by the Inland Revenue Department ('IRD"), the payment has been treated as non-deductible on cash or amortisation basis, and an under-provision for current income tax of approximately $250 million and reversal of deferred tax of approximately $228 million was recorded for the year ended 30 June 2014. While the Group will vigorously defend its position and pursue tax deduction for the one-off upfront payments for spectrum utilisation, should the IRD decide to treat the one-off upfront payments for spectrum utilisation fees as non-deductible on cash or amortisation basis and this view be upheld, the Group effective tax rate in subsequent years is also likely to be higher than 16.5%.

## 5 Financial risk management

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

### (a) Financial risks

(i) Market risk

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

*Foreign currency risk*

Foreign currency risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations, primarily with respect to the US dollar, Euro, Macau Pataca and Renminbi. Any change in the exchange rates of these currencies to Hong Kong dollar will impact the Group's operating results.

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

# 5 Financial risk management *(continued)*

## (a) Financial risks *(continued)*

### (i) Market risk *(continued)*

*Foreign currency risk (continued)*

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

| | **2017** **$000** | 2016 $000 |
|---|---|---|
| US dollar | **(649,635)** | (1,593,650) |
| Renminbi | **4,490** | 13,382 |
| Others | **25,154** | (45,977) |
| Net financial liabilities | **(619,991)** | (1,626,245) |

At 30 June 2017, if Hong Kong dollar had weakened or strengthened by 1% against the US dollar with all other variables held constant, the pre-tax profit of the Group would decrease or increase by approximately $6,496,000 (2016: $15,937,000).

For the year ended 30 June 2017 and 2016, the Group has no Renminbi exposure.

*Cash flow and fair value interest rate risk*

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

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

At 30 June 2017, if interest rates had increased or decreased by 100 basis points and all other variables were held constant, the pre-tax profit of the Group would increase or decrease by approximately $7,555,000 (2016: $26,730,000) mainly as a result of higher or lower net interest income on bank deposits and interest expenses on bank borrowings.

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

## 5 Financial risk management *(continued)*

### (a) Financial risks *(continued)*

(i) Market risk *(continued)*

*Price risk*

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

At 30 June 2017, if the fair value of the available-for-sale financial assets had increased or decreased by 10% and all other variables were held constant, the investment revaluation reserve of the Group would increase or decrease by approximately $801,000 (2016: $1,098,000).

(ii) Credit risk

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

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

(iii) Liquidity risk

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

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

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

## 5 Financial risk management *(continued)*

### (a) Financial risks *(continued)*

(iii) Liquidity risk *(continued)*

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

| | 1 year or less $000 | 1 year to 2 years $000 | 2 years to 5 years $000 | Over 5 years $000 | Total $000 |
|---|---|---|---|---|---|
| **At 30 June 2017** | | | | | |
| Trade payables | **357,393** | **—** | **—** | **—** | **357,393** |
| Other payables and accruals | **791,382** | **—** | **—** | **—** | **791,382** |
| Bank and other borrowings | **217,556** | **215,226** | **1,018,266** | **1,697,092** | **3,148,140** |
| Mobile licence fee liabilities | **62,350** | **62,350** | **162,980** | **—** | **287,680** |
| **Total** | **1,428,681** | **277,576** | **1,181,246** | **1,697,092** | **4,584,595** |

| | 1 year or less $000 | 1 year to 2 years $000 | 2 years to 5 years $000 | Over 5 years $000 | Total $000 |
|---|---|---|---|---|---|
| At 30 June 2016 | | | | | |
| Trade payables | 577,913 | — | — | — | 577,913 |
| Other payables and accruals | 838,134 | — | — | — | 838,134 |
| Bank and other borrowings | 216,158 | 716,770 | 618,886 | 1,833,340 | 3,385,154 |
| Mobile licence fee liabilities | 213,593 | 62,350 | 187,050 | 38,280 | 501,273 |
| Total | 1,845,798 | 779,120 | 805,936 | 1,871,620 | 5,302,474 |

## 5 Financial risk management *(continued)*

### (b) Capital risk management

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

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

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

| | **2017**<br>**$000** | 2016<br>$000 |
|---|---|---|
| Total bank and other borrowings (note 28) | **2,690,685** | 2,850,423 |
| Less: cash and cash equivalents (note 26) | **(1,146,795)** | (2,898,512) |
| Less: short-term bank deposits (note 26) | **(124,893)** | (341,053) |
| Less: short-term pledged bank deposits (note 26) | **(2,385)** | (2,385) |
| Net debt/(cash) | **1,416,612** | (391,527) |
| Total equity | **4,634,297** | 4,363,835 |
| Gearing ratio | **31%** | N/A |

### (c) Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as at 30 June 2017 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

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

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

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

## 5 Financial risk management *(continued)*

### (c) Fair value estimation *(continued)*

The following table presents the Group's assets that are measured at fair value at 30 June 2017 and 2016.

| | Level 1<br>$000 | Level 2<br>$000 | Level 3<br>$000 | Total<br>$000 |
|---|---|---|---|---|
| Assets | | | | |
| Available-for-sale financial assets (note 21) | | | | |
| **At 30 June 2017** | **—** | **8,012** | **—** | **8,012** |
| At 30 June 2016 | — | 10,977 | — | 10,977 |

There were no transfers between level 1 and level 2 and no changes in valuation techniques during the year.

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

## 6 Segment reporting

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

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

## 6 Segment reporting *(continued)*

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

### (a) Segment results

| | For the year ended 30 June 2017 | | | |
|---|---|---|---|---|
| | Hong Kong $000 | Macau $000 | Elimination $000 | Consolidated $000 |
| Revenues | 8,576,313 | 399,506 | (260,407) | 8,715,412 |
| EBITDA | 2,263,047 | 33,215 | — | 2,296,262 |
| Depreciation, amortisation and loss on disposal | (1,310,142) | (57,493) | 18 | (1,367,617) |
| Operating profit/(loss) | 952,905 | (24,278) | 18 | 928,645 |
| Finance income | | | | 51,774 |
| Finance costs | | | | (137,220) |
| Profit before income tax | | | | 843,199 |
| Other information | | | | |
| Additions to fixed assets | 492,462 | 21,073 | — | 513,535 |
| Additions to intangible assets | 2,557,544 | 12,001 | — | 2,569,545 |
| Depreciation | 628,201 | 41,747 | (17) | 669,931 |
| Amortisation of leasehold land and land use rights | 638 | — | — | 638 |
| Amortisation of intangible assets | 679,229 | 13,484 | — | 692,713 |
| Loss on disposal of fixed assets | 2,074 | 2,262 | (1) | 4,335 |
| Impairment loss of trade receivables | 17,407 | 1,147 | — | 18,554 |
| (Reversal of impairment loss)/ impairment loss of inventories | (3,642) | 366 | — | (3,276) |

## 6 Segment reporting *(continued)*

### (a) Segment results *(continued)*

| | For the year ended 30 June 2016 | | | |
|---|---|---|---|---|
| | Hong Kong $000 | Macau $000 | Elimination $000 | Consolidated $000 |
| Revenues | 18,165,278 | 725,222 | (534,889) | 18,355,611 |
| EBITDA | 2,635,371 | 25,157 | — | 2,660,528 |
| Depreciation, amortisation and loss on disposal | (1,498,146) | (58,137) | 133 | (1,556,150) |
| Operating profit/(loss) | 1,137,225 | (32,980) | 133 | 1,104,378 |
| Finance income | | | | 60,253 |
| Finance costs | | | | (202,239) |
| Profit before income tax | | | | 962,392 |
| Other information | | | | |
| Additions to fixed assets | 543,753 | 51,705 | — | 595,458 |
| Additions to intangible assets | 294,768 | 14,185 | — | 308,953 |
| Depreciation | 635,737 | 44,180 | (27) | 679,890 |
| Amortisation of leasehold land and land use rights | 670 | — | — | 670 |
| Amortisation of intangible assets | 852,635 | 13,242 | — | 865,877 |
| Loss on disposal of fixed assets | 9,104 | 715 | (106) | 9,713 |
| Impairment loss of trade receivables | 13,966 | 56 | — | 14,022 |
| Impairment loss/(reversal of impairment loss) of inventories | 603 | (322) | — | 281 |

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

### (b) Segment assets/(liabilities)

| | **At 30 June 2017** | | | |
|---|---|---|---|---|
| | **Hong Kong $000** | **Macau $000** | **Unallocated $000** | **Consolidated $000** |
| Segment assets | **8,435,773** | **361,226** | **978,591** | **9,775,590** |
| Segment liabilities | **(4,453,512)** | **(151,701)** | **(536,080)** | **(5,141,293)** |

## 6 Segment reporting *(continued)*

### (b) Segment assets/(liabilities) *(continued)*

| | At 30 June 2016 | | | |
|---|---|---|---|---|
| | Hong Kong $000 | Macau $000 | Unallocated $000 | Consolidated $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) |

The total of non-current assets other than interest in an associate, financial investments and deferred income tax assets located in Hong Kong is $6,565,670,000 (2016: $4,854,468,000), and the total of these non-current assets located in Macau is $239,913,000 (2016: $268,197,000).

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

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

## 7 Staff costs

| | **2017 $000** | 2016 $000 |
|---|---|---|
| Wages and salaries | **648,445** | 625,465 |
| Bonuses | **39,154** | 56,868 |
| Contributions to defined contribution plans* | **40,857** | 39,283 |
| Share-based payments | **4,291** | — |
| | **732,747** | 721,616 |

* Net of forfeited contributions of $1,008,000 (2016: $926,000).

## 8 Finance income

| | **2017 $000** | 2016 $000 |
|---|---|---|
| Interest income from listed debt securities | **40,865** | 31,179 |
| Interest income from bank deposits | **10,275** | 28,558 |
| Accretion income | **634** | 516 |
| | **51,774** | 60,253 |

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

## 9 Finance costs

| | 2017 $000 | 2016 $000 |
|---|---|---|
| Interest expense | | |
| Bank and other borrowings | **96,008** | 97,723 |
| Bank charges for credit card instalment | **2,692** | 3,804 |
| Accretion expenses | | |
| Mobile licence fee liabilities (note 29) | **31,688** | 50,846 |
| Asset retirement obligations | **1,413** | 1,647 |
| Net exchange loss on financing activities (note 14) | **5,419** | 48,219 |
| | **137,220** | 202,239 |

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

## 10 Profit before income tax

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

| | 2017 $000 | 2016 $000 |
|---|---|---|
| Charging: | | |
| Cost of services provided | **326,691** | 351,315 |
| Operating lease rentals for land and buildings, transmission sites and leased lines | **1,043,465** | 1,016,248 |
| Impairment loss of trade receivables (note 23) | **18,554** | 14,022 |
| Impairment loss of inventories (note 25) | **—** | 281 |
| Auditor's remuneration | | |
| — Audit services | **2,527** | 2,490 |
| — Non-audit services | **986** | 1,106 |
| Net exchange loss (note 14) | **5,449** | 60,363 |
| Loss on disposal of fixed assets | **4,335** | 9,713 |
| Depreciation of fixed assets, leasehold land and land use rights | **670,569** | 680,560 |
| Amortisation of handset subsidies | **436,448** | 676,058 |
| Amortisation of mobile licence fees | **256,265** | 189,819 |
| Crediting: | | |
| Reversal of impairment loss of inventories (note 25) | **3,276** | — |

## 11 Income tax expense

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profit for the year. Income tax on overseas profits has been calculated on the estimated assessable profit for the year at the tax rates prevailing in the countries in which the Group operates.

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

| | **2017 $000** | 2016 $000 |
|---|---|---|
| Current income tax | | |
| Hong Kong profits tax | **170,674** | 181,828 |
| Overseas tax | **1,323** | 1,363 |
| (Over)/under-provision in prior years | | |
| Hong Kong profits tax | **(1,638)** | (1,361) |
| Overseas tax | **(3,187)** | 2 |
| | **167,172** | 181,832 |
| Deferred income tax assets (note 24(a)) | **367** | 306 |
| Deferred income tax liabilities (note 24(b)) | **9,892** | (7,156) |
| Income tax expense | **177,431** | 174,982 |

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

| | **2017 $000** | 2016 $000 |
|---|---|---|
| Profit before income tax | **843,199** | 962,392 |
| Notional tax on profit before income tax, calculated at Hong Kong tax rate of 16.5% (2016: 16.5%) | **139,128** | 158,795 |
| Effect of different tax rates in other countries | **1,466** | 2,402 |
| Expenses not deductible for tax purposes | **1,683** | 448 |
| Income not subject to tax | **(4,672)** | (6,617) |
| Over-provision in prior years | **(4,825)** | (1,359) |
| Tax loss not recognised | **3,183** | 5,338 |
| Utilisation of previously unrecognised tax losses | **(2,220)** | (914) |
| Temporary differences not recognised | **43,688** | 16,889 |
| Income tax expense | **177,431** | 174,982 |

## 12 Five highest paid individuals

Of the five highest paid individuals, three (2016: three) are directors whose emoluments are disclosed in note 35. The aggregate of the emoluments in respect of the other two (2016: two) individuals are as follows:

| | **2017**<br>**$000** | 2016<br>$000 |
|---|---|---|
| Salaries, allowances and benefits in kind | **5,114** | 5,348 |
| Bonuses | **624** | 848 |
| Retirement scheme contributions | **266** | 386 |
| Compensation for loss of office | | |
| — contractual payments | **706** | — |
| — other payment | **1,412** | — |
| | **8,122** | 6,582 |

In 2016, in addition to the above emoluments, the two highest paid individuals were granted share options under the Company's share option scheme. The details of these benefits in kind are disclosed under the section "Share option schemes" in the Report of the Directors and note 31.

The emoluments of the two (2016: two) highest paid individuals are within the following bands:

| | **2017**<br>**Number of**<br>**Individuals** | 2016<br>Number of<br>Individuals |
|---|---|---|
| $2,500,001–$3,000,000 | **—** | 1 |
| $3,500,001–$4,000,000 | **1** | 1 |
| $4,000,001–$4,500,000 | **1** | — |
| | **2** | 2 |

## 13 Employee retirement benefits

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

Contributions to the ORSO scheme by the Group and the employees are calculated as specified percentages of each employee's basic salary. Where employees leave the scheme prior to the full vesting of the employer's contributions, the amount of forfeited contributions is used to reduce the contributions payable by the Group. As at 30 June 2017, all available forfeited contributions had been utilised by the Group to reduce its contributions payable (2016: same).

The MPF scheme was established under the Hong Kong Mandatory Provident Fund Scheme Ordinance in December 2000 and the Group's employees may elect to join the MPF scheme. Both the Group and the employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of $30,000 (2016: same). Contributions to the scheme vest immediately.

## 14 Net exchange loss

The exchange differences charged to the consolidated profit and loss account are included as follows:

| | **2017**<br>**$000** | 2016<br>$000 |
|---|---|---|
| Other operating expenses | **30** | 12,144 |
| Finance costs (note 9) | **5,419** | 48,219 |
| | **5,449** | 60,363 |

## 15 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.

| | **2017** | 2016 |
|---|---|---|
| Profit attributable to equity holders of the Company ($000) | **672,102** | 797,150 |
| Weighted average number of ordinary shares in issue | **1,088,507,398** | 1,064,519,219 |
| Basic earnings per share (cents per share) | **61.7** | 74.9 |

### (b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. For dilutive share options, the number of shares that would have been issued assuming the exercise of the share options less the number of shares that could have been issued at fair value (determined as the average market price per share for the year) for the same total proceeds is the number of shares issued for no consideration. The resulting number of shares issued for no consideration is included in the weighted average number of ordinary shares as the denominator for calculating diluted earnings per share.

| | **2017** | 2016 |
|---|---|---|
| Profit attributable to equity holders of the Company ($000) | **672,102** | 797,150 |
| Weighted average number of ordinary shares in issue | **1,088,507,398** | 1,064,519,219 |
| Adjustment for dilutive share options | **—** | 597,725 |
| Weighted average number of ordinary shares for diluted earnings per share | **1,088,507,398** | 1,065,116,944 |
| Diluted earnings per share (cents per share) | **61.7** | 74.8 |

## 16 Dividends

| | 2017 $000 | 2016 $000 |
|---|---|---|
| Interim dividend, paid, of 27 cents (2016: 27 cents) per share | **294,130** | 286,722 |
| Final dividend, proposed, of 33 cents (2016: 33 cents) per share | **364,789** | 356,789 |
| | **658,919** | 643,511 |

For the dividends attributable to the years ended 30 June 2017 and 2016, scrip dividend elections were offered to shareholders. Shares issued during the year on the shareholders' election to receive shares are set out in note 30.

At a meeting held on 29 August 2017, the directors proposed a final dividend of 33 cents per share. This proposed dividend is not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained profits for the year ending 30 June 2018.

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

## 17 Leasehold land and land use rights

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments and their net book values are analysed as follows:

| | 2017 $000 | 2016 $000 |
|---|---|---|
| At 1 July | **12,264** | 14,038 |
| Amortisation of leasehold land and land use rights | **(638)** | (670) |
| Exchange differences | **(243)** | (1,104) |
| **At 30 June** | **11,383** | 12,264 |

## 18 Fixed assets

| | Leasehold improvements $000 | Buildings $000 | Network and testing equipment $000 | Computer, billing and office telephone equipment $000 | Other fixed assets $000 | Network under construction $000 | Total $000 |
|---|---|---|---|---|---|---|---|
| At 1 July 2015 | | | | | | | |
| Cost | 239,971 | 157,443 | 6,649,279 | 958,917 | 125,856 | 454,274 | 8,585,740 |
| Accumulated depreciation | (196,493) | (13,642) | (4,133,373) | (817,172) | (84,997) | — | (5,245,677) |
| Net book amount | 43,478 | 143,801 | 2,515,906 | 141,745 | 40,859 | 454,274 | 3,340,063 |
| Year ended 30 June 2016 | | | | | | | |
| Opening net book amount | 43,478 | 143,801 | 2,515,906 | 141,745 | 40,859 | 454,274 | 3,340,063 |
| Exchange differences | (465) | (479) | — | (94) | (112) | — | (1,150) |
| Additions | 22,063 | — | 33,038 | 60,559 | 6,332 | 473,466 | 595,458 |
| Reclassifications | — | — | 499,953 | — | — | (499,953) | — |
| Disposals | (176) | — | (12,417) | (2,106) | (211) | (3,579) | (18,489) |
| Depreciation | (20,762) | (4,361) | (576,829) | (69,389) | (8,549) | — | (679,890) |
| Closing net book amount | 44,138 | 138,961 | 2,459,651 | 130,715 | 38,319 | 424,208 | 3,235,992 |
| At 30 June 2016 | | | | | | | |
| Cost | 246,018 | 156,794 | 6,819,167 | 962,287 | 126,078 | 424,208 | 8,734,552 |
| Accumulated depreciation | (201,880) | (17,833) | (4,359,516) | (831,572) | (87,759) | — | (5,498,560) |
| Net book amount | 44,138 | 138,961 | 2,459,651 | 130,715 | 38,319 | 424,208 | 3,235,992 |
| **Year ended 30 June 2017** | | | | | | | |
| Opening net book amount | **44,138** | **138,961** | **2,459,651** | **130,715** | **38,319** | **424,208** | **3,235,992** |
| Exchange differences | **(91)** | **(106)** | **—** | **78** | **(17)** | **—** | **(136)** |
| Additions | **11,067** | **—** | **18,369** | **65,524** | **3,532** | **415,043** | **513,535** |
| Reclassifications | **—** | **—** | **520,063** | **—** | **—** | **(520,063)** | **—** |
| Disposals | **—** | **—** | **(5,362)** | **(306)** | **(4)** | **(2,063)** | **(7,735)** |
| Depreciation | **(19,115)** | **(4,343)** | **(568,256)** | **(70,290)** | **(7,927)** | **—** | **(669,931)** |
| Closing net book amount | **35,999** | **134,512** | **2,424,465** | **125,721** | **33,903** | **317,125** | **3,071,725** |
| **At 30 June 2017** | | | | | | | |
| Cost | **250,245** | **156,648** | **7,264,375** | **1,025,126** | **124,884** | **317,125** | **9,138,403** |
| Accumulated depreciation | **(214,246)** | **(22,136)** | **(4,839,910)** | **(899,405)** | **(90,981)** | **—** | **(6,066,678)** |
| Net book amount | **35,999** | **134,512** | **2,424,465** | **125,721** | **33,903** | **317,125** | **3,071,725** |

At 30 June 2017, buildings with a carrying amount of $80,059,000 (2016: $82,497,000) were pledged as security for bank borrowings of the Group (note 28).

## 19 Subsidiaries

Particulars of the principal subsidiaries at 30 June 2017 are as follows:

| Name | Place of incorporation | Principal activities and place of operation | Particulars of issued share capital | Group equity interest |
|---|---|---|---|---|
| SmarTone (BVI) Limited * | The British Virgin Islands ("BVI") | Investment holding and group financing in BVI | 1,000 ordinary shares of US$1 each US$1,000 | 100% |
| SmarTone Mobile Communications Limited | Hong Kong | Provision of mobile services and sales of handsets and accessories in Hong Kong | 100,000,000 ordinary shares of $1 each $100,000,000 | 100% |
| SmarTone Communications Limited | Hong Kong | Provision of wireless fixed services in Hong Kong | 2 ordinary shares of $1 each $2 | 100% |
| SmarTone Finance Limited | BVI | Issuance of guaranteed notes in Hong Kong | 1 ordinary share of US$1 each US$1 | 100% |
| SmarTone-Comunicações Móveis, S.A. | Macau | Provision of mobile services and sales of handsets and accessories in Macau | 100,000 shares of MOP100 each MOP10,000,000 | 72% |
| 廣州數碼通客戶服務有限公司 | The People's Republic of China | Provision of customer support services and telemarketing services in Mainland China | Registered capital of $27,400,000 | 100% |

* Subsidiary held directly by the Company.

All of the above subsidiaries are limited liability companies.

## 20 Interest in an associate

| | **2017 $000** | 2016 $000 |
|---|---|---|
| Share of net assets | **3** | 3 |

During the year ended 30 June 2017, there is no movement of share of net assets of interest in an associate (2016: same).

## 20 Interest in an associate *(continued)*

Particulars of the associate at 30 June 2017 are as follows:

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

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

There are no contingent liabilities relating to the Group's interest in the associate.

## 21 Financial investments

| | 2017 $000 | 2016 $000 |
|---|---|---|
| Available-for-sale financial assets (a) | 8,012 | 10,977 |
| Held-to-maturity debt securities (b) | 712,084 | 870,127 |
| | 720,096 | 881,104 |
| Less: held-to-maturity debt securities maturing after 1 year included under non-current assets | (672,528) | (747,924) |
| Total current portion of financial investments | 47,568 | 133,180 |

### (a) Available-for-sale financial assets

| | 2017 $000 | 2016 $000 |
|---|---|---|
| At 1 July | 10,977 | 9,910 |
| Fair value (loss)/gain transferred to equity | (2,965) | 1,067 |
| At 30 June | 8,012 | 10,977 |

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

The available-for-sale financial assets are stated at fair value based on the net asset value per unit of the respective funds as determined by the managers of the relevant funds. The fair values are within level 2 of the fair value hierarchy (note 5(c)).

None of these financial assets is impaired.

## 21 Financial investments *(continued)*

### (b) Held-to-maturity debt securities

| | 2017 $000 | 2016 $000 |
|---|---|---|
| At 1 July | **870,127** | — |
| Additions | **—** | 860,001 |
| Amortisation | **(10,249)** | 9,257 |
| Disposal | **(152,145)** | — |
| Exchange differences | **4,351** | 869 |
| At 30 June | **712,084** | 870,127 |

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

| | 2017 $000 | 2016 $000 |
|---|---|---|
| Listed debt securities, outside Hong Kong | **121,966** | 244,862 |
| Listed debt securities, Hong Kong | **590,118** | 625,265 |
| | **712,084** | 870,127 |
| Market value of listed debt securities | **715,494** | 884,364 |

The fair value of held-to-maturity debt securities is based on quoted market price.

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

During the year ended 30 June 2017, the Group has recognised a gain on disposal of held-to-maturity debt securities of $45,000 upon exercise of a call option by an issuer (2016: nil). The Group has not reclassified any financial assets measured at amortised cost rather than fair value during the year (2016: same).

None of these financial assets is either past due or impaired. The maximum exposure to credit risk at the reporting date is the carrying amount of the held-to-maturity financial assets.

## 22 Intangible assets

| | Handset subsidies $000 | Mobile licence fees $000 | Total $000 |
|---|---|---|---|
| At 1 July 2015 | | | |
| Cost | 2,265,700 | 2,492,108 | 4,757,808 |
| Accumulated amortisation | (1,441,768) | (997,326) | (2,439,094) |
| Net book amount | 823,932 | 1,494,782 | 2,318,714 |
| Year ended 30 June 2016 | | | |
| Opening net book amount | 823,932 | 1,494,782 | 2,318,714 |
| Additions | 308,953 | — | 308,953 |
| Amortisation * | (676,058) | (189,819) | (865,877) |
| Disposal | (4,677) | — | (4,677) |
| Closing net book amount | 452,150 | 1,304,963 | 1,757,113 |
| At 30 June 2016 | | | |
| Cost | 1,919,351 | 2,492,108 | 4,411,459 |
| Accumulated amortisation | (1,467,201) | (1,187,145) | (2,654,346) |
| Net book amount | 452,150 | 1,304,963 | 1,757,113 |
| **Year ended 30 June 2017** | | | |
| Opening net book amount | **452,150** | **1,304,963** | **1,757,113** |
| Additions | **282,345** | **2,287,200** | **2,569,545** |
| Amortisation * | **(436,448)** | **(256,265)** | **(692,713)** |
| Disposal | **(2,546)** | **—** | **(2,546)** |
| Closing net book amount | **295,501** | **3,335,898** | **3,631,399** |
| **At 30 June 2017** | | | |
| Cost | **1,101,738** | **4,103,521** | **5,205,259** |
| Accumulated amortisation | **(806,237)** | **(767,623)** | **(1,573,860)** |
| Net book amount | **295,501** | **3,335,898** | **3,631,399** |

* Included handset subsidies written off of $3,327,000 (2016: $14,877,000).

## 23 Trade and other receivables

| | 2017<br>$000 | 2016<br>$000 |
|---|---|---|
| Trade receivables | **334,302** | 286,697 |
| Less: provision for impairment of trade receivables | **(12,852)** | (12,241) |
| Trade receivables — net | **321,450** | 274,456 |
| Deposits and prepayments | **258,264** | 309,683 |
| Other receivables | **47,002** | 90,809 |
| | **626,716** | 674,948 |
| Less: deposits and prepayments included under non-current assets | **(91,076)** | (117,296) |
| Current assets | **535,640** | 557,652 |

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

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

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

| | 2017<br>$000 | 2016<br>$000 |
|---|---|---|
| Current to 30 days | **275,258** | 244,690 |
| 31–60 days | **26,457** | 19,385 |
| 61–90 days | **12,951** | 4,362 |
| Over 90 days | **6,784** | 6,019 |
| | **321,450** | 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 $18,554,000 (2016: $14,022,000) for the impairment of its trade receivables during the year ended 30 June 2017. The loss has been included in "other operating expenses" in the consolidated profit and loss account. Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

## 23 Trade and other receivables *(continued)*

As at 30 June 2017, trade receivables of $58,698,000 (2016: $41,507,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. An ageing analysis of these trade receivables is as follows:

| | **2017** **$000** | 2016 $000 |
|---|---|---|
| Within 30 days | **12,506** | 11,741 |
| 31–60 days | **26,457** | 19,385 |
| Over 60 days | **19,735** | 10,381 |
| | **58,698** | 41,507 |

The carrying amounts of the Group's trade and other receivables are mainly denominated in Hong Kong dollars which accounted for 87% (2016: 71%).

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

| | **2017** **$000** | 2016 $000 |
|---|---|---|
| At 1 July | **12,241** | 11,896 |
| Impairment loss recognised in the consolidated profit and loss account (note 10) | **18,554** | 14,022 |
| Amounts written off during the year | **(17,943)** | (13,677) |
| At 30 June | **12,852** | 12,241 |

At 30 June 2017, trade receivables of $12,852,000 (2016: $12,241,000) were impaired and fully provided. The individually impaired receivables mainly relate to independent customers that were in financial difficulties. The ageing of these receivables is as follows:

| | **2017** **$000** | 2016 $000 |
|---|---|---|
| 31–60 days | **797** | 1,087 |
| 61–90 days | **1,628** | 1,622 |
| Over 90 days | **10,427** | 9,532 |
| | **12,852** | 12,241 |

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

## 24 Deferred income tax

Deferred income tax for the Group's temporary differences arising from operations in Hong Kong and overseas is calculated at 16.5% (2016: 16.5%) and the appropriate current tax rates ruling in the relevant countries respectively.

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

| | **2017 $000** | 2016 $000 |
|---|---|---|
| Deferred income tax assets | | |
| To be recovered after more than 12 months | **(6,130)** | (6,497) |
| Deferred income tax liabilities | | |
| To be settled after more than 12 months | **136,738** | 126,846 |
| Deferred income tax liabilities, net | **130,608** | 120,349 |

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

### (a) Deferred income tax assets

| | Decelerated depreciation allowance $000 |
|---|---|
| At 1 July 2015 | (6,803) |
| Recognised in the consolidated profit and loss account (note 11(a)) | 306 |
| At 30 June 2016 | (6,497) |
| At 1 July 2016 | **(6,497)** |
| Recognised in the consolidated profit and loss account (note 11(a)) | **367** |
| **At 30 June 2017** | **(6,130)** |

## 24 Deferred income tax *(continued)*

### (b) Deferred income tax liabilities

| | Mobile licence fee assets $000 | Accelerated depreciation allowance $000 | Total $000 |
|---|---|---|---|
| At 1 July 2015 | (56,090) | 190,092 | 134,002 |
| Recognised in the consolidated profit and loss account (note 11(a)) | 11,702 | (18,858) | (7,156) |
| At 30 June 2016 | (44,388) | 171,234 | 126,846 |
| At 1 July 2016 | **(44,388)** | **171,234** | **126,846** |
| Recognised in the consolidated profit and loss account (note 11(a)) | **23,020** | **(13,128)** | **9,892** |
| **At 30 June 2017** | **(21,368)** | **158,106** | **136,738** |

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group has not recognised deferred income tax assets of $10,917,000 (2016: $10,469,000) in respect of tax losses of $83,405,000 (2016: $77,952,000). Under the current tax legislation, unrecognised tax losses of $63,222,000 (2016: $53,178,000) related to a subsidiary operating in Macau are subject to an expiry period of three years from the year in which the tax loss arises. The remaining tax losses do not expire under current tax legislation.

## 25 Inventories

| | **2017 $000** | 2016 $000 |
|---|---|---|
| Handsets and accessories, at cost | **196,456** | 358,799 |
| Less: provision for slow-moving and obsolete inventories | **(14,753)** | (18,029) |
| | **181,703** | 340,770 |

The Group recognised a reversal of impairment provision of $3,276,000 (2016: impairment provision of $281,000) for slow-moving and obsolete inventories during the year ended 30 June 2017. The amount has been included in "cost of inventories sold" in the consolidated profit and loss account.

## 26 Pledged bank deposits, short-term bank deposits and cash and cash equivalents

| | 2017<br>$000 | 2016<br>$000 |
|---|---|---|
| Cash at bank and in hand | **237,950** | 1,450,435 |
| Short-term bank deposits with original maturities of 3 months or less | **908,845** | 1,448,077 |
| Cash and cash equivalents | **1,146,795** | 2,898,512 |
| Short-term bank deposits with original maturities more than 3 months | **124,893** | 341,053 |
| Short-term pledged bank deposits | **2,385** | 2,385 |
| | **1,274,073** | 3,241,950 |
| Maximum exposure to credit risk | **1,269,278** | 3,237,192 |

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

At 30 June 2017, short-term pledged bank deposits are mainly pledged for the issuance of bank guarantees by a bank in favour of the Airport Authority (2016: same).

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

| | 2017<br>$000 | 2016<br>$000 |
|---|---|---|
| Hong Kong dollars | **363,248** | 3,003,303 |
| US dollars | **870,827** | 209,753 |
| Renminbi | **5,104** | 13,817 |
| Others | **34,894** | 15,077 |
| | **1,274,073** | 3,241,950 |

## 27 Trade and other payables

| | 2017 $000 | 2016 $000 |
|---|---|---|
| Trade payables (a) | **357,393** | 577,913 |
| Other payables and accruals (b) | **804,562** | 853,473 |
| | **1,161,955** | 1,431,386 |

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

| | 2017 $000 | 2016 $000 |
|---|---|---|
| Current to 30 days | **157,533** | 514,218 |
| 31–60 days | **85,232** | 32,851 |
| 61–90 days | **49,759** | 7,262 |
| Over 90 days | **64,869** | 23,582 |
| | **357,393** | 577,913 |

At 30 June 2017, the carrying amount of the Group's trade payables are mainly denominated in HK dollars which accounted for 74%.

At 30 June 2016, the carrying amount of the Group's trade payables are mainly denominated in US dollars which accounted for 81%.

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

| | 2017 $000 | 2016 $000 |
|---|---|---|
| Accrued expenses | **440,039** | 409,197 |
| Payables for fixed assets | **273,013** | 376,171 |
| Receipt in advance | **91,510** | 68,105 |
| | **804,562** | 853,473 |

## 28 Bank and other borrowings

| | 2017 $000 | 2016 $000 |
|---|---|---|
| Secured bank borrowings | **66,000** | 66,000 |
| Unsecured bank borrowings | **1,081,923** | 1,254,292 |
| Guaranteed notes (a) | **1,542,762** | 1,530,131 |
| | **2,690,685** | 2,850,423 |
| Less: bank borrowings included under current liabilities | **(133,636)** | (126,228) |
| Non-current portion | **2,557,049** | 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 2023, which are listed on The Stock Exchange of Hong Kong Limited. The notes are irrevocably and unconditionally guaranteed by the Company and will rank pari passu with all other outstanding unsecured and unsubordinated obligations of the Company.

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

| | 2017 $000 | 2016 $000 |
|---|---|---|
| Between 1 and 2 years | **135,115** | 631,087 |
| Between 2 and 5 years | **806,712** | 407,516 |
| Over 5 years | **1,615,222** | 1,685,592 |
| | **2,557,049** | 2,724,195 |

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 year 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 30 June 2017** | | | | |
| Secured bank borrowings | — | **60,186** | — | **60,186** |
| Unsecured bank borrowings | — | **857,606** | — | **857,606** |
| Guaranteed notes | **1,584,921** | — | — | **1,584,921** |
| **Total** | **1,584,921** | **917,792** | — | **2,502,713** |

## 28 Bank and other borrowings *(continued)*

| | 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 30 June 2017, 81% (2016: 80%) of the Group's bank and other borrowings are denominated in US dollars and 19% (2016: 20%) are denominated in Hong Kong dollars.

At 30 June 2017, secured bank borrowings are secured by certain buildings of the Group (note 18) (2016: same).

## 29 Mobile licence fee liabilities

| | **2017 $000** | 2016 $000 |
|---|---|---|
| At 1 July | **409,831** | 562,455 |
| Accretion expenses included in consolidated profit and loss account (note 9) | **31,688** | 50,846 |
| Payment | **(213,593)** | (203,470) |
| At 30 June | **227,926** | 409,831 |
| Less: mobile licence fee liabilities included under current liabilities | **(60,040)** | (206,325) |
| Non-current portion | **167,886** | 203,506 |

## 29 Mobile licence fee liabilities *(continued)*

Analysis of the present value of mobile licence fee liabilities:

| | **2017** **$000** | 2016 $000 |
|---|---|---|
| Minimum annual fees payable | | |
| Within 1 year | **62,350** | 213,593 |
| After 1 year but within 5 years | **225,330** | 249,400 |
| After 5 years | **—** | 38,280 |
| | **287,680** | 501,273 |
| Less: future finance charges | **(59,754)** | (91,442) |
| Present value of mobile licence fee liabilities | **227,926** | 409,831 |
| Comprising: | | |
| Within 1 year | **60,040** | 206,325 |
| After 1 year but within 5 years | **167,886** | 182,364 |
| After 5 years | **—** | 21,142 |
| | **227,926** | 409,831 |

## 30 Share capital

| | Shares of $0.1 each | $000 |
|---|---|---|
| Authorised | | |
| **At 30 June 2016 and 30 June 2017** | **2,000,000,000** | **200,000** |
| Issued and fully paid | | |
| At 1 July 2015 | 1,056,681,910 | 105,668 |
| Issue of new shares upon exercise of share options (a) | 10,653,500 | 1,066 |
| Issue of shares in lieu of cash dividends (b) | 13,842,130 | 1,384 |
| At 30 June 2016 | **1,081,177,540** | **108,118** |
| Issue of shares in lieu of cash dividends (b) | **32,826,913** | **3,283** |
| Repurchase of shares (c) | **(8,192,000)** | **(820)** |
| **At 30 June 2017** | **1,105,812,453** | **110,581** |

## 30 Share capital *(continued)*

(a) During the year ended 30 June 2017, no share options were exercised.

During the year ended 30 June 2016, share options were exercised to subscribe for 10,653,500 shares in the Company at a consideration of approximately $136,152,000, of which $1,066,000 was credited to share capital and the balance of $135,086,000 was credited to the share premium account.

In respect of the share options exercised, an amount of $24,007,000 was reversed from the employee share-based compensation reserve and credited to the share premium account of the Group.

(b) On 26 August 2016, the board of directors declared a final dividend of 33 cents (2016: 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 (2016: 595,398) shares were issued at $11.08 (2016: $12.328) per share in respect of the final dividend.

On 16 February 2017, the board of directors declared an interim dividend of 27 cents (2016: 27 cents) per share for the year ended 30 June 2017. The shareholders were provided with an option to receive the interim dividend in form of scrip dividend. On 12 April 2017, 21,241,112 (2016: 13,246,732) shares were issued at $10.152 (2016: $12.512) per share in respect of the interim dividend.

(c) During the year ended 30 June 2017, the Company repurchased and cancelled 8,192,000 shares on the HKSE. The total amount paid to acquire these cancelled shares of $87,715,000 was deducted from equity attributable to equity holders.

| Month of repurchase | Number of shares repurchased and cancelled | Price per share Highest | Price per share Lowest | Aggregate price paid $000 |
|---|---|---|---|---|
| August 2016 | 1,394,000 | $12.88 | $12.20 | 17,426 |
| September 2016 | 491,000 | $12.68 | $12.58 | 6,209 |
| December 2016 | 1,506,500 | $10.36 | $10.22 | 15,507 |
| March 2017 | 1,769,500 | $10.08 | $10.00 | 17,749 |
| April 2017 | 3,031,000 | $10.20 | $10.08 | 30,824 |
| | 8,192,000 | | | 87,715 |

(Expressed in Hong Kong dollars)

## 31 Share option scheme

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

### (a) Movements in share options

| | Average exercise price per share | Number of share options |
|---|---|---|
| At 1 July 2015 | $12.79 | 23,168,500 |
| Exercised | $12.78 | (10,653,500) |
| Cancelled or lapsed | $12.78 | (12,162,500) |
| At 30 June 2016 and 1 July 2016 | **$13.13** | **352,500** |
| Granted | **$14.28** | **3,000,000** |
| Cancelled or lapsed | **$13.13** | **(352,500)** |
| **At 30 June 2017** | **$14.28** | **3,000,000** |

At 30 June 2017, no share options were exercisable.

At 30 June 2016, 352,500 share options were exercisable with average exercise price of $13.13 per share.

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

| Date of grant | Exercise period | Exercise price per share | **2017 Number of share options** | 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 |

## 31 Share option scheme *(continued)*

(c) The weighted average fair value of options granted during the year determined using the Bi-nominal option pricing model was $2.51 per option (2016: nil). The significant inputs into the model were summarised as follows:

| | |
|---|---|
| Volatility | 38.04% |
| Exercise price | $14.28 |
| Dividend yield | 4.5% |
| Expected option life | 5 years |
| Annual risk-free interest rate | 0.72% |
| Share price at the grant date | $14.28 |

The volatility represented the average standard deviation of historical share price movement of the Company in the relevant periods matching expected life of the share options. The amount of share-based payments charged to the consolidated profit and loss account for the year ended 30 June 2017 was disclosed in note 7.

### (d) Details of share options exercised

No share options were exercised during the year ended 30 June 2017.

Share options exercised during the year ended 30 June 2016 resulted in 10,653,500 shares being issued. The related weighted average share price at the time of exercise was $13.48 per share.

## 32 Commitments and contingent liabilities

### (a) Capital commitments

| | **2017**<br>**$000** | 2016<br>$000 |
|---|---|---|
| Fixed assets | | |
| Contracted for | **73,987** | 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.

## 32 Commitments and contingent liabilities *(continued)*

### (b) Operating lease commitments *(continued)*

At 30 June 2017, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

| | **2017 $000** | 2016 $000 |
|---|---|---|
| Land and buildings and transmission sites | | |
| No later than 1 year | **533,831** | 591,012 |
| Later than 1 year and no later than 5 years | **278,427** | 375,181 |
| Later than 5 years | **9,487** | 18,738 |
| | **821,745** | 984,931 |
| Leased lines | | |
| No later than 1 year | **243,722** | 234,808 |
| Later than 1 year and no later than 5 years | **690,446** | 719,386 |
| Later than 5 years | **309,637** | 441,241 |
| | **1,243,805** | 1,395,435 |

### (c) Performance bonds

| | **2017 $000** | 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 30 June 2017, 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 $1,135,703,000) and $600,000,000, of which US$83,286,000 (approximately $650,114,000) and $450,000,000 of the banking facilities were utilised by the subsidiary.

## 33 Related party transactions

The Group is controlled by Cellular 8 Holdings Limited, which owns 64.59% of the Company's shares as at 30 June 2017. The remaining 35.41% of the shares are widely held, of which 3.65% is held by another subsidiary of SHKP. The ultimate holding company of the Group is SHKP, a company incorporated in Hong Kong.

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

| | **2017**<br>**$000** | 2016<br>$000 |
|---|---|---|
| Operating lease rentals for land and buildings and transmission sites (i) | **127,529** | 120,330 |
| Insurance expense (ii) | **4,398** | 6,084 |

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

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

For the year ended 30 June 2017, rental and licence fees paid and payable to subsidiaries and associated companies of SHKP totalled $127,529,000 (2016: $120,330,000).

(ii) Insurance services

Sun Hung Kai Properties Insurance Limited, a wholly owned subsidiary of SHKP, provides general insurance services to the Group. For the year ended 30 June 2017, insurance premiums paid and payable were $4,398,000 (2016: $6,084,000).

(b) At 30 June 2017, 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.

## 33 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:

| | **2017** **$000** | 2016 $000 |
|---|---|---|
| Salaries, bonuses and other short-term employee benefits | **31,276** | 35,974 |
| Termination benefits | **2,118** | — |
| Share-based payments | **4,291** | — |
| | **37,685** | 35,974 |

(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:

| | **2017** **$000** | 2016 $000 |
|---|---|---|
| Trade receivables (note 23) | **1,231** | 1,772 |
| Deposits and prepayments (note 23) | **24,029** | 9,669 |
| Other receivables (note 23) | **314** | 322 |
| Trade payables (note 27) | **3,259** | 193 |
| Other payables and accruals (note 27) | **3,861** | 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.

## 34 Balance sheet and reserve movement of the Company

| | 2017 $000 | 2016 $000 |
|---|---|---|
| **Non-current assets** | | |
| Investments in subsidiaries | **6,896,740** | 6,892,449 |
| **Current assets** | | |
| Prepayments | **235** | 176 |
| Amounts due from subsidiaries | **44,256** | 44,256 |
| Cash and cash equivalents | **234** | 2,000 |
| | **44,725** | 46,432 |
| **Current liabilities** | | |
| Amounts due to subsidiaries | **3,593,137** | 3,200,274 |
| Other payables and accruals | **2,614** | 2,867 |
| Current income tax liabilities | **51** | 254 |
| | **3,595,802** | 3,203,395 |
| **Net assets** | **3,345,663** | 3,735,486 |
| **Capital and reserves** | | |
| Share capital | **110,581** | 108,118 |
| Reserves (Note (a)) | **3,235,082** | 3,627,368 |
| **Total equity attributable to equity holders of the Company** | **3,345,663** | 3,735,486 |

The balance sheet of the Company was approved by the Board of Directors on 29 August 2017 and was signed on its behalf.

**Kwok Ping-luen, Raymond**
*Director*

**Anna Yip**
*Director*

## 34 Balance sheet and reserve movement of the Company *(continued)*

Note (a) Reserve movement of the Company

| | Company | | | | | |
|---|---|---|---|---|---|---|
| | Share premium $000 | Capital redemption reserve $000 | Contributed surplus $000 | Employee share-based compensation reserve $000 | Retained profits $000 | Total $000 |
| 1 July 2015 | 452,458 | 10,949 | 764,242 | 53,443 | 475,757 | 1,756,849 |
| **Comprehensive income** | | | | | | |
| Profit for the year | — | — | — | — | 2,200,697 | 2,200,697 |
| **Transactions with owners** | | | | | | |
| Lapse of share option | — | — | 28,341 | (28,341) | — | — |
| Issue of shares (note 30(a)) | 159,093 | — | — | (24,007) | — | 135,086 |
| Payment of 2015 final dividend (note 30(b)) | 7,281 | — | — | — | (350,241) | (342,960) |
| Payment of 2016 interim dividend (note 30(b)) | 164,418 | — | — | — | (286,722) | (122,304) |
| At 30 June 2016 and 1 July 2016 | **783,250** | **10,949** | **792,583** | **1,095** | **2,039,491** | **3,627,368** |
| **Comprehensive income** | | | | | | |
| Loss for the year | **—** | **—** | **—** | **—** | **(113)** | **(113)** |
| **Transactions with owners** | | | | | | |
| Share-based payments | **—** | **—** | **—** | **4,291** | **—** | **4,291** |
| Lapse of share option | **—** | **—** | **1,096** | **(1,096)** | **—** | **—** |
| Repurchase of shares (note 30(c)) | **—** | **820** | **(51,983)** | **—** | **(35,732)** | **(86,895)** |
| Payment of 2016 final dividend (note 30(b)) | **127,212** | **—** | **—** | **—** | **(356,167)** | **(228,955)** |
| Payment of 2017 interim dividend (note 30(b)) | **213,516** | **—** | **—** | **—** | **(294,130)** | **(80,614)** |
| **At 30 June 2017** | **1,123,978** | **11,769** | **741,696** | **4,290** | **1,353,349** | **3,235,082** |

## 35 Benefits and interests of directors

### (a) Directors' and chief executive's emoluments

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

| | 2017 | | | | | | | 2016 |
|---|---|---|---|---|---|---|---|---|
| | Fees<br>$000 | Salaries and allowances<br>$000 | Bonuses<br>$000 | Retirement scheme contributions<br>$000 | Estimated money value of other benefits<br>$000 | Share-based payments<br>$000 | Total<br>$000 | Total<br>$000 |
| **Executive Directors** | | | | | | | | |
| Ms. Anna Yip [(1)] | 144 | 6,804 | — | 256 | 77 | 4,291 | 11,572 | 286 |
| Mr. Chan Kai-lung, Patrick | 144 | 5,433 | 1,342 | 543 | 72 | — | 7,534 | 7,088 |
| Mr. Chau Kam-kun, Stephen [(2)] | 144 | 5,686 | 2,106 | 569 | 91 | — | 8,596 | 7,345 |
| Mr. Douglas Li [(3)] | — | — | — | — | — | — | — | 15,756 |
| **Non-Executive Directors** | | | | | | | | |
| Mr. Kwok Ping-luen, Raymond | 180 | — | — | — | — | — | 180 | 180 |
| Mr. Cheung Wing-yui | 162 | — | — | — | — | — | 162 | 162 |
| Mr. Fung Yuk-lun, Allen | 162 | — | — | — | — | — | 162 | 162 |
| Mr. David Norman Prince | 144 | — | — | — | — | — | 144 | 144 |
| Mr. Siu Hon-wah, Thomas | 144 | — | — | — | — | — | 144 | 144 |
| Mr. John Anthony Miller | 144 | — | — | — | — | — | 144 | 144 |
| Mr. Tsim Wing-kit, Alfred [(4)] | 96 | — | — | — | — | — | 96 | 288 |
| Dr. Li Ka-cheung, Eric, JP * | 288 | — | — | — | — | — | 288 | 288 |
| Mr. Ng Leung-sing, JP * | 288 | — | — | — | — | — | 288 | 288 |
| Mr. Yang Xiang-dong * | 144 | — | — | — | — | — | 144 | 144 |
| Mr. Gan Fock-kin, Eric * | 288 | — | — | — | — | — | 288 | 288 |
| Mrs. Ip Yeung See-ming, Christine * | 144 | — | — | — | — | — | 144 | 144 |
| Mr. Lam Kwok-fung, Kenny* [(5)] | 48 | — | — | — | — | — | 48 | — |
| | **2,664** | **17,923** | **3,448** | **1,368** | **240** | **4,291** | **29,934** | 32,851 |
| 2016 | 2,690 | 13,394 | 15,336 | 1,229 | 202 | — | | |

* Independent Non-Executive Director

(1) Ms. Anna Yip is appointed as Executive Director and Chief Executive Officer of the Company on 16 June 2016

(2) Mr. Chau Kam-kun, Stephen is appointed as Interim Chief Executive Officer of the Company on 1 September 2015 and cease to act as the Interim Chief Executive Officer of the Company with effect from 16 June 2016

(3) Mr. Douglas Li resigned as Executive Director and Chief Executive Officer of the Company on 31 August 2015

(4) Retired on 1 November 2016

(5) Appointed on 1 March 2017

## 35 Benefits and interests of directors *(continued)*

### (a) Directors' and chief executive's emoluments *(continued)*

During the years ended 30 June 2017 and 2016, no director:

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

In addition to the above emoluments, directors were granted share options under the Company's share option scheme. The details of these benefits in kind are disclosed under the section "Share option schemes" in the Report of the Directors and note 31.

### (b) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## 36 Ultimate holding company

The directors consider the ultimate holding company at 30 June 2017 to be Sun Hung Kai Properties Limited, a company incorporated in Hong Kong with its shares listed on the main board of HKSE.