SmarTone Telecommunications Holdings Limited

Stock Code : 0315

ANNUAL REPORT 2017/18

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).

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DIRECTORS AND CORPORATE INFORMATION

Board of Directors

*	Mr. KWOK Ping-luen, Raymond *Chairman*
*	Mr. CHEUNG Wing-yui *Deputy Chairman*
*	Mr. FUNG Yuk-lun, Allen *Deputy Chairman*
	Ms. Anna YIP *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. 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 Sang Bank Limited

Legal Advisors to the Company

As to Hong Kong law
Norton Rose Fulbright

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		
	2018	2017	Change
Consolidated profit and loss account			
Revenues	**9,988**	8,715	15%
Profit attributable to equity holders of the Company	**615**	672	(8%)
Basic earnings per share ($)	**0.55**	0.62	(10%)
Total dividends per share ($)	**0.41**	0.60	(32%)
Consolidated balance sheet			
Total assets	**10,018**	9,776	2%
Current liabilities	**(2,497)**	(2,185)	14%
Total assets less current liabilities	**7,521**	7,591	(1%)
Non-current liabilities	**(2,689)**	(2,956)	(9%)
Non-controlling interests	**(33)**	(41)	(20%)
Net assets	**4,799**	4,594	4%
Share capital	**112**	111	2%
Reserves	**4,687**	4,483	5%
Total equity attributable to equity holders of the Company	**4,799**	4,594	4%

	Year ended 30 June		
	2018	2017	Change
Consolidated cash flows			
Net cash generated from operating activities	**2,231**	1,750	27%
Interest received	**63**	61	2%
Payment for purchase of fixed assets	**(623)**	(575)	8%
Proceeds from disposal of held-to-maturity debt securities	**145**	152	(5%)
Payment of mobile licence fees	**(62)**	(2,501)	(98%)
Additions of handset subsidies	**(515)**	(282)	82%
Dividends paid	**(147)**	(306)	(52%)
Repayment of bank borrowings (net)	**(140)**	(183)	(24%)
Payment for repurchase of guaranteed notes	**(141)**	–	N/A
Payment or prepayment for repurchase of shares	**(266)**	(88)	203%
Others	**1**	1	73%
Net increase/(decrease) in pledged bank deposits, short-term bank deposits, and cash and cash equivalents	**546**	(1,971)	N/A

BUSINESS HIGHLIGHTS

Together We Thrive

SmarTone is committed to delivering unbeatable and valuable experiences to customers through its powerful network, purposeful apps and passionate services. We continue to lead the market through technology leadership, innovation, customer-centric strategy and digitalisation, bringing outstanding user experience and valuable services to our customers.

1. Technology Leadership

Leading technology solutions on ***NB-IoT enabled network*** for ***enterprise customers***.

Leading the mobile network evolution by launching the ***city's first live commercial License Assisted Access (LAA) Network*** supporting blazing 1Gbps download speeds and ***FDD Massive MIMO trial***.

2. Empowering Innovation

SmarTone Innovation Hub is Hong Kong's first dedicated open ecosystem to drive cross-industry collaboration and accelerate the progress in digital transformation.

SmarTone hackathon

The industry's first ***SmarTone Hackathon***, themed "Smart Properties", is a cross-sector event that sparks millennials' innovation and creativity.

BUSINESS HIGHLIGHTS

3. Customer-Centric Strategy

SmarTone Plus, the signature loyalty program, recognises the valued patronage of our customers with a world of privilege and prestige.

Excellent customer services and seamless online shopping experience garnered the renowned ***Smiling Enterprise Award*** and ***Telecom Asia Awards: Best E-Commerce Service***.

Brand building with integrated online and offline marketing campaigns

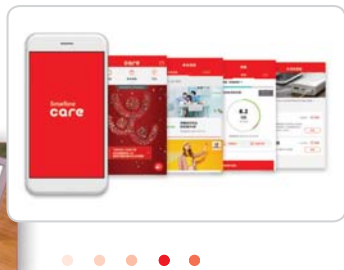
SmarTone 5S, a new standard in mobile service industry, redefines network experience in speed, stability, seamlessness, security and service.

Powerful network delivers outstanding mobile experience along all MTR lines.

4. Digitalisation

Birdie Mobile, Hong Kong's first all-digital self-service mobile brand for the millennial e-generation, with an award-winning ***Birdie Travel SIM***.

Omni-channel strategy provides enhanced customer experience from access to fully digitalised channels with award-winning Online Store, retail digitalisation and revamped SmarTone CARE app.



Proactive ***social media*** strategy engages with customers, business community and potential talents.

CHAIRMAN'S STATEMENT

(Financial figures are expressed in Hong Kong dollars)

Business review

During the year, competition has intensified across all segments of the market. To compete effectively, SmarTone continued to focus on delivering a powerful network performance and exceptional customer care. The Company was able to achieve a healthy growth of 16% in the number of customers to 2.39 million. Also, it was able to further reduce postpaid churn rate from 1.0% to 0.8%. Mobile postpaid ARPU declined 10% to $257 due to an expanded customer base and ongoing migration from handset-bundled to SIM Only plans. The latter, coupled with weakness in the prepaid segment, led to a 2% decline in group service revenue.

SmarTone's core postpaid business remained resilient, delivering a 2% growth in underlying service revenue net of handset subsidy amortisation. There was pressure on costs, but as a result of the Company's ongoing productivity improvement programs, cost increase was kept to 2% despite a much larger customer base. Spectrum fee amortisation increased 11%, reflecting the full-year impact of the renewal of 2100MHz spectrum in 2016. The combined effects of the weakness in the prepaid segment and the increase in costs resulted in an 8% decline in group net profit to $615 million.

During the year under review, the Company focused its investment on delivering the Company's 5S brand promise for Speed, Stability, Seamlessness, Security and Service, and in enhancing its offerings for both consumer and enterprise customers. SmarTone's segmentation strategy was reinforced through differentiated service plans designed for customers including families, travelers, professionals and the millennial segments.

The Enterprise Solutions business continued to deliver strong growth. The Company focused on priority industries, including logistics, construction, hospitality, healthcare and property management, with a broad portfolio of industry-specific applications. With the development of machine-to-machine applications and the drive for digitalisation by corporates, SmarTone expects continuous growth in Enterprise Solutions.

To meet the needs of Hong Kong's digital-savvy millennial generation, in July 2017, the Company launched Birdie, Hong Kong's first all-digital self-service mobile brand. Birdie has since received favourable market reception through its all-digital design, innovative product features and simple pricing structure.

The Company's digitalisation initiatives have improved customer experience and increased productivity. Customers can now access a mobile-friendly website with a 'plan advisor' to identify service and price plans most suited to their needs. SmarTone's website also offers a chatbot service to deliver 24x7 digital customer assistance. The SmarTone CARE app has been redesigned to offer both customer care and loyalty reward functionalities. Furthermore, the application of digital tools has led to improved operational effectiveness and efficiency.

Providing customers with a powerful network performance has long been the firm focus of SmarTone's network investment. The Company has refarmed 3G 2100MHz spectrum to LTE to expand capacity and throughput. After successfully conducting trials in Licensed Assisted Access (LAA) in 2017, the Company has started deployment at selected hotspot areas to further enhance customer experience. Following the successful trial of FDD Massive MIMO, preparation for 5G is underway as the Company plans for a field trial later this year.

Dividend

In line with the Company's 75% payout policy, the Board proposed a final dividend of 23 cents, making a full-year dividend of 41 cents per share. Shareholders have the option to receive new and fully paid shares in lieu of cash under a scrip dividend scheme.

(Financial figures are expressed in Hong Kong dollars)

Outlook

Industry competition is expected to remain intense as pressure on tariffs persists. There is also pressure on costs, both in operation and in spectrum fees. Notwithstanding the ongoing competitive pressure, the Company will continue to focus on customer growth, expansion of the Enterprise Solutions business, and digitalisation initiatives to improve customer experience and drive operational efficiency.

With regards to next generation mobile technology, the Company welcomes the Government's efforts to expedite the release of 5G spectrum. As the spectrum to be released in 2019 is not suitable for territory-wide coverage, SmarTone urges the Government to release additional low frequency spectrum and resolve the restriction zone issue associated with the 3.5GHz band. The resolution of these issues is crucial for establishing a comprehensive territory-wide 5G network and strengthening Hong Kong's position as a competitive global economy.

Appreciation

During the year under review, Mr. Yang Xiang-dong, retired by rotation as Independent Non-Executive Director. I would like to thank Mr. Yang for his valuable contribution at SmarTone over the years.

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

Kwok Ping-luen, Raymond
Chairman

Hong Kong, 5 September 2018

MANAGEMENT DISCUSSION AND ANALYSIS

(Financial figures are expressed in Hong Kong dollars)

Review of financial results

During the year under review, Hong Kong customer number increased by 16% year-on-year to 2.39 million despite intense competition, while the average postpaid churn rate improved further from 1.0% to 0.8%, an industry low.

Group's total revenue increased by 15% to $9,988 million (2016/17: $8,715 million), as a result of higher handset and accessory sales.

Group service revenue fell 2% to $5,059 million (2016/17: $5,160 million) amidst continuing customer migration from handset-bundled plans to SIM Only plans and weakness in the prepaid segment. Mobile postpaid ARPU was at an industry-leading $257.

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 $96 million or 22% to $341 million (2016/17: $436 million). Group postpaid service revenue net of handset subsidy amortisation rose by 2%.

Roaming revenue, which made up of 14% of Group's service revenue (2016/17: 14%) rose by 1% as healthy growth in data roaming more than offset weakness in voice roaming. Roaming revenue registered growth for first time in recent years.

Group's handset and accessory sales rose by $1,374 million or 39% to $4,929 million (2016/17: $3,555 million). Both sales volume and average unit selling price increased. Cost of inventories sold rose by $1,363 million or 39% to $4,867 million (2016/17: $3,504 million). Such increase was broadly in line with the increase in handset and accessory sales.

As a result of tight cost control and ongoing productivity improvement programs, operating costs increase was kept to 2% despite a much larger customer base and the launch of Birdie. Staff costs fell by $12 million or 2% to $720 million (2016/17: $733 million).

Depreciation and loss on disposal fell by $11 million or 2% to $664 million (2016/17: $675 million) amid impact of fully depreciated assets.

Spectrum utilisation fee amortisation rose by $29 million or 11% to $285 million (2016/17: $256 million) to reflect the full-year impact of the renewal and additional 2100MHz spectrum in prior year.

Finance income rose by $10 million or 19% to $61 million (2016/17: $52 million) mainly amid higher deposit interest income.

Finance costs fell by $16 million or 12% to $121 million (2016/17: $137 million) mainly amid lower interest expenses on bank borrowings and lower accretion expenses on mobile licence fee liabilities.

Income tax expense amounted to $180 million (2016/17: $177 million), reflecting an effective tax rate of 22.8% (2016/17: 21.0%). The increase in the effective tax rate was due to higher amortisation expense for spectrum utilisation fees (treated as non-deductible expenses) for the renewed and additional 2100MHz spectrum. In light of the uncertainty of the tax deductibility of the 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%.

Macau operations reported an operating loss of $27 million (2016/17: $24 million).

Group EBITDA fell by 7% to $2,136 million (2016/17: $2,296 million). Group service operating profit was $784 million, representing a 11% decline as compared with last year mainly due to weakness in prepaid segment and increase in spectrum utilisation fee amortisation. Group profit attributable to equity holders of the Company fell by 8% to $615 million (2016/17: $672 million). Year-on-year comparison of second half 2017/18 showed some healthy trends as postpaid service revenue net of handset subsidy amortisation, roaming revenue and Group net profit all registered growth.

Capital structure, liquidity and financial resources

The Group maintained a strong balance sheet for the year under review. During the year, the Group was financed by share capital, internally generated funds and bank and other borrowings. As at 30 June 2018, the Group recorded share capital of $112 million, total equity of $4,832 million and total borrowings of $2,430 million.

The Group's cash resources remained robust with cash and bank balances (including pledged bank deposits and short-term bank deposits) of $1,828 million as at 30 June 2018 (30 June 2017: $1,274 million).

As at 30 June 2018, the Group had bank and other borrowings of $2,430 million (30 June 2017: $2,691 million) of which 79% 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 $36 million as at 30 June 2018 (30 June 2017: $705 million). Net debt to EBITDA was 0.02X as at 30 June 2018 (30 June 2017: 0.3X).

The Group had net cash generated from operating activities and interest received of $2,231 million and $63 million respectively during the year ended 30 June 2018. The Group's major outflows of funds during the year were payments for purchase of fixed assets, additions of handset subsidies, repurchase of shares and guaranteed notes, dividends and repayment of borrowings.

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 2019 with internal cash resources and available banking facilities.

Treasury policy

The Group invests its surplus funds in accordance with a treasury policy approved from time to time by the board of directors. Surplus funds are placed in bank deposits and invested in held-to-maturity debt securities. Bank deposits and held-to-maturity debt securities are predominantly maintained in Hong Kong dollars and US dollars.

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

Charges on assets

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 $78 million as at 30 June 2018 (30 June 2017: $80 million).

Interest rate exposure

The Group is exposed to interest rate changes that affect bank borrowings denominated in Hong Kong dollars which accounted for 21% of the Group's total borrowings at 30 June 2018. The remaining 79% of the Group's borrowings are fixed rates borrowings. Hence, the Group is well protected from any potential increase in interest rates in the future. The Group does not currently undertake any interest rate hedging.

MANAGEMENT DISCUSSION AND ANALYSIS

(Financial figures are expressed in Hong Kong dollars)

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, available-for-sale financial assets, held-to-maturity debt securities, 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 2018 under these performance bonds was $4 million (30 June 2017: $305 million).

Employees, share option and share award schemes

The Group had 1,898 full-time employees as at 30 June 2018 (30 June 2017: 1,994) with majority of them based in Hong Kong. Total staff costs were $720 million for the year ended 30 June 2018 (2016/17: $733 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, no share options were granted, cancelled or lapsed. 3,000,000 (30 June 2017: 3,000,000) share options were outstanding as at 30 June 2018.

During the year under review, a share award scheme was adopted by the Group as an incentive arrangement to recognise the contributions by certain employees and to attract and retain suitable personnel for the development of the Group. During the year under review, 1,871,800 shares were granted. No shares were vested or lapsed. 1,871,800 shares (30 June 2017: Nil) were outstanding as at 30 June 2018.

Corporate Governance

The Company is committed to building and maintaining high standards of corporate governance. Throughout the year ended 30 June 2018, 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. Code Provision E.1.2 of the CG Code also provides that the chairman of the board should attend the annual general meeting. Mr. Kwok Ping-luen, Raymond, Non-Executive Director and Chairman of the Board, and Mr. Yang Xiang-dong, Mr. Gan Fock-kin, Eric and Mr. Lam Kwok-fung, Kenny, Independent Non-Executive Directors, were unable to attend the annual general meeting of the Company held on 2 November 2017 due to overseas commitments or other prior engagements. The remaining eight Independent Non-Executive Directors and Non-Executive Directors (representing 67% of all independent non-executive and non-executive members of the Board at the time) attended the said meeting in person to listen to the views expressed by the shareholders. Mr. Fung Yuk-lun, Allen, a Non-Executive Director of the Company, took the chair of the said meeting pursuant to the Bye-laws of the Company.

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

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. Yang Xiang-dong retired as Independent Non-Executive Director of the Company by rotation at the annual general meeting of the Company held on 2 November 2017.

As at 30 June 2018, the Board comprises three Executive Directors, six Non-Executive Directors and five Independent Non-Executive Directors. The presence of eleven Non-Executive Directors, of whom five 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.

Directors' attendance at Board meetings and general meeting

Four Board meetings and a general meeting were held during the year ended 30 June 2018. The attendance record of the Directors at the meetings is set out below:

	Meetings attended/held during the term of office	
Directors	**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	0/1
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
Independent Non-Executive Directors		
Dr. Li Ka-cheung, Eric	3/4	1/1
Mr. Ng Leung-sing	4/4	1/1
Mr. Gan Fock-kin, Eric	3/4	0/1
Mrs. Ip Yeung See-ming, Christine	4/4	1/1
Mr. Lam Kwok-fung, Kenny	3/4	0/1
Mr. Yang Xiang-dong[1]	1/1	0/1

Note:

1. Mr. Yang Xiang-dong retired as Independent Non-Executive Director of the Company by rotation at the annual general meeting of the Company held on 2 November 2017.

CORPORATE GOVERNANCE REPORT

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.

All Directors have provided to the Company a record of the training they received during the year ended 30 June 2018, 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 2018, the Directors participated in the following trainings:

Directors	**Type of trainings**
Executive Directors	
Ms. Anna Yip *(Chief Executive Officer)*	A, B
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, C
Mr. David Norman Prince	A, B, C
Mr. Siu Hon-wah, Thomas	A, C
Mr. John Anthony Miller	C
Independent Non-Executive Directors	
Dr. Li Ka-cheung, Eric	A, C
Mr. Ng Leung-sing	C
Mr. Gan Fock-kin, Eric	C
Mrs. Ip Yeung See-ming, Christine	C
Mr. Lam Kwok-fung, Kenny	C
Mr. Yang Xiang-dong	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 incentive schemes, 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 2018, the Remuneration Committee passed two written resolutions for approving and/or recommending the share award scheme of the Company and the emoluments to Directors and senior management.

CORPORATE GOVERNANCE REPORT

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 incentives. 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 2018, the Nomination Committee passed a written resolution for reviewing the size, structure and composition of the Board and recommending 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 2018 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) and Mr. Gan Fock-kin, Eric (Independent Non-Executive Director). All the members of the Committee are Independent Non-Executive Directors of the Company. The Committee members possess appropriate business or financial expertise and experience to provide relevant advice and recommendations to the Company.

The Audit Committee'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 2018 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

The Audit Committee also held a meeting on 30 August 2018 and reviewed the financial statements as well as the internal audit reports of the Group for the year ended 30 June 2018. 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 2018.

CORPORATE GOVERNANCE REPORT

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 2018 are as follows:

	HK$
Audit services	2,519,000
Non-audit services	
Taxation	171,000
Review of interim financial statements	337,000
Others[1]	563,000
	1,071,000
Total fees	3,590,000

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 2018 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 2018 Annual General Meeting.

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 53 to 57 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 2018. 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 2018, 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; and

(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 2018.

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 18 to the consolidated financial statements.

An analysis of the Group's performance for the year by operating segment is set out in Note 5 to the consolidated financial statements.

Business review

The Chairman's Statement on pages 8 to 9 and the Management Discussion and Analysis on pages 10 to 12 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 13 to 23, 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 4 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.

(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 2018.

(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, social media, 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.

Results

The results of the Group for the year ended 30 June 2018 are set out in the consolidated profit and loss account on page 58.

Dividend

An interim dividend of $0.18 per share (2016/17: $0.27 per share) was paid on 13 April 2018. The Directors recommended a final dividend of $0.23 per share (2016/17: $0.33 per share), making a total dividend of $0.41 per share for the full year ended 30 June 2018 (2016/17: $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.

REPORT OF THE DIRECTORS

(Financial figures are expressed in Hong Kong dollars)

Five years 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 52.

Distributable reserves

Distributable reserves of the Company at 30 June 2018, calculated under the Company's Bye-laws and the Bermuda laws, amounted to $1,265,864,000 (30 June 2017: $2,095,045,000).

Donations

During the year, the Group did not make any charitable and other donations (2016/17: $31,000).

Shares issued in the year

Details of the shares issued in the year ended 30 June 2018 are shown in note 29 to the consolidated financial statements.

Directors

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

* Mr. Kwok Ping-luen, Raymond
Chairman

* Mr. Cheung Wing-yui
Deputy Chairman

* Mr. Fung Yuk-lun, Allen
Deputy Chairman

Ms. Anna Yip
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. Gan Fock-kin, Eric

** Mrs. Ip Yeung See-ming, Christine

** Mr. Lam Kwok-fung, Kenny

** Mr. Yang Xiang-dong[1]

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

Note:

1. Mr. Yang Xiang-dong retired as Independent Non-Executive Director of the Company by rotation at the annual general meeting of the Company held on 2 November 2017.

In accordance with Bye-law No. 84 of the Company's Bye-laws, Mr. Cheung Wing-yui, Ms. Anna Yip, Mr. David Norman Prince, Mr. John Anthony Miller and Mr. Gan Fock-kin, Eric retire by rotation at the forthcoming annual general meeting. All 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 2018 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 2018, 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	–	5,111,968[1]	5,111,968	–	5,111,968	0.45
Fung Yuk-lun, Allen	437,359	–	437,359	–	437,359	0.04
Anna Yip	–	–	–	3,000,000[2] (Personal interests in share options) 109,000[3] (Personal interests in unvested shares under share award scheme)	3,109,000	0.28
Chan kai-lung, Patrick	–	–	–	73,000[3] (Personal interests in unvested shares under share award scheme)	73,000	0.01
Chau Kam-kun, Stephen	–	11,000[4]	11,000	73,000[3] (Personal interests in unvested shares under share award scheme)	84,000	0.01

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 scheme".

3. These underlying shares of the Company represented the unvested awarded shares granted under the Company's share award scheme. Details of the scheme are shown in the section entitled "Share award scheme".

4. 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")

	Number of shares held					
Name of Director	Personal interests (held as beneficial owner)	Other interests	Total	Number of underlying shares held under equity derivatives	Total	% of shares in issue
Kwok Ping-luen, Raymond	188,743	516,892,186[1]	517,080,929	–	517,080,929	17.85
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	–	–	–	–[3] (personal interests in share options)	–	–
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.

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

				Number of share options				
Name of Director	Date of grant	Exercise price $	Exercise period*	Outstanding at 1 July 2017	Granted during the year	Exercised during the year	Cancelled/ Lapsed during the year	Outstanding at 30 June 2018
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.

(Financial figures are expressed in Hong Kong dollars)

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

Name of Director	Number of shares held: Personal interests (held as beneficial owner)	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.

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

Name of Director	Date of grant	Exercise price $	Exercise period*	Number of share options: Outstanding at 1 July 2017	Granted during the year	Exercised during the year	Cancelled/ Lapsed during the year	Outstanding at 30 June 2018
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.

(Financial figures are expressed in Hong Kong dollars)

(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 2018, 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 scheme

The Company operates a share option scheme, which was adopted on 2 November 2011 and become effective on 8 December 2011 (the "Share Option Scheme"). pursuant to the Share Option Scheme, the Company granted/may grant options to participants, including Directors and employees of the Group, to subscribe for the shares of the Company.

1. Principal terms of the Share Option Scheme

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

(a) Purpose

The purpose of the Share Option Scheme 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 Share Option Scheme 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 the Share Option Scheme and any other share option schemes of the Company does not in aggregate exceed 10% of the shares in issue as at the date of adoption of the Share Option 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 5 September 2018, the number of shares available for issue in respect thereof is 102,761,185 shares which represents approximately 9.16% 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 Share Option Scheme shall be determined by the Board but such period must not exceed 10 years from the date of grant of the relevant option.

The Share Option Scheme does 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 Share Option Scheme shall be valid and effective for a period of 10 years commencing from the adoption of the Share Option 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 Share Option Scheme during the year ended 30 June 2018 are as follows:

				Number of share options				
Grantee	Date of grant	Exercise price $	Exercise period[1]	Outstanding at 1 July 2017	Granted during the year	Exercised during the year	Cancelled/ Lapsed during the year	Outstanding at 30 June 2018
Director								
Anna Yip	25 July 2016	14.28	25 July 2017 to 24 July 2021	3,000,000	–	–	–	3,000,000

Note:

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.

As at 5 September 2018, options to subscribe for a total of 3,000,000 shares were still outstanding under the Share Option Scheme 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 Share Option Scheme. Save as disclosed above, no other share options were granted, exercised, cancelled or lapsed during the year.

Share award scheme

A share award scheme (the "Share Award Scheme") was adopted by the Board on 29 June 2018 (the "Adoption Date") as an incentive arrangement to recognise the contributions by certain employees and to attract and retain suitable personnel for the development of the Group. Pursuant to the rules of the scheme (the "Scheme Rules"), shares of the Company will be acquired by a trustee at the cost of the Company and be held in trust for selected employees until the end of each vesting period.

1. Principal terms of the Share Award Scheme

A summary of the principal terms of the Share Award Scheme is set out below:

(a) Purpose and objectives

The specific objectives of the Share Award Scheme are (i) to recognise the contributions by certain employees and to provide them with incentives in order to retain them for the continual operation and development of the Group; and (ii) to attract suitable personnel for further development of the Group.

(b) Administration

The Share Award Scheme shall be subject to the administration of the Board in accordance with the Scheme Rules.

(c) Duration

Subject to any early termination as may be determined by the Board pursuant to the Scheme Rules, the Share Award Scheme shall be valid and effective for a term of 10 years commencing on the Adoption Date.

(d) Maximum limit

The Board shall not make any further award of shares which will result in the aggregate number of shares awarded by the Board throughout the duration of the Share Award Scheme to be in excess of 10% of the number of shares of the Company in issue as at the Adoption Date (that is, 1,124,269,277 shares).

(e) Operation of the Share Award Scheme

Pursuant to the Scheme Rules, the Board may, from time to time, at its absolute discretion select any employee (excluding any excluded employee as defined in the Scheme Rules) for participation in the Share Award Scheme as a selected employee and determine the reference awarded sum for the purchase and/or allocation of awarded shares.

The Board shall cause to be paid to a trustee an amount equal to the aggregate of the reference awarded sums and the related purchase expenses. The trustee shall purchase from the market the relevant number of shares in accordance with written instructions issued by the Board from time to time and shall hold such shares until they are vested in accordance with the Scheme Rules.

When a selected employee has satisfied all vesting conditions specified by the Board at the time of making the award and becomes entitled to the shares forming the subject of the award, the trustee shall transfer the relevant awarded shares to that selected employee.

(f) Vesting and Lapse

Subject to any applicable provisions of the Scheme Rules, the awarded shares shall vest in accordance with the timetable as set out in the Scheme Rules. 30% of the awarded shares shall vest on the first and second anniversary date of the date of award and the balance shall vest on the third anniversary date of the date of award. Vesting of the awarded shares will be conditional on the selected employee remaining an employee of the Group until and on each of the relevant vesting dates.

Where the awarded shares do not vest in accordance with the Scheme Rules, the trustee shall hold such shares for the benefit of one or more employees of the Group as it determines in its discretion, after having taken into account the recommendations of the Board.

(g) Voting Rights

The trustee shall not exercise the voting rights in respect of any shares held under the trust.

(h) Termination

The Share Award Scheme shall terminate on the earlier of the 10th anniversary date of the Adoption Date or such date of early termination as determined by the Board provided that such termination shall not affect any subsisting rights of the selected employees.

(Financial figures are expressed in Hong Kong dollars)

2. Movements of awarded shares

Movements of the awarded shares granted to the selected employees pursuant to the Share Award Scheme during the year ended 30 June 2018 are as follows:

			Number of awarded shares				
Awardee	Date of award	Vesting period[1]	Outstanding at 1 July 2017	Awarded during the year	Vested during the year	Lapsed during the year	Outstanding at 30 June 2018
Directors							
Anna Yip	29 June 2018	29 June 2019 to 29 June 2021	–	109,000	–	–	109,000
Chan kai-lung, Patrick	29 June 2018	29 June 2019 to 29 June 2021	–	73,000	–	–	73,000
Chau Kam-kun, Stephen	29 June 2018	29 June 2019 to 29 June 2021	–	73,000	–	–	73,000
Employees	29 June 2018	29 June 2019 to 29 June 2021	–	1,616,800	–	–	1,616,800

Note:

1. 30% of the awarded shares shall vest on the first and second anniversary date of the date of award and the balance shall vest on the third anniversary date of the date of award.

Interests of substantial shareholder

As at 30 June 2018, 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]	798,054,590	70.98%

Note:

1. TFS Development Company Limited ("TFS") and Cellular 8 Holdings Limited ("Cellular 8", a wholly owned subsidiary of TFS) held 42,741,737 shares and 755,312,853 shares in the Company respectively. For the purpose of Part XV of the SFO, TFS was deemed to be interested in 755,312,853 shares in the Company held by Cellular 8. Accordingly, TFS had interests and deemed interests in an aggregate of 798,054,590 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 798,054,590 shares in the Company.

REPORT OF THE DIRECTORS

(Financial figures are expressed in Hong Kong dollars)

Save as disclosed above, as at 30 June 2018, 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", "Share option scheme" and "Share award scheme" above, at no time during the year, (i) the Directors and chief executive (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 2018, the Company repurchased 29,994,000 shares of the Company on the HKSE. Of these repurchased shares, 27,786,000 shares were cancelled prior to 30 June 2018 and the balance of 2,208,000 shares were cancelled subsequently after 30 June 2018. 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
		$	$	$
July 2017	392,000	10.10	10.08	3,959,000
August 2017	3,649,500	9.73	9.55	35,086,000
September 2017	6,754,500	9.67	9.20	63,379,000
November 2017	1,978,500	9.20	9.09	18,112,000
February 2018	8,205,500	9.06	8.24	70,452,000
March 2018	1,604,000	8.68	8.33	13,700,000
April 2018	2,816,500	8.27	8.14	23,097,000
May 2018	2,385,500	8.30	8.20	19,636,000
June 2018	2,208,000	8.25	8.16	18,178,000
	29,994,000			265,599,000

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 2018 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.

REPORT OF THE DIRECTORS

(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	57%
Percentage of purchases attributable to the Group's five largest suppliers	65%
Percentage of revenues attributable to the Group's largest customer	35%
Percentage of revenues attributable to the Group's five largest customers	39%

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 2018, rental and licence fees paid and payable to subsidiaries and associated companies of SHKP totalled $127,868,000.

   (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 2018, insurance premiums paid and payable were $4,562,000.

   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 2018, 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, 5 September 2018

DIRECTORS PROFILE

Directors

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

Mr. Raymond Kwok (aged 65) 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. He is also a member of the 13th National Committee of the Chinese People's Political Consultative Conference.

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 68) was appointed Director of the Company in March 2003. Mr. Cheung is a director of a number of other publicly listed companies, namely being a non-executive director of Tai Sang Land Development Limited, SUNeVision Holdings Ltd., Tianjin Development Holdings Limited and Transport International Holdings Limited (with effect from 1 January 2018).

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), an independent non-executive director of Agile Property Holdings Limited (resigned on February 2018), 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.

DIRECTORS PROFILE

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

Mr. Allen Fung (aged 50) 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 executive director of SUNeVision Holdings Ltd., and a non-executive director of Transport International Holdings Limited. He is also a director of certain SHKP subsidiaries.

Mr. Fung was a non-executive director of Roadshow Holdings Limited (resigned on 12 December 2017).

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 48) 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.

DIRECTORS PROFILE

CHAN Kai-lung, Patrick *Executive Director*

Mr. Patrick Chan (aged 58) 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 57) 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.

David Norman PRINCE *Non-Executive Director*

Mr. David Prince (aged 67) 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 is a non-executive director of SUNeVision Holdings Ltd. 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 65) was appointed Director of the Company in July 2008. Mr. Siu was the managing director of Wilson Group (until June 2018), which is a major transport infrastructure services provider in Hong Kong and is wholly-owned by Sun Hung Kai Properties Limited, and is currently a consultant of Wilson Group. Prior to joining Wilson Group, Mr. Siu had more than 25 years of 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.

DIRECTORS PROFILE

John Anthony MILLER *Non-Executive Director*

Mr. John Anthony Miller (aged 68), SBS, OBE, was appointed Director of the Company in November 2010.

Mr. Miller was previously a non-executive director of Transport International Holdings Limited (retired on 18 May 2017), The Kowloon Motor Bus Company (1933) Limited (retired on 18 May 2017) and RoadShow Holdings Limited (resigned on 12 December 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.

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 65), GBS, OBE, JP, LLD, DSocSc., HonDSocSc (EdUHK), B.A., FCPA (Practising), FCA, FCPA (Aust.), 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 and China Resources Beer (Holdings) Company Limited.

Dr. Li was an independent non-executive director of Roadshow Holdings Limited (resigned on 12 December 2017).

Dr. Li is a member of the 13th 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 69) 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 BOCHK Charitable Foundation. He has been an independent non-executive director of Nine Dragons Paper (Holdings) Limited (since March 2013), Hanhua Financial Holding Co., Ltd. (since June 2013) and Grand Brilliance Group Holdings Limited (since 1 March 2018).

Mr. Ng is a Hong Kong Deputy to the 10th, 11th, 12th and 13th National People's Congress, P.R.C.

Mr. Ng was a director of The Hong Kong Mortgage Corporation Limited (until 13 April 2018), 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 the 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.

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

Mr. Eric Gan (aged 55) 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 54) 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 44) 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 2018 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 2018 are disclosed in the "Directors' and chief executive's interests" section of the Report of the Directors on pages 24 to 39 of this Annual Report.

Senior management

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

STAFF ENGAGEMENT

Together We Nurture

SmarTone understands people is the most valuable assets to the company. We communicate with them, empower them with training and career development opportunities as well as recognise their performance. We also encourage work-life balance through a variety of activities.

1. Grooming Talents

Get Yourself Ready Programme develops frontline talents.

Youth engagement programmes, including internship and exchange activities, inspire young generation.

Cross-sector exchange with scalable corporations widens horizons for staff.

2. Caring for Staff

Work-life balance with flexible working hours, family leave, birthday leave, SmarTone 25th anniversary leave, full-pay maternity leave, paternity leave and nursing rooms.

Fun workplace with festive delights, movie appreciation session, happy Friday drinks, health talks, interest classes and incentive trip.

COMMUNITY ENGAGEMENT

Empowering Our Future

SmarTone is dedicated in corporate social responsibility and is actively engaged in a wide range of social service activities to contribute to the community. SmarTone Volunteer Team has also been formed to encourage our staff to give back to the society.

1. Caring for the Community

Culture tour with the seniors.

Hong Kong Scholastic Championship enabled children to explore mobile technology.

Fun learning day encouraged bonding and communication among foster families.

Talent Scholarship unleashed the potentials of underprivileged children.

Running Oi Man by the Senior Citizen Home Safety Association.

2. Charity Events

Sun Hung Kai Properties Hong Kong Cyclothon

Sun Hung Kai Properties Vertical Run – Race to Hong Kong ICC

GROUP FINANCIAL SUMMARY

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

	2018	2017	2016	2015	2014
Consolidated profit and loss account					
Revenues	**9,988**	8,715	18,356	18,659	13,244
Profit attributable to equity holders of the Company	**615**	672	797	935	537
Basic earnings per share ($)	**0.55**	0.62	0.75	0.89	0.52
Dividends					
Total dividends	**458**	659	644	634	323
Total per share for the year ($)	**0.41**	0.60	0.60	0.60	0.31
Consolidated balance sheet					
Total assets	**10,018**	9,776	10,403	10,814	9,792
Current liabilities	**(2,497)**	(2,185)	(2,863)	(3,292)	(2,949)
Total assets less current liabilities	**7,521**	7,591	7,540	7,522	6,843
Non-current liabilities	**(2,689)**	(2,956)	(3,176)	(3,614)	(3,593)
Non-controlling interests	**(33)**	(41)	(47)	(57)	(57)
Net assets	**4,799**	4,594	4,317	3,851	3,193
Share capital	**112**	111	108	106	105
Reserves	**4,687**	4,483	4,209	3,745	3,088
Total equity attributable to equity holders of the Company	**4,799**	4,594	4,317	3,851	3,193

pwc

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 58 to 128, which comprise:

- the consolidated balance sheet as at 30 June 2018;
- 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 2018, 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.

INDEPENDENT AUDITOR'S REPORT

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 Refer to Accounting Policies notes 2(x) to the Consolidated Financial Statements The accuracy of revenue amounts recorded in the Consolidated Financial Statements is an inherent risk in the telecommunications 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: • Testing the relevant IT control environment in which the billing, rating and other support systems reside; • Testing the key controls over calculation and allocation of revenue to appropriate periods and the separable elements of multiple-element contracts; • 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 • 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 Refer to Accounting Policies note 2(g) and note 3(b) Critical Accounting Estimates and Judgements to the Consolidated Financial Statements There are a number of areas where management judgement impacts the carrying value of fixed assets, and their respective depreciation profiles. These include: • the decision to capitalise or expense costs; • the timeliness of the transfer from assets in the course of construction; and • 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. 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. 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 telecommunications 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.

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.

- 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.

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

- 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, 5 September 2018

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 30 June 2018
(Expressed in Hong Kong dollars)

	Notes	2018 $000	2017 $000
Service revenue		**5,059,258**	5,160,306
Handset and accessory sales		**4,929,234**	3,555,106
Revenues	5	**9,988,492**	8,715,412
Cost of inventories sold		**(4,867,053)**	(3,503,986)
Cost of services provided		**(368,475)**	(326,691)
Staff costs	6	**(720,333)**	(732,747)
Other operating expenses		**(1,896,417)**	(1,855,726)
Depreciation, amortisation and loss on disposal	9	**(1,289,773)**	(1,367,617)
Operating profit		**846,441**	928,645
Finance income	7	**61,423**	51,774
Finance costs	8	**(120,909)**	(137,220)
Profit before income tax	9	**786,955**	843,199
Income tax expense	10	**(179,803)**	(177,431)
Profit after income tax		**607,152**	665,768
Attributable to			
Equity holders of the Company		**615,243**	672,102
Non-controlling interests		**(8,091)**	(6,334)
		607,152	665,768
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in cents per share)	14		
Basic		**55.4**	61.7
Diluted		**55.4**	61.7

The above consolidated profit and loss account should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2018
(Expressed in Hong Kong dollars)

	2018 $000	2017 $000
Profit for the year	**607,152**	665,768
Other comprehensive income/(loss)		
Items that may be reclassified subsequently to profit and loss:		
Fair value loss on financial investments, net of tax	**(1,366)**	(2,965)
Currency translation differences	**2,050**	(2,631)
Other comprehensive income/(loss) for the year, net of tax	**684**	(5,596)
Total comprehensive income for the year	**607,836**	660,172
Total comprehensive income attributable to		
Equity holders of the Company	**615,927**	666,506
Non-controlling interests	**(8,091)**	(6,334)
	607,836	660,172

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED BALANCE SHEET

At 30 June 2018
(Expressed in Hong Kong dollars)

	Notes	2018 $000	2017 $000
Non-current assets			
Leasehold land and land use rights	16	**11,315**	11,383
Fixed assets	17	**2,970,680**	3,071,725
Interest in an associate	19	**3**	3
Financial investments	20	**486,599**	672,528
Intangible assets	21	**3,516,902**	3,631,399
Deposits and prepayments	22	**117,135**	91,076
Deferred income tax assets	23	**5,542**	6,130
Total non-current assets		**7,108,176**	7,484,244
Current assets			
Inventories	24	**161,465**	181,703
Financial investments	20	**86,738**	47,568
Trade receivables	22	**364,757**	321,450
Deposits and prepayments	22	**172,877**	167,188
Other receivables	22	**43,645**	47,002
Tax reserve certificate		**252,362**	252,362
Pledged bank deposits	25	**–**	2,385
Short-term bank deposits	25	**96,155**	124,893
Cash and cash equivalents	25	**1,731,951**	1,146,795
Total current assets		**2,909,950**	2,291,346
Current liabilities			
Trade payables	26	**521,620**	357,393
Other payables and accruals	26	**852,081**	804,562
Current income tax liabilities		**457,389**	399,342
Bank borrowings	27	**135,789**	133,636
Customer prepayments and deposits		**247,081**	224,202
Deferred income		**222,996**	206,023
Mobile licence fee liabilities	28	**60,041**	60,040
Total current liabilities		**2,496,997**	2,185,198
Non-current liabilities			
Customer prepayments and deposits		**98,087**	47,044
Asset retirement obligations		**43,027**	47,378
Bank and other borrowings	27	**2,294,592**	2,557,049
Mobile licence fee liabilities	28	**127,991**	167,886
Deferred income tax liabilities	23	**125,708**	136,738
Total non-current liabilities		**2,689,405**	2,956,095
Net assets		**4,831,724**	4,634,297

CONSOLIDATED BALANCE SHEET

At 30 June 2018
(Expressed in Hong Kong dollars)

	Notes	2018 $000	2017 $000
Capital and reserves			
Share capital	29	**112,426**	110,581
Reserves		**4,686,655**	4,482,982
Total equity attributable to equity holders of the Company		**4,799,081**	4,593,563
Non-controlling interests		**32,643**	40,734
Total equity		**4,831,724**	4,634,297

The financial statements on pages 58 to 128 were approved by the Board of Directors on 5 September 2018 and were signed on its behalf.

Kwok Ping-luen, Raymond
Director

Anna Yip
Director

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30 June 2018
(Expressed in Hong Kong dollars)

	Notes	2018 $000	2017 $000
Cash flows from operating activities			
Profit before income tax		**786,955**	843,199
Adjustments for:			
Depreciation of fixed assets	17	**647,886**	669,931
Amortisation of leasehold land and land use rights	16	**672**	638
Amortisation of intangible assets	21	**626,065**	692,713
Loss on disposal of fixed assets	9	**15,150**	4,335
Finance income	7	**(61,423)**	(51,774)
Finance costs	8	**120,909**	137,220
Share-based payments	6	**2,304**	4,291
		2,138,518	2,300,553
Changes in working capital			
Decrease in inventories		**20,238**	159,067
(Increase)/decrease in trade receivables, deposits, prepayments and other receivables		**(67,662)**	46,733
Increase/(decrease) in trade and other payables, accruals and deferred income		**283,382**	(230,744)
Increase/(decrease) in customer prepayments and deposits		**77,318**	(125,712)
Cash generated from operations		**2,451,794**	2,149,897
Interest paid		**(88,939)**	(87,088)
Income tax paid		**(132,214)**	(313,117)
Net cash generated from operating activities		**2,230,641**	1,749,692
Cash flows from investing activities			
Payment for purchase of fixed assets		**(622,510)**	(575,358)
Proceeds from disposal of fixed assets		**1,727**	3,400
Proceeds from disposal of held-to-maturity debt securities		**144,852**	152,190
Payment of mobile licence fees		**(62,350)**	(2,500,793)
Additions of handset subsidies	21	**(514,964)**	(282,345)
Decrease in short-term bank deposits		**29,402**	216,857
Interest received		**62,637**	61,184
Net cash used in investing activities		**(961,206)**	(2,924,865)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30 June 2018
(Expressed in Hong Kong dollars)

	Notes	2018 $000	2017 $000
Cash flows from financing activities			
Payment for repurchase of shares		**(247,421)**	(87,715)
Prepayment for repurchase of shares		**(18,178)**	–
Decrease in pledged bank deposits		**2,385**	–
Proceeds from bank borrowings		**–**	450,000
Repayment of bank borrowings		**(139,706)**	(632,863)
Payment for repurchase of guaranteed notes		**(141,122)**	–
Payment of transaction costs of bank borrowings		**–**	(2,400)
Dividends paid to the Company's equity holders		**(147,114)**	(306,286)
Net cash used in financing activities		**(691,156)**	(579,264)
Net increase/(decrease) in cash and cash equivalents		**578,279**	(1,754,437)
Cash and cash equivalents at 1 July		**1,146,795**	2,898,512
Effect of foreign exchange rates changes		**6,877**	2,720
Cash and cash equivalents at 30 June	25	**1,731,951**	1,146,795

	2018 $000	2017 $000
In the consolidated cash flow statement, proceeds from disposal of fixed assets comprise:		
Net book amount of disposed fixed assets (note 17)	**16,877**	7,735
Loss on disposal of fixed assets	**(15,150)**	(4,335)
Proceeds from disposal of fixed assets	**1,727**	3,400

The above consolidated cash flow statement should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2018
(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 6)	–	–	–	–	–	4,291	–	–	4,291	–	4,291
Lapse of share option	–	–	–	–	1,096	(1,096)	–	–	–	–	–
Repurchase of shares (note 29(c))	(820)	–	–	820	(51,983)	–	–	(35,732)	(87,715)	–	(87,715)
Payment of 2016 final dividend (note 29(b))	1,159	127,212	–	–	–	–	–	(356,167)	(227,796)	–	(227,796)
Payment of 2017 interim dividend (note 15)	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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2018
(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 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
Comprehensive income											
Profit for the year	–	–	–	–	–	–	–	615,243	615,243	(8,091)	607,152
Other comprehensive income											
Fair value loss on financial investments, net of tax	–	–	(1,366)	–	–	–	–	–	(1,366)	–	(1,366)
Currency translation differences	–	–	–	–	–	–	2,050	–	2,050	–	2,050
Total comprehensive income for the year ended 30 June 2018	–	–	(1,366)	–	–	–	2,050	615,243	615,927	(8,091)	607,836
Transactions with owners											
Share-based payments (note 6)	–	–	–	–	–	2,304	–	–	2,304	–	2,304
Repurchase of shares (note 29(c))	(2,779)	–	–	2,779	(2,159)	–	–	(245,262)	(247,421)	–	(247,421)
Prepayment for repurchase of shares	–	–	–	–	–	–	–	(18,178)	(18,178)	–	(18,178)
Payment of 2017 final dividend (note 29(b))	2,814	259,254	–	–	–	–	–	(361,355)	(99,287)	–	(99,287)
Payment of 2018 interim dividend (note 15)	1,810	150,699	–	–	–	–	–	(200,336)	(47,827)	–	(47,827)
Total transactions with owners	1,845	409,953	–	2,779	(2,159)	2,304	–	(825,131)	(410,409)	–	(410,409)
At 30 June 2018	112,426	1,547,727	4,748	14,548	348	6,595	3,378	3,109,311	4,799,081	32,643	4,831,724

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

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 5 September 2018.

2 Summary of significant accounting policies

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the Group consisting of the Company and its subsidiaries.

(a) Basis of preparation

(i) Compliance with HKFRS and HKCO

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") and requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared on a historical cost basis, except for the available-for-sale financial assets, measured at fair value.

(ii) Amended standards adopted by the Group

The Group has applied the following amendments to standards for the first time for their annual reporting period commencing 1 July 2017.

HKAS 7 (Amendments)	Disclosure initiative
HKAS 12 (Amendments)	Recognition of Deferred Tax Assets for Unrealised Losses
HKFRS 12 (Amendment)	Disclosure of Interest in Other Entities

The adoption of these amendments did not have any impact on the amounts recognised in prior periods. Most of the amendments will also not affect the current or future periods.

(Expressed in Hong Kong dollars)

2 Summary of significant accounting policies *(continued)*

(a) Basis of preparation *(continued)*

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

Certain new standards, amendments to standards and interpretations to existing standards have been published that are not mandatory for 30 June 2018 reporting periods and have not been early adopted by the Group.

Annual Improvements Project	Annual Improvements 2014–2016 Cycle[1]
Annual Improvements Project	Annual Improvements 2015–2017 Cycle[2]
HKAS 28 (Amendment)	Investments in Associates and Joint Ventures[1]
HKAS 40 (Amendments)	Transfers of Investment Property[1]
HKFRS 1 (Amendment)	First Time Adoption of HKFRS[1]
HKFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions[1]
HKFRS 4 (Amendments)	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
HKFRS 9	Financial Instruments[1]
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
HKFRS 15	Revenue from Contracts with Customers[1]
HKFRS 16	Leases[2]
HKFRS 17	Insurance Contracts[3]
HK (IFRIC) 22	Foreign Currency Transactions and Advance Consideration[1]
HK (IFRIC) 23	Uncertainty over Income Tax Treatments[2]

1 Effective for annual periods beginning on or after 1 January 2018.
2 Effective for annual periods beginning on or after 1 January 2019.
3 Effective for annual periods beginning on or after 1 January 2021.
4 Effective for annual periods beginning on or after a date to be determined.

2 Summary of significant accounting policies *(continued)*

(a) Basis of preparation *(continued)*

(iii) New standards, amendments to standards and interpretations to existing standards not yet adopted *(continued)*

None of the above is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

HKFRS 9, "Financial instruments"

HKFRS 9, "Financial instruments", addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in HKAS 39 that relates to the classification and measurement of financial instruments. HKFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income. Furthermore, under the new HKFRS 9, there is a new expected credit losses model that replaces the incurred loss impairment model used in HKAS 39. Measurement of impairment loss on trade receivable based on an expected credit losses model requires the use of historical data as well as forward looking information. HKFRS 9 also relaxes the requirements for hedge effectiveness but contemporaneous documentation is still required. Management is in the process of assessing the impact of HKFRS 9.

HKFRS 15, "Revenue from Contracts with Customers"

HKFRS 15 will replace HKAS 18 which deals with contracts for goods and services. HKFRS 15 is based on the principle that revenue is recognised when control of a good or service transfers to a customer. HKFRS 15 permits adoption using either the full retrospective approach or a modified retrospective approach. The Group intends to use the modified approach when it adopts HKFRS 15 effective 1 July 2018, recognising the cumulative effect of applying HKFRS 15 to all contracts that had not been completed at the beginning of the reporting period as an adjustment to the opening balance of retained profits at the date of first-time adoption i.e. 1 July 2018.

While the Group is continuing to assess the effect of applying HKFRS 15 on the Group's consolidated financial statements, the Group has identified a number of current revenue recognition policies and disclosures that will be impacted by HKFRS 15. The most significant areas are discussed below.

2 Summary of significant accounting policies *(continued)*

(a) Basis of preparation *(continued)*

(iii) New standards, amendments to standards and interpretations to existing standards not yet adopted *(continued)*

HKFRS 15, "Revenue from Contracts with Customers" (continued)

HKFRS 15 will require the identification of deliverables in contracts with customers that qualify as separate "performance obligations". The performance obligations identified will depend on the nature of individual customer contracts. These are expected to include mobile handsets, telecommunications and other equipment, gifts provided free of charge and telecommunications services provided to customers.

Where customer contracts contain more than one performance obligation, the transaction price receivable from customers must be allocated between the Group's performance obligations on a relative standalone selling price basis. The primary impact on revenue reporting will be that when the Group sells telecommunications or other equipment or subsidised mobile handsets together with gifts and telecommunications service agreements to customers, revenue allocated to the equipment, handsets and gifts, which are recognised at contract inception when control typically passes to the customer, will be recorded at their relative standalone selling prices and not using the current residual value method as set out in note 2(x)(iii). However, it is expected that there will be no impact on the total revenue to be recognised by the Group in the consolidated profit and loss account over the respective contract periods.

Currently, the Group capitalises subsidised handsets as handset subsidies and amortises these amounts on a straight-line basis over the minimum enforceable contractual periods. Under HKFRS 15, the costs of subsidised handsets and gifts are required to be recognised as costs of goods sold immediately when the corresponding revenue is recognised, rather than the existing treatment of being charged to the consolidated profit and loss account through amortisation of customer acquisition costs. The total net profit recognised by the Group over the full contract period is not expected to be materially affected.

The new revenue standard introduces specific criteria for determining whether to capitalise certain costs, distinguishing between those costs associated with obtaining a contract and those costs associated with fulfilling a contract. Currently, these costs are expensed as incurred. The accounting for some of these costs will change upon adoption of HKFRS 15. The new standard requires the incremental costs of obtaining contracts to be recognised as an asset when incurred, and amortised over the contract period. Incremental costs of obtaining a contract are those costs that would not have been incurred if the contract had not been obtained (for example, sales commissions payable on obtaining a contract).

2 Summary of significant accounting policies *(continued)*

(a) Basis of preparation *(continued)*

(iii) New standards, amendments to standards and interpretations to existing standards not yet adopted *(continued)*

HKFRS 16, "Leases"

HKFRS 16 will affect primarily the accounting for the Group's operating leases. The new standard provides a single, on balance sheet lease accounting model for lessees. It will result in almost all leases being recognised by the lessee on the consolidated balance sheet, as the distinction between operating and finance leases is removed. Under HKFRS 16, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. In addition, the nature of expenses related to those leases will now change as HKFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. With all other variables remain unchanged, the new accounting treatment will lead to a higher EBITDA and EBIT. The combination of a straight-line depreciation of the right-of-use asset and effective interest rate method applied to the lease liability results in a decreasing "total lease expense" over the lease term. In the initial years of a lease, the new standard will result in a profit and loss account expense which is higher than the straight-line operating lease expense typically recognised under the current standard, and a lower expense after the mid-term of the lease as the interest expense reduces. The Group's profit after tax for a particular year may be affected negatively or positively depending on the maturity of the Group's overall lease portfolio in that year.

As a lessee, the Group can either apply the standard using a full retrospective approach, or a modified retrospective approach with optional practical expedients.

The transition accounting under the full retrospective approach requires entities to retrospectively apply the new standard to each prior reporting period presented. Under this transition approach, an entity will require extensive information about its leasing transactions in order to apply the standard retrospectively. This will include historical information about lease payments and discount rates. It will also include the historical information that the entity would have used in order to make the various judgements and estimates that are necessary to apply the lessee accounting model. The information will be required as at lease commencement, and also as at each date on which an entity would have been required to recalculate lease assets and liabilities on a reassessment or modification of the lease.

In view of the costs and massive complexity involved of applying the full retrospective approach, the Group is considering to adopt the modified retrospective approach. Under the modified retrospective approach, (i) comparative information for prior periods is not restated; (ii) the date of the initial application of HKFRS 16 is the first day of the annual reporting period in which the Group first applies the requirement of HKFRS 16, i.e. 1 July 2019; and (iii) the Group recognises the cumulative effect of initially applying the standard as an adjustment to the opening balance of retained profit (or other component of equity, as appropriate) in the year of adoption, i.e. for the year beginning on 1 July 2019.

2 Summary of significant accounting policies *(continued)*

(a) Basis of preparation *(continued)*

(iii) New standards, amendments to standards and interpretations to existing standards not yet adopted *(continued)*

HKFRS 16, "Leases" (continued)

The new standard will affect primarily the accounting for the Group's operating leases. The quantitative effect will depend on, inter alia, the transition method chosen, the extent to which the Group uses the practical expedients and recognition exemptions, and any additional leases that the Group enters into.

There are no other new standards, amendments to standards and interpretations to existing standards that are not yet effective which would be expected to have a significant impact on the Group's results of operations and financial position.

(b) Principles of consolidation and equity accounting

(i) Subsidiaries

Subsidiaries are all entities (including structured entities) 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 to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intercompany 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. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated profit and loss account, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated balance sheet respectively.

(ii) Associates

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting (see (iii) below), after initially being recognised at cost.

2 Summary of significant accounting policies *(continued)*

(b) Principles of consolidation and equity accounting *(continued)*

(iii) Equity accounting

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in note 2(j).

(iv) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of the Group.

When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate 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. This may mean that 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.

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 are reclassified to profit or loss where appropriate.

2 Summary of significant accounting policies *(continued)*

(c) Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct 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.

(d) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker.

The board of the Company has appointed the Group's senior executive management to assess the financial performance and position of the Group, and makes strategic decisions.

(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 at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss.

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 on a net basis within "other operating expenses".

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2 Summary of significant accounting policies *(continued)*

(e) Foreign currency translation *(continued)*

(iii) Group companies

The results and financial position of all the foreign operations (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:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet,
- income and expenses for each profit and loss account and statement of comprehensive income are translated at average exchange rates (unless this 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 dates of the transactions), and
- all resulting exchange differences are recognised in other comprehensive income.

(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 2(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 2(s). 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.

2 Summary of significant accounting policies *(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 any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their costs, net of 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 2(j)).

Gains and losses on disposals are determined by comparing the proceeds with carrying amount. These are included in profit or loss.

(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.

(i) Leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (note 32). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2 Summary of significant accounting policies *(continued)*

(j) Impairment of non-financial assets

Assets are tested 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 inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

(k) Investments and other financial assets

(i) 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 investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at the end of each reporting period.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. If collection of the amounts is expected in one year or less they are classified as current assets. If not, they are presented 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.

(b) Held-to-maturity debt securities

The Group classifies investments as held-to-maturity if:

- they are non-derivative financial assets
- they are quoted in an active market
- they have fixed or determinable payments and fixed maturities
- the Group intends to, and is able to, hold them to maturity.

Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the end of the reporting period, which would be classified as current assets.

2 Summary of significant accounting policies *(continued)*

(k) Investments and other financial assets *(continued)*

(i) Classification *(continued)*

(c) Available-for-sale financial assets

Investments are designated as available-for-sale financial assets if they do not have fixed maturities and fixed or determinable payments, and management intends to hold them for the medium to long-term. Financial assets that are not classified into any of the other categories (loans and receivables or held-to-maturity debt securities) are also included in the available-for-sale category.

The financial assets are presented as non-current assets unless they mature, or management intends to dispose of them within 12 months of the end of the reporting period.

(ii) Recognition and derecognition

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. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss as gains and losses from investment securities.

(iii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Loans and receivables and held-to-maturity debt securities are subsequently carried at amortised cost using the effective interest method.

Available-for-sale financial assets are subsequently carried at fair value. Gains or losses arising from changes in the fair value for available-for-sale financial assets are recognised in other comprehensive income.

Dividends on available-for-sale financial assets are recognised in profit or loss when the Group's right to receive payments is established.

Interest on available-for-sale financial assets, held-to-maturity debt securities and loans and receivables calculated using the effective interest method is recognised in the consolidated profit and loss account as finance income.

2 Summary of significant accounting policies *(continued)*

(l) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet where the Group currently has 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 Group has also entered into arrangements that do not meet the criteria for offsetting but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or the termination of a contract.

(m) Impairment of financial assets

The Group assesses at each reporting period 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 events 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. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

Assets carried at amortised cost

For loans and receivables, the amount of the loss is measured as 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 loss is recognised in profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

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 profit or loss.

Assets classified as available-for-sale

If there is objective evidence of impairment for available-for-sale financial assets, 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 profit or loss – is removed from equity and recognised in profit or loss.

Impairment losses on equity instruments that were recognised in profit or loss are not reversed through profit or loss in a subsequent period.

2 Summary of significant accounting policies *(continued)*

(n) 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.

(o) Trade and other receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. Trade receivables are generally due for settlement within 45 days and therefore are all classified as current.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. See note 2(k) for further information about the Group's accounting for trade receivables and note 2(m) for a description of the Group's impairment policies.

(p) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash at bank and in hand, deposits held at call with financial institutions, 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 an insignificant risk of changes in value.

(q) 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.

(r) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair values and subsequently measured at amortised costs using the effective interest method.

2 Summary of significant accounting policies *(continued)*

(s) Borrowings and borrowing costs

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. 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 prepayment 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 or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss 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 reporting period.

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

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.

Other borrowing costs are expensed in the period in which they are incurred.

(t) Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

(i) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period 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. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2 Summary of significant accounting policies *(continued)*

(t) Current and deferred income tax *(continued)*

(ii) Deferred income tax

Deferred income tax is provided in full, 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 substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, 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.

(u) 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 can be 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 management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

2 Summary of significant accounting policies *(continued)*

(v) 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.

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

Share-based compensation benefits are provided to employees via share option scheme and share award scheme. Information relating to these schemes is set out in note 30. The Group operates equity-settled, share-based compensation plans under which the Group receives services from employees as consideration for equity instruments of the Group.

Share option scheme

The fair value of the employee services received in exchange for the grant of the options is recognised as an expense with a corresponding increase in equity. 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.

2 Summary of significant accounting policies *(continued)*

(v) Employee benefits *(continued)*

(iv) Share-based payments *(continued)*

Share option scheme (continued)

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.

Share award scheme

Under the share award scheme, shares are issued to employees for no cash consideration. The fair value of the employee services received in exchange for the award of the shares is recognised as an expense with a corresponding adjustment to equity. The total amount to be expensed is determined by reference to the market value of the shares awarded at the grant date. The total expense is recognised over the vesting period which is the period over which all of the specified vesting conditions are to be satisfied.

The grant by the Company of its own shares to employees of subsidiary undertakings in the Group is treated as capital contribution. The market value of the shares awarded at the grant date 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.

(w) 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.

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.

2 Summary of significant accounting policies *(continued)*

(x) Revenue recognition

Revenue is measured at 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, it is probable that future economic benefits will flow to the entity and 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 transaction 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.

(v) Dividend income

Dividends are recognised as revenue when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits. However, the investment may need to be tested for impairment as a consequence.

2 Summary of significant accounting policies *(continued)*

(y) 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.

(z) 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.

(aa) 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.

3 Critical accounting estimates and judgements

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies.

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(a) Revenue recognition

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). The Group is required to exercise considerable judgement in relation to estimating the fair value of undelivered element.

3 Critical accounting estimates and judgements *(continued)*

(b) 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.

(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 cash-generating unit 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.

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%.

4 Financial risk management

This note explains the Group's exposure to financial risks and how these risks could affect the Group's future financial performance. Current year profit and loss information has been included where relevant to add further context.

Risk	Exposure arising from	Measurement
Market risk – foreign exchange	Future commercial transactions Recognised financial assets and liabilities not denominated in Hong Kong dollar (HK$)	Cash flow forecasting Sensitivity analysis
Market risk – interest rate	Long-term borrowings at variable rates	Sensitivity analysis
Market risk – security prices	Investments in equity securities	Sensitivity analysis
Credit risk	Cash and cash equivalents, trade receivables and held-to-maturity debt securities	Aging analysis Credit ratings
Liquidity risk	Borrowings and other liabilities	Projected cash flow analysis

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 risk factors

(i) Market risk

The Group's exposure to 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 exchange risk

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the functional currency of the relevant Group entity, primarily with respect to the US dollar. Any change in the exchange rates of US dollar 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. The Group currently does not undertake any foreign currency hedging.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

4 Financial risk management *(continued)*

(a) Financial risk factors *(continued)*

(i) Market risk *(continued)*

Exposure

The Group's exposure to foreign currency risk at the end of the reporting period, expressed in Hong Kong dollar, was as follows:

	2018	2017
	USD	USD
	$000	$000
Held-to-maturity debt securities	**566,691**	712,084
Available-for-sale financial assets	**6,646**	8,012
Trade receivables	**24,456**	35,440
Other receivables	**3,761**	1,629
Short-term bank deposits	**93,770**	124,893
Cash and cash equivalents	**1,478,153**	745,934
Bank and other borrowings	**(1,921,845)**	(2,176,934)
Trade payables	**(325,349)**	(92,388)
Other payables and accruals	**(23,686)**	(8,305)

Sensitivity

As shown in the table above, the Group is primarily exposed to changes in US/HK$ exchange rates. The sensitivity of profit or loss to changes in the exchange rates arises mainly from US-dollar denominated financial instruments.

	Impact on pre-tax profit	
	2018	2017
	$000	$000
US/HK$ exchange rate – increase 1%*	**(974)**	(6,496)
US/HK$ exchange rate – decrease 1%*	**974**	6,496

* Holding all other variables constant

4 Financial risk management *(continued)*

(a) Financial risk factors *(continued)*

(i) Market risk *(continued)*

Cash flow and fair value interest rate risk

The Group's main interest rate risk arises 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 exposure of the Group's borrowing to interest rate changes at the end of the reporting period are as follows:

	2018 $000	**% of total borrowings**	2017 $000	% of total borrowings
Variable rate borrowings	**508,536**	**21%**	513,751	19%
Fixed rate borrowings	**1,921,845**	**79%**	2,176,934	81%
	2,430,381	**100%**	2,690,685	100%

An analysis by maturities is provided in note 4(a)(iii). The percentage of total borrowings shows the proportion of borrowings that are currently at variable rates in relation to the total amount of borrowings.

Profit or loss is sensitive to higher/lower net interest income from bank deposits and interest expenses on bank borrowings as a result of changes in interest rates.

	Impact on pre-tax profit	
	2018 $000	2017 $000
Interest rates – increase by 100 basis points *	**11,953**	7,555
Interest rates – decrease by 100 basis points *	**(11,953)**	(7,555)

* Holding all other variables constant

4 Financial risk management *(continued)*

(a) Financial risk factors *(continued)*

(i) Market risk *(continued)*

Price risk

The Group's exposure to price risk arises from investments held by the Group and classified in the balance sheet as available-for-sale financial assets (note 20). 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 2018, 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 $665,000 (2017: $801,000).

(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.

4 Financial risk management *(continued)*

(a) Financial risk factors *(continued)*

(iii) Liquidity risk *(continued)*

The tables below analyse the Group's financial liabilities into relevant maturity groupings based on their contractual maturities for financial liabilities.

The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

Contractual maturities of financial liabilities	1 year or less $000	1 year to 2 years $000	2 years to 5 years $000	Over 5 years $000	Total contractual cash flows $000	Carrying amount $000
At 30 June 2018						
Trade payables	**521,620**	**–**	**–**	**–**	**521,620**	**521,620**
Other payables and accruals	**754,180**	**–**	**–**	**–**	**754,180**	**754,180**
Bank and other borrowings (include interest payable)	**223,287**	**518,792**	**2,044,874**	**30,234**	**2,817,187**	**2,430,381**
Mobile licence fee liabilities	**62,350**	**62,350**	**100,630**	**–**	**225,330**	**188,032**
Total	**1,561,437**	**581,142**	**2,145,504**	**30,234**	**4,318,317**	**3,894,213**
At 30 June 2017						
Trade payables	357,393	–	–	–	357,393	357,393
Other payables and accruals	791,382	–	–	–	791,382	791,382
Bank and other borrowings	217,556	215,226	1,018,266	1,697,092	3,148,140	2,690,685
Mobile licence fee liabilities	62,350	62,350	162,980	–	287,680	227,926
Total	1,428,681	277,576	1,181,246	1,697,092	4,584,595	4,067,386

(b) Capital management

The Group's primary objectives when managing capital are to:

- safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders, and
- 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.

4 Financial risk management *(continued)*

(b) Capital management *(continued)*

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.

	2018	2017
	$000	$000
Net debt	**602,275**	1,416,612
Total equity	**4,831,724**	4,634,297
Net debt to equity ratio	**12%**	31%

(c) Fair value estimation

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

The following table presents the Group's assets that are measured at fair value at 30 June 2018 and 2017.

	Level 1	**Level 2**	**Level 3**	**Total**
	$000	**$000**	**$000**	**$000**
Assets				
Available-for-sale financial assets (note 20)				
At 30 June 2018	**–**	**6,646**	**–**	**6,646**
At 30 June 2017	–	8,012	–	8,012

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

4 Financial risk management *(continued)*

(c) Fair value estimation *(continued)*

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data 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.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

See note 20(b) for the valuation techniques used to value financial assets measured at fair value. There were no changes in valuation techniques during the year.

All of the resulting fair value estimates are included in level 2.

5 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 examines the Group's performance 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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5 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 2018			
	Hong Kong $000	**Macau $000**	**Elimination $000**	**Consolidated $000**
External revenue	**9,280,864**	**707,628**	**–**	**9,988,492**
Inter-segment revenue	**563,782**	**6,533**	**(570,315)**	**–**
Total revenue	**9,844,646**	**714,161**	**(570,315)**	**9,988,492**
EBITDA #	**2,114,864**	**21,350**	**–**	**2,136,214**
Depreciation, amortisation and loss on disposal	**(1,241,002)**	**(48,799)**	**28**	**(1,289,773)**
Operating profit/(loss)	**873,862**	**(27,449)**	**28**	**846,441**
Finance income				**61,423**
Finance costs				**(120,909)**
Profit before income tax				**786,955**
Other information				
Additions to fixed assets	**543,895**	**19,324**	**–**	**563,219**
Additions to intangible assets	**506,585**	**8,379**	**–**	**514,964**
Depreciation	**609,991**	**37,910**	**(15)**	**647,886**
Amortisation of leasehold land and land use rights	**672**	**–**	**–**	**672**
Amortisation of intangible assets	**615,701**	**10,364**	**–**	**626,065**
Loss on disposal of fixed assets	**14,638**	**525**	**(13)**	**15,150**
Impairment loss of trade receivables	**9,196**	**1,615**	**–**	**10,811**
(Reversal of impairment loss)/ impairment loss of inventories	**(2,932)**	**477**	**–**	**(2,455)**

5 Segment reporting *(continued)*

(a) Segment results *(continued)*

	For the year ended 30 June 2017			
	Hong Kong $000	Macau $000	Elimination $000	Consolidated $000
External revenue	8,323,253	392,159	–	8,715,412
Inter-segment revenue	253,060	7,347	(260,407)	–
Total revenue	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)

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

EBITDA is defined as earnings before interest, tax, depreciation, amortisation and loss on disposal.

5 Segment reporting *(continued)*

(b) Segment assets/(liabilities)

	At 30 June 2018			
	Hong Kong	**Macau**	**Unallocated**	**Consolidated**
	$000	**$000**	**$000**	**$000**
Segment assets	**8,886,222**	**300,660**	**831,244**	**10,018,126**
Segment liabilities	**(4,479,696)**	**(123,609)**	**(583,097)**	**(5,186,402)**

	At 30 June 2017			
	Hong Kong	Macau	Unallocated	Consolidated
	$000	$000	$000	$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)

The total of non-current assets other than interest in an associate, financial investments and deferred income tax assets located in Hong Kong is $6,397,256,000 (2017: $6,565,670,000), and the total of these non-current assets located in Macau is $218,776,000 (2017: $239,913,000).

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.

6 Staff costs

	2018	2017
	$000	$000
Wages and salaries	**635,062**	648,445
Bonuses	**43,420**	39,154
Contributions to defined contribution plans *	**39,547**	40,857
Share-based payments	**2,304**	4,291
	720,333	732,747

* Net of forfeited contributions of $1,504,000 (2017: $1,008,000).

7 Finance income

	2018 $000	2017 $000
Interest income from listed debt securities	**29,792**	40,820
Interest income from bank deposits	**29,353**	10,275
Gain on disposal of listed debt securities	**1,391**	45
Gain on repurchase of guaranteed notes	**12**	–
Accretion income	**875**	634
	61,423	51,774

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.

8 Finance costs

	Notes	2018 $000	2017 $000
Interest expense			
Bank and other borrowings		**88,784**	96,008
Bank charges for credit card instalment		**7,621**	2,692
Accretion expenses			
Mobile licence fee liabilities	28	**22,456**	31,688
Asset retirement obligations		**1,467**	1,413
Net exchange loss on financing activities	13	**581**	5,419
		120,909	137,220

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.

9 Profit before income tax

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

	Notes	2018 $000	2017 $000
Charging:			
Operating lease rentals for land and buildings, transmission sites and leased lines		**1,062,290**	1,043,465
Impairment loss of trade receivables	22	**10,811**	18,554
Auditor's remuneration			
– Audit services		**2,519**	2,527
– Non-audit services		**1,071**	986
Net exchange loss	13	**8,871**	5,449
Loss on disposal of fixed assets		**15,150**	4,335
Depreciation of fixed assets, leasehold land and land use rights		**648,558**	670,569
Amortisation of handset subsidies	21	**340,595**	436,448
Amortisation of mobile licence fees	21	**285,470**	256,265
Crediting:			
Reversal of impairment loss of inventories	24	**2,455**	3,276

10 Income tax expense

This note provides an analysis of the Group's income tax expense and how the tax expense is affected by non-assessable and non-deductible items.

(a) Income tax expense

	2018 $000	2017 $000
Current income tax		
Hong Kong profits tax	**187,590**	170,674
Overseas tax	**1,374**	1,323
Under/(over)-provision in prior years		
Hong Kong profits tax	**1,280**	(1,638)
Overseas tax	**1**	(3,187)
Total current income tax expense	**190,245**	167,172
Deferred income tax		
Decrease in deferred income tax assets (note 23(a))	**588**	367
(Decrease)/increase in deferred income tax liabilities (note 23(b))	**(11,030)**	9,892
Total deferred income tax (benefit)/expense	**(10,442)**	10,259
Income tax expense	**179,803**	177,431

10 Income tax expense *(continued)*

(b) Numerical reconciliation of income tax expense to prima facie tax payable

	2018 $000	2017 $000
Profit before income tax expense	**786,955**	843,199
Tax at the Hong Kong tax rate of 16.5% (2017: 16.5%)	**129,848**	139,128
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Interest income	**(5,809)**	(3,953)
Net exchange (gain)/loss	**(343)**	916
Others	**209**	48
Subtotal	**123,905**	136,139
Difference in overseas tax rates	**1,554**	1,466
Under/(over)-provision in prior years	**1,281**	(4,825)
Tax loss not recognised	**9,599**	3,183
Utilisation of previously unrecognised tax losses	**(85)**	(2,220)
Temporary differences not recognised	**43,549**	43,688
Income tax expense	**179,803**	177,431

(c) Tax losses

	2018 $000	2017 $000
Unused tax losses for which no deferred tax asset has been recognised	**149,632**	83,405
Potential tax benefit	**20,506**	10,917

The unused tax losses were incurred by subsidiaries that are not likely to generate sufficient profits in the foreseeable future. For subsidiaries operating in Hong Kong, the losses can be carried forward indefinitely and have no expiry date. For a subsidiary operating in Macau, the losses are subject to an expiry period of three years from the year in which the tax loss arises.

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11 Five highest paid individuals

Of the five highest paid individuals, three (2017: three) are directors whose emoluments are disclosed in note 35. The aggregate of the emoluments in respect of the other two (2017: two) individuals are as follows:

	2018 **$000**	2017 $000
Salaries, allowances and benefits in kind	**7,199**	5,114
Bonuses	**1,009**	624
Retirement scheme contributions	**324**	266
Share-based payments	**3**	–
Compensation for loss of office		
– contractual payments	**–**	706
– other payment	**–**	1,412
	8,535	8,122

The emoluments of the two (2017: two) highest paid individuals are within the following bands:

	2018 **Number of Individuals**	2017 Number of Individuals
$3,500,001 – $4,000,000	**1**	1
$4,000,001 – $4,500,000	**1**	1
	2	2

12 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 2018, all available forfeited contributions had been utilised by the Group to reduce its contributions payable (2017: 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 (2017: same). Contributions to the scheme vest immediately.

13 Net exchange loss

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

	2018 **$000**	2017 $000
Other operating expenses	**8,290**	30
Finance costs (note 8)	**581**	5,419
	8,871	5,449

14 Earnings per share

(a) Basic earnings per share

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 outstanding during the financial year.

	2018 **Cents**	2017 Cents
Total basic earnings per share attributable to the equity holders of the Company	**55.4**	61.7

(b) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

	2018 **Cents**	2017 Cents
Total diluted earnings per share attributable to the equity holders of the Company	**55.4**	61.7

14 Earnings per share *(continued)*

(c) Reconciliations of earnings used in calculating earnings per share

	2018	2017
	$000	$000
Profit attributable to the equity holders of the Company used in calculating basic earnings per share and diluted earnings per share	**615,243**	672,102

(d) Weighted average number of shares used as the denominator

	2018	2017
	Number	Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share and diluted earnings per share	**1,110,194,100**	1,088,507,398

15 Dividends

	2018	2017
	$000	$000
Interim dividend, paid, of 18 cents (2017: 27 cents) per fully paid share	**200,336**	294,130
Final dividend, proposed, of 23 cents (2017: 33 cents) per fully paid share	**257,903**	364,789
	458,239	658,919

For the dividends attributable to the years ended 30 June 2018 and 2017, scrip dividend elections were offered to shareholders. Shares issued during the year on the shareholders' election to receive shares are set out in note 29.

At a meeting held on 5 September 2018, the directors proposed a final dividend of 23 cents per fully paid 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 2019.

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

16 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:

	2018	2017
	$000	$000
At 1 July	**11,383**	12,264
Amortisation of leasehold land and land use rights	**(672)**	(638)
Exchange differences	**604**	(243)
At 30 June	**11,315**	11,383

17 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 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
Year ended 30 June 2018							
Opening net book amount	**35,999**	**134,512**	**2,424,465**	**125,721**	**33,903**	**317,125**	**3,071,725**
Exchange differences	**201**	**263**	**–**	**7**	**28**	**–**	**499**
Additions	**11,984**	**–**	**6,588**	**79,530**	**8,979**	**456,138**	**563,219**
Reclassifications	**–**	**–**	**495,843**	**–**	**–**	**(495,843)**	**–**
Disposals	**–**	**–**	**(14,843)**	**(3)**	**(96)**	**(1,935)**	**(16,877)**
Depreciation	**(16,758)**	**(4,360)**	**(540,350)**	**(79,817)**	**(6,601)**	**–**	**(647,886)**
Closing net book amount	**31,426**	**130,415**	**2,371,703**	**125,438**	**36,213**	**275,485**	**2,970,680**
At 30 June 2018							
Cost	**260,442**	**157,035**	**7,516,246**	**1,103,797**	**131,284**	**275,485**	**9,444,289**
Accumulated depreciation	**(229,016)**	**(26,620)**	**(5,144,543)**	**(978,359)**	**(95,071)**	**–**	**(6,473,609)**
Net book amount	**31,426**	**130,415**	**2,371,703**	**125,438**	**36,213**	**275,485**	**2,970,680**

At 30 June 2018, buildings with a carrying amount of $77,620,000 (2017: $80,059,000) were pledged as security for bank borrowings of the Group (note 27).

18 Subsidiaries

Particulars of the principal subsidiaries at 30 June 2018 are as follows:

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Group equity interest 2018	Group equity interest 2017
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%**	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%**	100%
SmarTone Communications Limited	Hong Kong	Provision of wireless fixed services in Hong Kong	2 ordinary shares of $1 each $2	**100%**	100%
SmarTone Finance Limited	BVI	Issuance of guaranteed notes in Hong Kong	1 ordinary share of US$1 each US$1	**100%**	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%**	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%**	100%

* Subsidiary held directly by the Company.

All of the above subsidiaries are limited liability companies.

19 Interest in an associate

	2018 $000	2017 $000
Share of net assets	**3**	3

During the year ended 30 June 2018, there is no movement of share of net assets of interest in an associate (2017: same).

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19 Interest in an associate *(continued)*

Particulars of the associate at 30 June 2018 are as follows:

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued shares held	Interest held 2018	Interest held 2017
New Top Finance Limited	BVI	Investment holding in BVI	375 ordinary shares of US$1 each	**37.5%**	37.5%

The Group has not disclosed the assets, liabilities, and retained profits of the associate as the amounts are immaterial to the Group.

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

20 Financial investments

	2018 $000	2017 $000
Non-current assets		
Held-to-maturity debt securities (a)	**486,599**	672,528
Current assets		
Available-for-sale financial assets (b)	**6,646**	8,012
Held-to-maturity debt securities (a)	**80,092**	39,556
	86,738	47,568
	573,337	720,096

(a) Held-to-maturity debt securities

	2018 $000	2017 $000
At 1 July	**712,084**	870,127
Amortisation	**(5,103)**	(10,249)
Disposal	**(143,461)**	(152,145)
Exchange differences	**3,171**	4,351
At 30 June	**566,691**	712,084

20 Financial investments *(continued)*

(a) Held-to-maturity debt securities *(continued)*

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

	2018	2017
	$000	$000
Listed debt securities, outside Hong Kong	**41,147**	121,966
Listed debt securities, Hong Kong	**525,544**	590,118
	566,691	712,084
Market value of listed debt securities	**557,831**	715,494

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 2018, the Group has recognised a gain on disposal of held-to-maturity debt securities of $1,391,000 upon exercise of call option by issuers (2017: $45,000).

None of these financial assets are 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.

(b) Available-for-sale financial assets

	2018	2017
	$000	$000
At 1 July	**8,012**	10,977
Fair value loss transferred to equity	**(1,366)**	(2,965)
At 30 June	**6,646**	8,012

The Group holds investment in a fund that primarily invests in traded shares, and is denominated in US dollars.

The available-for-sale financial assets are stated at fair value based on the net asset value per unit of the respective fund as determined by the manager of the relevant fund. The fair values are within level 2 of the fair value hierarchy (note 4(c)).

None of these financial assets are impaired.

21 Intangible assets

	Handset subsidies $000	Mobile licence fees $000	Total $000
At 1 July 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
Year ended 30 June 2018			
Opening net book amount	**295,501**	**3,335,898**	**3,631,399**
Additions	**514,964**	**–**	**514,964**
Amortisation *	**(340,595)**	**(285,470)**	**(626,065)**
Disposal	**(3,396)**	**–**	**(3,396)**
Closing net book amount	**466,474**	**3,050,428**	**3,516,902**
At 30 June 2018			
Cost	**1,609,148**	**4,103,521**	**5,712,669**
Accumulated amortisation	**(1,142,674)**	**(1,053,093)**	**(2,195,767)**
Net book amount	**466,474**	**3,050,428**	**3,516,902**

* Included handset subsidies written off of $4,335,000 (2017: $3,327,000).

21 Intangible assets *(continued)*

In assessing whether intangible assets have suffered any impairment, the carrying value of the intangible assets is compared with its recoverable amount, which is the higher of the asset's fair value less costs to dispose and value in use. The recoverable amounts are determined by utilising cash flow projections based on the latest approved budgets for 5 years discounted to present value at a discount rate of 8.1% (2017: 7.7%). The Group prepared the budgets reflecting current and prior year performances, market development expectations and where available and relevant, observable market data. There are a number of assumptions and estimates involved for the preparation of the budget and cash flow projections. Key assumptions include the expected growth in revenue, gross margin, operating costs, future capital expenditures, dividend payout ratio and growth rates. A reasonably possible change in a key assumption would not cause the recoverable amount to fall below the carrying value of the intangible assets. The results of the tests undertaken as at 30 June 2018 and 2017 indicated no impairment charge was necessary.

22 Trade and other receivables

	2018			2017		
	Current	**Non-current**	**Total**	Current	Non-current	Total
	$000	**$000**	**$000**	$000	$000	$000
Trade receivables	**372,791**	**–**	**372,791**	334,302	–	334,302
Provision for impairment	**(8,034)**	**–**	**(8,034)**	(12,852)	–	(12,852)
	364,757	**–**	**364,757**	321,450	–	321,450
Other receivables	**43,645**	**–**	**43,645**	47,002	–	47,002
	408,402	**–**	**408,402**	368,452	–	368,452
Deposits	**77,950**	**72,220**	**150,170**	91,209	61,773	152,982
Prepayments	**94,927**	**44,915**	**139,842**	75,979	29,303	105,282
Total trade and other receivables	**581,279**	**117,135**	**698,414**	535,640	91,076	626,716

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.

22 Trade and other receivables *(continued)*

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

	2018	2017
	$000	$000
Current to 30 days	**276,802**	275,258
31 – 60 days	**45,066**	26,457
61 – 90 days	**4,705**	12,951
Over 90 days	**38,184**	6,784
	364,757	321,450

There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of customers.

The Group has recognised a loss of $10,811,000 (2017: $18,554,000) for the impairment of its trade receivables during the year ended 30 June 2018. 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.

As at 30 June 2018, trade receivables of $135,371,000 (2017: $58,698,000) 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:

	2018	2017
	$000	$000
Past due 1 – 30 days	**64,261**	12,506
Past due 31 – 60 days	**30,639**	26,457
Past due over 60 days	**40,471**	19,735
	135,371	58,698

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

	2018	2017
	$000	$000
At 1 July	**12,852**	12,241
Impairment loss recognised in the consolidated profit and loss account (note 9)	**10,811**	18,554
Amounts written off during the year	**(15,629)**	(17,943)
At 30 June	**8,034**	12,852

22 Trade and other receivables *(continued)*

At 30 June 2018, trade receivables of $8,034,000 (2017: $12,852,000) 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:

	2018	2017
	$000	$000
Past due 31 – 60 days	**931**	797
Past due 61 – 90 days	**1,171**	1,628
Past due over 90 days	**5,932**	10,427
	8,034	12,852

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

23 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% (2017: 16.5%) and the appropriate current tax rates ruling in the relevant countries respectively.

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 2016	(6,497)
Recognised in the consolidated profit and loss account (note 10(a))	367
At 30 June 2017	(6,130)
At 1 July 2017	**(6,130)**
Recognised in the consolidated profit and loss account (note 10(a))	**588**
At 30 June 2018	**(5,542)**

23 Deferred income tax *(continued)*

(b) Deferred income tax liabilities

	Mobile licence fee assets $000	Accelerated depreciation allowance $000	Total $000
At 1 July 2016	(44,388)	171,234	126,846
Recognised in the consolidated profit and loss account (note 10(a))	23,020	(13,128)	9,892
At 30 June 2017	(21,368)	158,106	136,738
At 1 July 2017	**(21,368)**	**158,106**	**136,738**
Recognised in the consolidated profit and loss account (note 10(a))	**2,479**	**(13,509)**	**(11,030)**
At 30 June 2018	**(18,889)**	**144,597**	**125,708**

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 $20,506,000 (2017: $10,917,000) in respect of tax losses of $149,632,000 (2017: $83,405,000). Under the current tax legislation, unrecognised tax losses of $92,966,000 (2017: $63,222,000) 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.

24 Inventories

	2018 $000	2017 $000
Handsets and accessories, at cost	**173,763**	196,456
Less: provision for slow-moving and obsolete inventories	**(12,298)**	(14,753)
	161,465	181,703

The Group recognised a reversal of impairment provision of $2,455,000 (2017: $3,276,000) for slow-moving and obsolete inventories during the year ended 30 June 2018. The amount has been included in "cost of inventories sold" in the consolidated profit and loss account.

25 Pledged bank deposits, short-term bank deposits and cash and cash equivalents

	2018 $000	2017 $000
Cash at bank and in hand	**259,010**	237,950
Short-term bank deposits with original maturities of 3 months or less	**1,472,941**	908,845
Cash and cash equivalents per consolidated cash flow statement	**1,731,951**	1,146,795
Short-term bank deposits with original maturities more than 3 months	**96,155**	124,893
Short-term pledged bank deposits	**–**	2,385
	1,828,106	1,274,073
Maximum exposure to credit risk	**1,822,345**	1,269,278

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.

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

	2018 $000	2017 $000
Hong Kong dollars	**231,149**	363,248
US dollars	**1,571,923**	870,827
Renminbi	**3,433**	5,104
Others	**21,601**	34,894
	1,828,106	1,274,073

26 Trade and other payables

	2018 $000	2017 $000
Current liabilities		
Trade payables (a)	**521,620**	357,393
Other payables and accruals (b)	**852,081**	804,562
	1,373,701	1,161,955

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

	2018 $000	2017 $000
Current to 30 days	**377,911**	157,533
31 – 60 days	**42,004**	85,232
61 – 90 days	**12,016**	49,759
Over 90 days	**89,689**	64,869
	521,620	357,393

At 30 June 2018, the carrying amount of the Group's trade payables are mainly denominated in US dollars which accounted for 62%.

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

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

	2018 $000	2017 $000
Accrued expenses	**527,990**	440,039
Payables for fixed assets	**253,440**	273,013
Receipt in advance	**70,651**	91,510
	852,081	804,562

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

27 Bank and other borrowings

	2018			2017		
	Current	**Non-current**	**Total**	Current	Non-current	Total
	$000	**$000**	**$000**	$000	$000	$000
Secured bank borrowings	**5,976**	**54,209**	**60,185**	5,814	60,186	66,000
Unsecured bank borrowings	**129,813**	**827,528**	**957,341**	127,822	954,101	1,081,923
Guaranteed notes (a)	**–**	**1,412,855**	**1,412,855**	–	1,542,762	1,542,762
Total bank and other borrowings	**135,789**	**2,294,592**	**2,430,381**	133,636	2,557,049	2,690,685

(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.

During the year ended 30 June 2018, the Group has recognised a gain of $12,000 (2017: nil) upon redemption of US$18,185,000 guaranteed notes.

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

	2018	2017
	$000	$000
Between 1 and 2 years	**436,756**	135,115
Between 2 and 5 years	**1,829,239**	806,712
Over 5 years	**28,597**	1,615,222
	2,294,592	2,557,049

27 Bank and other borrowings *(continued)*

The carrying amounts of the Group's bank borrowings included under current liabilities approximate their fair values, as the impact of discounting is not significant. The fair values of the bank borrowings included under non-current liabilities as estimated by discounting their future cash flows at the prevailing market borrowing rates at the 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 2018				
Secured bank borrowings	**–**	**54,209**	**–**	**54,209**
Unsecured bank borrowings	**–**	**752,553**	**–**	**752,553**
Guaranteed notes	**1,407,481**	**–**	**–**	**1,407,481**
Total	**1,407,481**	**806,762**	**–**	**2,214,243**

	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

At 30 June 2018, 79% (2017: 81%) of the Group's bank and other borrowings are denominated in US dollars and 21% (2017: 19%) are denominated in Hong Kong dollars.

At 30 June 2018, secured bank borrowings are secured by certain buildings of the Group (note 17) (2017: same).

28 Mobile licence fee liabilities

	2018 $000	2017 $000
At 1 July	**227,926**	409,831
Accretion expenses included in consolidated profit and loss account (note 8)	**22,456**	31,688
Payment	**(62,350)**	(213,593)
At 30 June	**188,032**	227,926
Less: mobile licence fee liabilities included under current liabilities	**(60,041)**	(60,040)
Non-current portion	**127,991**	167,886

Analysis of the present value of mobile licence fee liabilities:

	2018 $000	2017 $000
Minimum annual fees payable		
Within 1 year	**62,350**	62,350
After 1 year but within 5 years	**162,980**	225,330
	225,330	287,680
Less: future finance charges	**(37,298)**	(59,754)
Present value of mobile licence fee liabilities	**188,032**	227,926
Comprising:		
Within 1 year	**60,041**	60,040
After 1 year but within 5 years	**127,991**	167,886
	188,032	227,926

29 Share capital

	Notes	Shares of $0.1 each	$000
Authorised			
At 30 June 2017 and 30 June 2018		**2,000,000,000**	**200,000**
Issued and fully paid			
At 1 July 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**
Issue of shares in lieu of cash dividends	(b)	**46,242,824**	**4,624**
Repurchase of shares	(c)	**(27,786,000)**	**(2,779)**
At 30 June 2018		**1,124,269,277**	**112,426**

(a) During the years ended 30 June 2018 and 2017, no share options were exercised.

(b) On 29 August 2017, the board of directors declared a final dividend of 33 cents (2017: 33 cents) per share for the year ended 30 June 2017. The shareholders were provided with an option to receive the final dividend in form of scrip dividend. On 19 December 2017, 28,143,051 (2017: 11,585,801) shares were issued at $9.312 (2017: $11.08) per share in respect of the final dividend.

On 13 February 2018, the board of directors declared an interim dividend of 18 cents (2017: 27 cents) per share for the year ended 30 June 2018. The shareholders were provided with an option to receive the interim dividend in form of scrip dividend. On 13 April 2018, 18,099,773 (2017: 21,241,112) shares were issued at $8.426 (2017: $10.152) per share in respect of the interim dividend.

29 Share capital *(continued)*

(c) During the year ended 30 June 2018, the Company repurchased and cancelled 27,786,000 shares on the HKSE. The total amount paid to acquire these cancelled shares of $247,421,000 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**
July 2017	**392,000**	**$10.10**	**$10.08**	**3,959**
August 2017	**3,649,500**	**$9.73**	**$9.55**	**35,086**
September 2017	**6,754,500**	**$9.67**	**$9.20**	**63,379**
November 2017	**1,978,500**	**$9.20**	**$9.09**	**18,112**
February 2018	**8,205,500**	**$9.06**	**$8.24**	**70,452**
March 2018	**1,604,000**	**$8.68**	**$8.33**	**13,700**
April 2018	**2,816,500**	**$8.27**	**$8.14**	**23,097**
May 2018	**2,385,500**	**$8.30**	**$8.20**	**19,636**
	27,786,000			**247,421**

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)

30 Share option scheme and share award scheme

(a) 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 scheme" in the Report of the Directors. Below is a summary of the share options issued.

(i) Movements in share options

	Average exercise price per share	Number of share options
At 1 July 2016	$13.13	352,500
Granted	$14.28	3,000,000
Cancelled or lapsed	$13.13	(352,500)
At 30 June 2017 and 30 June 2018	**$14.28**	**3,000,000**

At 30 June 2018, 1,000,000 (2017: nil) share options were exercisable with average exercise price of $14.28 (2017: nil) per share.

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

Date of grant	Exercise period	Exercise price per share	**2018 Number of share options**	2017 Number of share options
25 July 2016	25 July 2017 to 24 July 2021	$14.28	**3,000,000**	3,000,000

(iii) Details of share options exercised

No share options were exercised during the years ended 30 June 2018 and 2017.

30 Share option scheme and share award scheme *(continued)*

(b) Share award scheme

Pursuant to the terms of the share award scheme adopted by the Company on 29 June 2018, the Company may grant shares to the participants, including directors and employees of the Group. The details of the terms of the share award scheme are disclosed under the section "Share award scheme" in the Report of the Directors. Below is a summary of the share award issued.

(i) Details of share award granted during the year ended 30 June 2018

Date of grant	Number of awarded shares granted	Average fair value per share	Vesting period
29 June 2018	1,871,800	$8.10	29 June 2019 to 29 June 2021

(ii) Movements in share award

	2018	2017
Number of awarded shares		
Outstanding at 1 July	–	–
Granted	1,871,800	–
Outstanding at 30 June	1,871,800	–

31 A reconciliation of liabilities arising from financing activities

	Bank borrowings $000	Guaranteed notes $000	Total $000
At 1 July 2016	1,320,292	1,530,131	2,850,423
Proceeds from bank borrowings	450,000	–	450,000
Repayment of bank borrowings	(632,863)	–	(632,863)
Payment of transaction costs of bank borrowings	(2,400)	–	(2,400)
Finance costs	12,894	12,631	25,525
At 30 June 2017	1,147,923	1,542,762	2,690,685
Repayment of bank borrowings	(139,706)	–	(139,706)
Payment for repurchase of guaranteed notes	–	(141,122)	(141,122)
Finance costs	9,309	11,227	20,536
Finance income	–	(12)	(12)
At 30 June 2018	1,017,526	1,412,855	2,430,381

32 Commitments and contingent liabilities

(a) Capital commitments

	2018	2017
	\$000	\$000
Fixed assets		
Contracted for	**24,899**	73,987

(b) Operating lease commitments

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

At 30 June 2018, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2018	2017
	\$000	\$000
Land and buildings and transmission sites		
No later than 1 year	**583,863**	533,831
Later than 1 year and no later than 5 years	**454,132**	278,427
Later than 5 years	**1,521**	9,487
	1,039,516	821,745
Leased lines		
No later than 1 year	**236,479**	243,722
Later than 1 year and no later than 5 years	**618,703**	690,446
Later than 5 years	**197,031**	309,637
	1,052,213	1,243,805

(c) Performance bonds

	2018	2017
	\$000	\$000
Hong Kong	**–**	301,243
Macau	**3,883**	3,883
	3,883	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.

32 Commitments and contingent liabilities *(continued)*

(d) At 30 June 2018, 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 $1,141,625,000) and $600,000,000, of which US$66,169,000 (approximately $519,195,000) 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 67.18% of the Company's shares as at 30 June 2018. The remaining 32.82% of the shares are widely held, of which 3.80% 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.

	2018 **$000**	2017 $000
Operating lease rentals for land and buildings and transmission sites (i)	**127,868**	127,529
Insurance expense (ii)	**4,562**	4,398

(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 2018, rental and licence fees paid and payable to subsidiaries and associated companies of SHKP totalled $127,868,000 (2017: $127,529,000).

(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 2018, insurance premiums paid and payable were $4,562,000 (2017: $4,398,000).

(b) At 30 June 2018, 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:

	2018 **$000**	2017 $000
Salaries, bonuses and other short-term employee benefits	**37,238**	31,276
Termination benefits	**–**	2,118
Share-based payments	**2,270**	4,291
	39,508	37,685

(d) The 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:

	2018 **$000**	2017 $000
Deposits and prepayments (note 22)	**24,983**	24,029
Other payables and accruals (note 26)	**4,610**	3,861

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

34 Balance sheet and reserve movement of the Company

	2018 $000	2017 $000
Non-current assets		
Investments in subsidiaries	**6,899,044**	6,896,740
Current assets		
Prepayments	**206**	235
Amounts due from subsidiaries	**44,256**	44,256
Tax recoverable	**177**	–
Cash and cash equivalents	**252**	234
	44,891	44,725
Current liabilities		
Amounts due to subsidiaries	**4,007,418**	3,593,137
Other payables and accruals	**3,154**	2,614
Current income tax liabilities	**–**	51
	4,010,572	3,595,802
Net assets	**2,933,363**	3,345,663
Capital and reserves		
Share capital	**112,426**	110,581
Reserves (Note (a))	**2,820,937**	3,235,082
Total equity attributable to equity holders of the Company	**2,933,363**	3,345,663

The balance sheet of the Company was approved by the Board of Directors on 5 September 2018 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 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 29(c))	–	820	(51,983)	–	(35,732)	(86,895)
Payment of 2016 final dividend (note 29(b))	127,212	–	–	–	(356,167)	(228,955)
Payment of 2017 interim dividend (note 29(b))	213,516	–	–	–	(294,130)	(80,614)
At 30 June 2017 and 1 July 2017	**1,123,978**	**11,769**	**741,696**	**4,290**	**1,353,349**	**3,235,082**
Comprehensive income						
Loss for the year	**–**	**–**	**–**	**–**	**(1,891)**	**(1,891)**
Transactions with owners						
Share-based payments	**–**	**–**	**–**	**2,304**	**–**	**2,304**
Repurchase of shares (note 29(c))	**–**	**2,779**	**(2,159)**	**–**	**(245,262)**	**(244,642)**
Prepayment for repurchase of shares	**–**	**–**	**–**	**–**	**(18,178)**	**(18,178)**
Payment of 2017 final dividend (note 29(b))	**259,254**	**–**	**–**	**–**	**(361,355)**	**(102,101)**
Payment of 2018 interim dividend (note 29(b))	**150,699**	**–**	**–**	**–**	**(200,336)**	**(49,637)**
At 30 June 2018	**1,533,931**	**14,548**	**739,537**	**6,594**	**526,327**	**2,820,937**

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:

	2018							2017
	Fees $000	Salaries and allowances $000	Bonuses $000	Retirement scheme contributions $000	Estimated money value of other benefits $000	Share-based payments $000	Total $000	Total $000
Executive Directors								
Ms. Anna Yip	144	6,888	5,961	344	85	2,263	15,685	11,572
Mr. Chan Kai-lung, Patrick	144	5,501	1,077	550	75	2	7,349	7,534
Mr. Chau Kam-kun, Stephen	144	5,756	1,367	576	94	2	7,939	8,596
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 [(1)]	–	–	–	–	–	–	–	96
Dr. Li Ka-cheung, Eric, *JP* *	288	–	–	–	–	–	288	288
Mr. Ng Leung-sing, *JP* *	288	–	–	–	–	–	288	288
Mr. Gan Fock-kin, Eric *	288	–	–	–	–	–	288	288
Mrs. Ip Yeung See-ming, Christine *	144	–	–	–	–	–	144	144
Mr. Lam Kwok-fung, Kenny * [(2)]	144	–	–	–	–	–	144	48
Mr. Yang Xiang-dong * [(3)]	48	–	–	–	–	–	48	144
	2,568	18,145	8,405	1,470	254	2,267	33,109	29,934
2017	2,664	17,923	3,448	1,368	240	4,291		

* Independent Non-Executive Director

(1) Retired on 1 November 2016

(2) Appointed on 1 March 2017

(3) Retired on 2 November 2017

35 Benefits and interests of directors *(continued)*

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

During the years ended 30 June 2018 and 2017, 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 and share awards under the Company's share option and share award schemes. The details of these benefits in kind are disclosed under the section "Share option scheme" and "Share award scheme" in the Report of the Directors and note 30.

(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 2018 to be Sun Hung Kai Properties Limited, a company incorporated in Hong Kong with its shares listed on the main board of HKSE.