SmarTone Telecommunications Holdings Limited

Stock Code : 0315

2018/19 Interim Report

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).

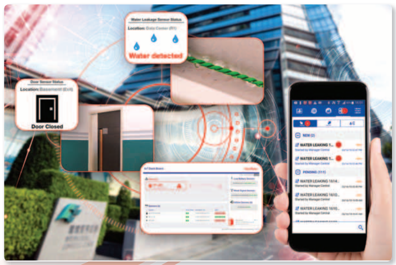
CONTENTS

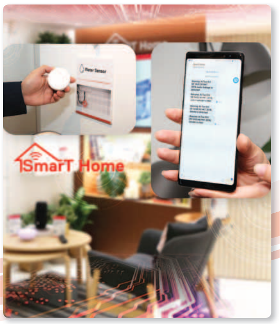
Together We Thrive

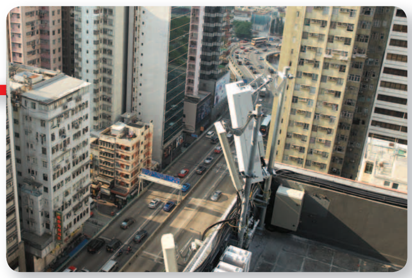
SmarTone is committed to delivering unbeatable and valuable experiences to customers through its powerful network, purposeful apps and passionate services. We continue to lead the market through technology leadership, innovation, customer-centric strategy and digitalisation, bringing outstanding user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

1. Technology Leadership

Pioneering end-to-end ICT solutions on ***NB-IoT enabled network*** for diversified industries.







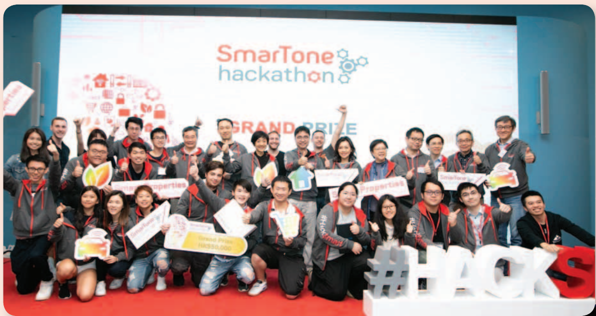
Leading the mobile network evolution by conducting ***FDD Massive MIMO trial*** and launching HK's first live commercial ***LAA Network*** supporting blazing 1Gbps download speeds.

Partnering with Ericsson and Qualcomm to successfully demonstrate a ***5G connection*** on a smartphone form factor device based on the latest 5G NSA (Non-standalone) mode in the 3GPP Release 15.

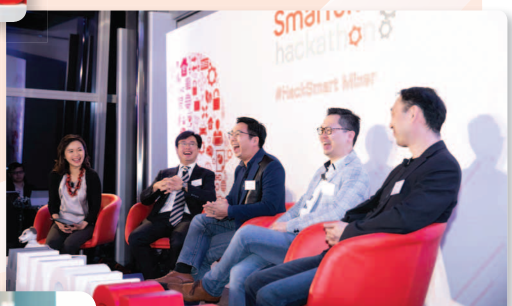
BUSINESS HIGHLIGHTS

2. Empowering Innovation

Catering for the needs of digital-savvy consumers, Smart Home and Smart Hotel Solutions were showcased at the SmarTone ***Innovation Hub*** – Hong Kong's first open ecosystem to foster industry collaboration.

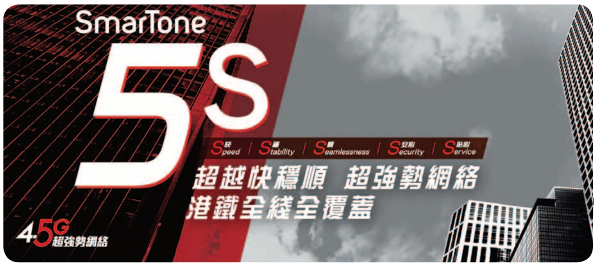


The second edition of the ***SmarTone Hackathon***, themed Smart Properties, continued to nurture talents and promote innovative entrepreneurship in property technology. It attracted more participants from the Greater Bay Area and overseas to unleash their potentials in "technopreneurship".

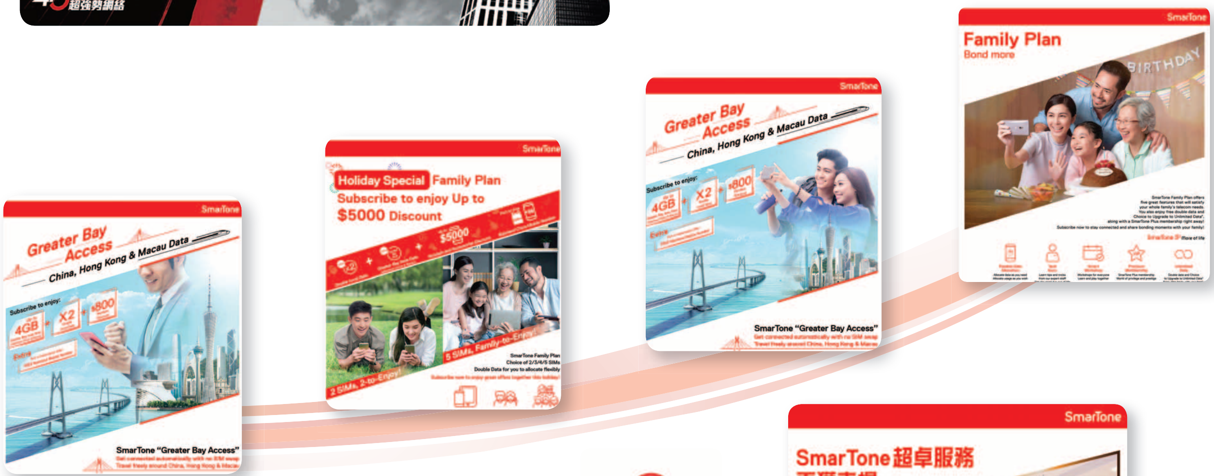


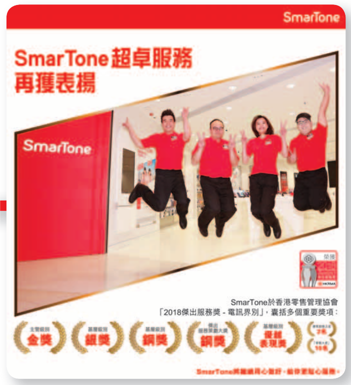
BUSINESS HIGHLIGHTS

3. Customer-Centric Strategy



Serving customers in different segments with a full range of services, unparalleled experiences and extraordinary privileges, amplifies our ***5S standard*** for network experience in the mobile service industry.



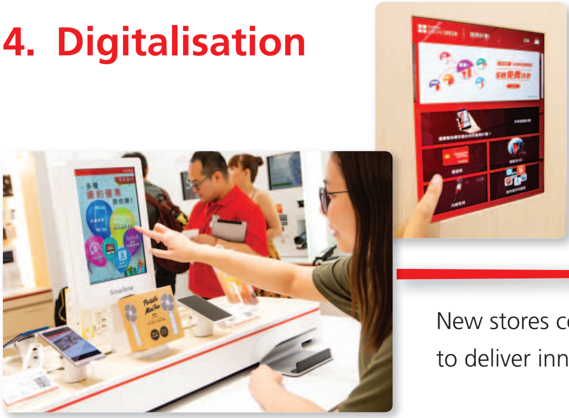


Standing by with our excellent customer services, we garnered multiple accolades at the ***2018 Service & Courtesy Awards*** and ***Top 10 Quality E-Shop Awards*** organised by the Hong Kong Retail Management Association.

A premium membership class, has been discovering a world of prestige for customers, including birthday celebrations, selected offers, priority and privileges, refined experiences as well as flash surprises.

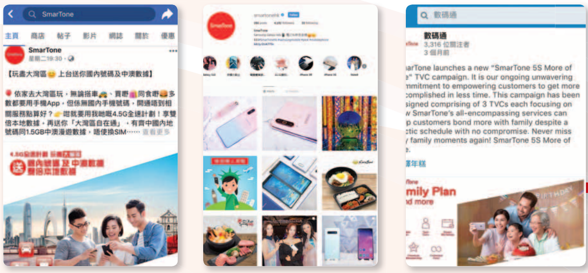
BUSINESS HIGHLIGHTS

4. Digitalisation



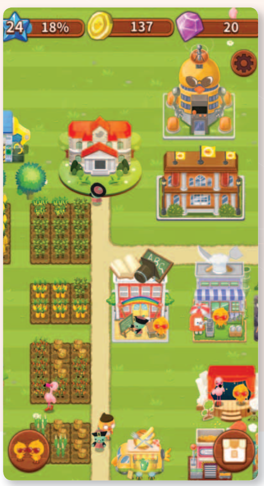
New stores couple with ***digitalised customer services*** to deliver innovative and caring in-store customer experiences.

Enhancing our ***omni-channel strategy*** brings seamless customer experience from all touchpoints.



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

Full digital brand ***"Birdie Mobile"*** was launched to offer customers with innovative features, including data P2P, member-get-member, community and embedded travel data passes. The premiere of the online game "Birdie Farm" showered customers with creativity to earn data.



CHAIRMAN'S STATEMENT

(Financial figures are expressed in Hong Kong dollars)

Business review

During the period under review, the overall market remained highly competitive. Nevertheless, the Company's continued focus on providing excellent network and customer experience contributed to a 12% increase in customer number to 2.47 million while postpaid churn rate remained at an industry low of 1.0%.

SmarTone has adopted the new accounting standard HKFRS 15 for the period under review. Under the modified retrospective approach of HKFRS 15, prior period numbers are reported under the previous accounting standard HKAS 18, with the current period based on HKFRS 15.

Based on the previous accounting standard HKAS 18 which provides a consistent basis for comparison with the same period last year, group net profit was $325 million, a drop of 1% compared to the same period last year. Group service revenue increased 1% to $2,552 million, and handset and accessory sales grew 66% due to volume increase. Consequently, group total revenue increased 26% while group EBITDA increased 3%.

Under the new accounting standard HKFRS 15, the impact on group net profit was minimal with group net profit at $332 million, showing an increase of 1% compared to the same period last year. However, due to the reallocation of a portion of service revenue for handset-bundled plans to handset and accessory sales, reported group service revenue was 7% lower while handset and accessory sales increased 79%. This led to an increase of 26% in group total revenue. Group EBITDA was lower by 13% as handset subsidy amortisation was netted off against service revenue above EBITDA.

During the period under review, with its strong customer-centric brand, superior network performance and excellent customer service, the Company successfully expanded its flagship SuperCare customer segment. SmarTone's excellent customer experience won recognition at the annual HK Retail Management Association Service Awards competition, winning six of the most prestigious awards. In addition, the Company won top industry awards for its e-commerce services and SmarTone CARE app which provides efficient and convenient digital services to meet growing demand from customers. The Company will continue to invest in staff and technology to achieve ever higher standards in customer experience and engagement.

SmarTone's Enterprise Solutions business continued to register robust growth in the current period. Through a deep understanding of customer needs and cutting-edge technologies, the Company's broad portfolio of industry-specific solutions enabled its clients to improve performance and enhance efficiency. SmarTone will continue to develop new industry applications to meet growing demands as Hong Kong moves towards 5G and its Smart City vision.

SmarTone further strengthened its position in the Millennial market with Birdie, Hong Kong's first digital mobile brand, registering healthy customer growth. The brand received favourable market response and has won prestigious awards in digital marketing since the launch of Birdie Travel in July 2017. Birdie will continue to grow through a combination of engaging community initiatives and strategic partnerships.

As a leader in mobile technology in Hong Kong, SmarTone is committed to delivering the best products and services that cater to customer needs. The Company has further refarmed spectrum to extend its leading network performance along MTR lines. The implementation of licensed assisted access (LAA) and small cells at selected hotspots have also significantly improved network performance, especially during periods of high traffic flows. In addition, the transition of the network to a Network Function Virtualisation (NFV) architecture has increased efficiency and reduced service and product introduction times. Through the acquisition of additional low frequency 900MHz & 1800MHz spectrum in the recent spectrum renewal, SmarTone's spectrum portfolio will expand in 2021, further enhancing its high quality in-building coverage and network performance, including in the MTR.

CHAIRMAN'S STATEMENT

(Financial figures are expressed in Hong Kong dollars)

The Company continued to deepen its digitalisation initiatives to enhance customer experience and improve efficiency. S-Bot, the first bilingual AI chatbot launched by a Hong Kong mobile operator, has improved customer service and contact centre efficiency. In addition, the implementation of digital tools like robotic process automation (RPA) and redesign of workflows have enabled SmarTone to serve a lot more customers without incurring additional costs.

Employees are at the heart of the Company's success story. As a recognition of their contribution, SmarTone established an employee share award scheme to share the fruits of success with over 300 staff. The Company also implemented family leave, birthday leave and a number of new engagement initiatives to enhance work-life balance and collaboration among teams.

Dividend

In line with the Company's dividend policy, the Board declared an interim dividend of 18 cents per share. Shareholders have the option to receive new and fully paid shares in lieu of cash under a scrip dividend scheme.

Outlook

The mobile industry remains highly competitive due to persisting tariff pressures on both local and roaming businesses. Nevertheless, SmarTone will continue to focus on its priorities, including enhancing its proposition to targeted segments like family and millennial, driving further growth in the Enterprise segment, and deepening digitalisation initiatives to improve customer experience and enhance operational efficiency.

The industry is also facing rising cost pressures. Spectrum costs for the recently renewed spectrum have significantly increased fixed costs for all operators. The Company is concerned that the very high spectrum costs in Hong Kong, compared to elsewhere in the region, will act as a brake on Hong Kong's development as a Smart City. While SmarTone is committed to driving new technology to bring benefits to customers, the industry is yet to agree on the economic viability of the 5G business model, especially in the early years of rollout. The Company therefore urges the Government to critically review its spectrum policy to enable operators to invest more in 5G and the Smart City initiative. This is crucial to boost Hong Kong's competitiveness in the region in upgrading towards a digital economy, bringing significant benefits to both businesses and consumers.

Appreciation

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

Kwok Ping-luen, Raymond
Chairman

Hong Kong, 30 January 2019

MANAGEMENT DISCUSSION AND ANALYSIS

(Financial figures are expressed in Hong Kong dollars)

Review of financial results

During the period under review, Hong Kong customer number increased by 12% year-on-year and 3% half-on-half despite intense competition. Postpaid churn rate remained stable at an industry low of 1.0%.

With the implementation of the new accounting standard, HKFRS 15, a portion of Group service revenue of handset bundled plans is allocated to handset and accessory sales. Cost of inventories sold are recognised upfront with a corresponding reduction in handset subsidy amortisation.

Group total revenue increased by $1,079 million or 26% to $5,187 million (first half of 2017/18: $4,108 million) mainly due to higher handset revenue. Compared with the second half of 2017/18, Group total revenue decreased by $694 million or 12% to $5,187 million (second half of 2017/18: $5,881 million) mainly amid lower handset revenue.

Under HKFRS 15, Group service revenue fell 7% to $2,345 million (first half of 2017/18: $2,522 million) as part of the service revenue of handset bundled plans was allocated to handset and accessories sales. Based on the previous accounting standard HKAS 18 which provides a consistent basis for comparison with the same period last year, Group service revenue remained resilient, increasing 1% despite challenging market environment. Mobile postpaid ARPU was at an industry-leading $250.

Compared with the second half of 2017/18, Group service revenue fell by $193 million or 8% (second half of 2017/18: $2,538 million), mainly due to the reallocation of a portion of service revenue to handset and accessories sales under HKFRS 15.

Roaming revenue, which made up of 16% of Group's service revenue (first half of 2017/18: 15%) rose by 1% as healthy growth in data roaming more than offset weakness in voice roaming.

During the period under review, Group's handset and accessory sales rose by $1,256 million or 79% to $2,842 million when compared with $1,586 million for the first half of 2017/18. Both sales volume and average unit selling price increased. Part of the increase is attributable to the reallocation of a portion of service revenue of handset bundled plans to handset and accessory sales under HKFRS 15.

Compared with the second half of 2017/18, Group's handset and accessories sales fell by $501 million or 15%. Lower sales volume was partly offset by higher average unit selling price.

Under HKFRS 15, cost of inventories sold rose by $1,265 million or 82% to $2,813 million when compared with $1,547 million for the first half of 2017/18. Handset subsidy can no longer be amortised and has to be reflected as cost of inventories sold as incurred. Compared with the second half of 2017/18, cost of inventories sold fell by $507 million or 15%, in line with the corresponding decrease in handset and accessory sales.

Staff costs rose by $6 million or 2% to $364 million (first half of 2017/18: $358 million) amid increase in share-based payments due to the grant of share awards to over 300 staff in June 2018.

Cost of services provided and other operating expenses fell by $51 million or 5% to $1,071 million when compared with $1,122 million for the first half of 2017/18 as sales commissions were capitalised as customer acquisition and retention costs and amortised over the contract period under HKFRS 15 instead of expensed as incurred previously. Based on the previous accounting treatment, cost of services provided and other operating expenses fell by $18 million or 2% as a result of ongoing efficiency drives, despite expansion in customer base and increased data usage.

MANAGEMENT DISCUSSION AND ANALYSIS

(Financial figures are expressed in Hong Kong dollars)

Depreciation and loss on disposal rose by $1 million to $330 million when compared with $329 million for the first half of 2017/18. Compared with the second half of 2017/18, depreciation and loss on disposal fell slightly by $5 million or 1% (second half of 2017/18: $335 million).

Handset subsidy amortisation fell by $155 million (first half of 2017/18: $155 million) as handset subsidy can no longer be amortised under HKFRS 15. It has to be reflected as cost of inventories sold.

Amortistion of customer acquisition and retention costs rose by $27 million (first half of 2017/18: nil) as sales commissions are capitalised as customer acquisition and retention costs and amortised over contract period under HKFRS 15 instead of expensed as incurred previously.

Spectrum utilisation fee amortisation remained stable at $143 million.

Finance income rose by $7 million to $36 million (first half of 2017/18: $29 million) amid higher deposit interest income. Compared with the second half of 2017/18, finance income rose by $4 million (second half of 2017/18: $32 million).

Finance costs fell by $10 million to $55 million when compared with $64 million for the first half of 2017/18 amid lower handset instalment charges and lower accretion expenses on mobile license fee liabilities. Compared with $57 million for the second half of 2017/18, finance costs fell slightly by $2 million.

Income tax expenses amounted to $94 million (first half of 2017/18: $93 million), reflecting an effective tax rate of 22.4% (first half of 2017/18: 22.4%). 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%.

During the period under review, Group EBITDA fell by 13% to $939 million (first half of 2017/18: $1,080 million) mainly due to the adoption of HKFRS 15. Group operating profit was $439 million, representing a 3% decrease as compared with same period last year. Group profit attributable to shareholders rose by 1% to $332 million (first half of 2017/18: $328 million).

Compared with the second half of 2017/18, Group EBITDA fell by 11% (second half of 2017/18: $1,056 million), while Group operating profit rose by 12% mainly amid savings in operating costs. Group profit attributable to equity holders of the Company rose by 16% (second half of 2017/18: $287 million).

Capital structure, liquidity and financial resources

The Group maintained a strong balance sheet for the period under review. During the period, the Group was financed by share capital, internally generated funds and bank and other borrowings. As at 31 December 2018, the Group recorded share capital of $112 million, total equity of $4,951 million and total borrowings of $2,370 million.

The Group's cash resources remained robust with cash and bank balances (including short-term bank deposits) of $1,379 million as at 31 December 2018 (30 June 2018: $1,828 million).

As at 31 December 2018, the Group had bank and other borrowings of $2,370 million (30 June 2018: $2,430 million) of which 78% were denominated in United States dollars and were arranged on a fixed rate basis. Net debt, after deducting cash and financial assets at amortised costs, amounted to $442 million (30 June 2018: $36 million). Net debt to EBITDA (annualised) was 0.2X as at 31 December 2018 (30 June 2018: 0.02X).

MANAGEMENT DISCUSSION AND ANALYSIS

(Financial figures are expressed in Hong Kong dollars)

The Group had net cash generated from operating activities and interest received of $194 million and $36 million respectively during the period ended 31 December 2018. The Group's major outflows of funds during the period were purchases of fixed assets, payment for dividends and mobile licence fees and repayment of bank 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 financial assets at amortised costs. Bank deposits and financial assets at amortised costs 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 $76 million as at 31 December 2018 (30 June 2018: $78 million).

Interest rate exposure

The Group is exposed to interest rate changes that affect bank borrowings denominated in Hong Kong dollars which accounted for 22% of the Group's total borrowings at 31 December 2018. The remaining 78% 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.

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, financial asset at fair value through other comprehensive income, financial assets at amortised costs, 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

A bank, on the Group's behalf, had issued a performance bond to the telecommunications authority of Macau in respect of obligation under the mobile licence issued by the authority. The total amount outstanding as at 31 December 2018 under the performance bond was $4 million (30 June 2018: $4 million).

During the period under review, a bank issued a standby letter of credit of $1,400 million to a subsidiary of the Company in favor of the Office of the Communications Authority ("OFCA") regarding the acceptance of the offer of the right of first refusal for the re-assignment of two of the spectrum. This standby letter of credit will be amended to the reduced amount of $1,080 million.

MANAGEMENT DISCUSSION AND ANALYSIS

(Financial figures are expressed in Hong Kong dollars)

A bank also issued a standby letter of credit with amount of $1,520 million to a subsidiary of the Company in favor of OFCA for submission of a deposit to participate in the auction for two of the spectrum. This standby letter of credit will be cancelled and replaced by two letters of credit of $580 million and $760 million respectively, being the final amount of spectrum utilisation fees determined during the auction, to be issued in March 2019.

Employees, share award scheme and share option scheme

The Group had 1,928 full-time employees as at 31 December 2018 (30 June 2018: 1,898), with the majority of them based in Hong Kong. Total staff costs were $364 million for the period ended 31 December 2018 (first half of 2017/18: $358 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.

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 period under review, no shares were granted or vested. 35,200 shares were lapsed. 1,836,600 shares (30 June 2018: 1,871,800) were outstanding as of 31 December 2018.

The Group has share option schemes under which the Company may grant options to participants, including directors and employees, to subscribe for shares of the Company. During the period under review, no share options were granted, cancelled or lapsed. 3,000,000 (30 June 2018: 3,000,000) share options were outstanding as at 31 December 2018.

DIRECTORS' PROFILE

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

Mr. Raymond Kwok has been with the Group since April 1992 and was appointed Director of the Company in October 1996. He holds a Master of Arts degree in Law from Cambridge University, a Master's degree in Business Administration from Harvard University, an Honorary Doctorate degree in Business Administration from The Open University of Hong Kong and an Honorary Doctorate degree in Laws from The Chinese University of Hong Kong.

Mr. Kwok is the chairman and managing director of Sun Hung Kai Properties Limited ("SHKP"). He is also a director of Cellular 8 Holdings Limited ("Cellular 8") and TFS Development Company Limited ("TFS"). SHKP, Cellular 8 and TFS are the substantial shareholders of the Company within the meaning of Part XV of the Securities and Futures Ordinance. Mr. Kwok is also the chairman and an executive director of SUNeVision Holdings Ltd., and a non-executive director of Transport International Holdings Limited and Wing Tai Properties Limited.

In civic activities, Mr. Kwok is a director of The Real Estate Developers Association of Hong Kong and a member of the Council of The Chinese University of Hong Kong. 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.

For the financial year ended 30 June 2018, Mr. Kwok received a fee of HK$180,000. Except the above fee, Mr. Kwok did not receive any other emoluments during the said financial year.

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

Mr. Cheung Wing-yui was appointed Director of the Company in March 2003. Mr. Cheung received a Bachelor of Commerce degree in accountancy from The University of New South Wales, Australia and is a member of the CPA Australia. He has been a practising solicitor in Hong Kong since 1979 and is a consultant of the law firm Woo Kwan Lee & Lo. Mr. Cheung was also admitted as a solicitor in the United Kingdom and as an advocate and solicitor in Singapore.

Mr. Cheung is a vice chairman and a non-executive director of SUNeVision Holdings Ltd. He is also a non-executive director of Tai Sang Land Development Limited, Tianjin Development Holdings Limited and Transport International Holdings Limited. Mr. Cheung was an independent non-executive director of Hop Hing Group Holdings Limited and Agile Group Holdings Limited. He is a non-executive director of Sun Hung Kai Properties Insurance Limited, which is a wholly-owned subsidiary of Sun Hung Kai Properties Limited.

Mr. Cheung is a director of The Community Chest of Hong Kong. He had held the positions of deputy chairman of the council of The Open University of Hong Kong, the deputy chairman of The Hong Kong Institute of Directors Limited, a director of Po Leung Kuk, the vice chairman of the Mainland Legal Affairs Committee of The Law Society of Hong Kong and a member of the Board of Review (Inland Revenue Ordinance).

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.

For the financial year ended 30 June 2018, Mr. Cheung received a fee of HK$162,000. Except the above fee, Mr. Cheung did not receive any other emoluments during the said financial year.

DIRECTORS' PROFILE

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

Mr. Allen Fung was appointed Director of the Company in December 2013. Mr. Fung obtained an undergraduate degree (Modern History) from Oxford University and holds a doctoral degree in History and East Asian Languages from Harvard University. He was a recipient of a Guggenheim Fellowship in 1996. Mr. Fung was a Teaching Fellow at Harvard University in 1993–1994 and a visiting Assistant Professor of History at Brown University in 1996–1997.

Mr. Fung is an executive director and a member of the Executive Committee of Sun Hung Kai Properties Limited ("SHKP"), as well as the chief executive officer of the SHKP group's non-property related portfolio investments. He is also a director of certain SHKP subsidiaries. Mr. Fung is a vice chairman and an executive director of SUNeVision Holdings Ltd., and a non-executive director of Transport International Holdings Limited. Mr. Fung was a non-executive director of RoadShow Holdings Limited (now known as Bison Finance Group Limited).

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, 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 and an executive committee member of The Hong Kong Management Association. He is also a council member of Sir Edward Youde Memorial Fund, a member of the board of the Asian Youth Orchestra, a member of the Advisory Committee on Gifted Education of Education Bureau of the Government of Hong Kong Special Administrative Region and a member of the board of the Hong Kong Philharmonic Society Limited.

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

For the financial year ended 30 June 2018, Mr. Fung received a fee of HK$162,000. Except the above fee, Mr. Fung did not receive any other emoluments during the said financial year.

Anna YIP *Executive Director & Chief Executive Officer*

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

Ms. Yip holds a Bachelor degree (First Honours) 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 was a co-leader of the Asia Financial Institutional Group and led the Asia Payments practice. 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 currently an independent non-executive director of Bupa (Asia) Limited. She is also a member of the Advisory Board of MBA Programs and an advisor to the Alumni Entrepreneurs Association of The Chinese University of Hong Kong. She is an appointed lay member by the HKSAR Government at the Joint Committee on Student Finance and an ex-council member of The Open University of Hong Kong.

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

For the financial year ended 30 June 2018, Ms. Yip received salaries (including allowances, retirement scheme contributions and estimated money value of other benefits), bonus, share-based payment and director's fee of HK$7,317,000, HK$5,961,000, HK$2,263,000 and HK$144,000 respectively.

DIRECTORS' PROFILE

CHAN Kai-lung, Patrick *Executive Director*

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

Mr. Chan held various positions in the areas of research, investment, investor relations and finance at leading international banking groups and Sun Hung Kai Properties Limited. From December 1994 to May 1996, he was seconded to the Central Policy Unit of the Hong Kong Government as a full-time member.

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

For the financial year ended 30 June 2018, Mr. Chan received salaries (including allowances, retirement scheme contributions and estimated money value of other benefits), bonus, share-based payment and director's fee of HK$6,126,000, HK$1,077,000, HK$2,000 and HK$144,000 respectively.

CHAU Kam-kun, Stephen *Executive Director*

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

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

Mr. Chau has held various senior management positions in telecommunications companies. He is a member of The Institution of Engineering and Technology ("IET"), UK and a Chartered Engineer of the Institute of Electrical Engineers, UK.

Mr. Chau is a member of the Technology Review Panel of Hong Kong Applied Science and Technology Research Institute Company Limited (ASTRI), the Executive Council of Hong Kong Information Technology Federation (HKITF) and the Executive Committee of Communications Association of Hong Kong (CAHK). He is also a member of the Advisory Committee of the Department of Electronic Engineering of The Chinese University of Hong Kong, the Departmental Advisory Committee of the Department of Electrical and Electronic Engineering of The University of Hong Kong and the Departmental Advisory Committee of the Department of Electronic Engineering of City University of Hong Kong.

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

For the financial year ended 30 June 2018, Mr. Chau received salaries (including allowances, retirement scheme contributions and estimated money value of other benefits), bonus, share-based payment and director's fee of HK$6,426,000, HK$1,367,000, HK$2,000 and HK$144,000 respectively.

DIRECTORS' PROFILE

David Norman PRINCE *Non-Executive Director*

Mr. David Prince was appointed Director of the Company in July 2005. Mr. Prince has over 20 years' experience of operating at board level in an international environment. Mr. Prince is a member of the Chartered Institute of Management Accountants (UK) and the Chartered Institute of Purchasing and Supply (UK). He 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.

For the financial year ended 30 June 2018, Mr. Prince received a fee of HK$144,000. Except the above fee, Mr. Prince did not receive any other emoluments during the said financial year.

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

Mr. Thomas Siu was appointed Director of the Company in July 2008. Mr. Siu 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.

For the financial year ended 30 June 2018, Mr. Siu received a fee of HK$144,000. Except the above fee, Mr. Siu did not receive any other emoluments during the said financial year.

DIRECTORS' PROFILE

John Anthony MILLER *Non-Executive Director*

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

Mr. Miller is currently an independent non-executive director of Autotoll Limited, a company 50%-owned by Sun Hung Kai Properties Limited.

Mr. Miller was previously a non-executive director of Transport International Holdings Limited, The Kowloon Motor Bus Company (1933) Limited and RoadShow Holdings Limited (now known as Bison Finance Group Limited). He was also chairman of Hong Kong Business Aviation Centre Limited, a partly-owned subsidiary of Sun Hung Kai Properties Limited.

Mr. Miller retired from the Civil Service in February 2007 as Permanent Representative of the Hong Kong Special Administrative Region of China to the World Trade Organisation in Geneva. Key positions held over a career spanning 35 years prior to Mr. Miller's retirement include Permanent Secretary for Financial Services and the Treasury (2002–2004), Director of Housing and Chief Executive of the Housing Authority (1996–2002), Director-General of Trade (1993–1996), Director of Marine (1991–1993), Information Coordinator in the Chief Secretary's Office (1989–1991) and Private Secretary to the Governor (1979–1982). Mr. Miller holds an MPA degree from Harvard University and a BA degree from London University.

For the financial year ended 30 June 2018, Mr. Miller received a fee of HK$144,000. Except the above fee, Mr. Miller did not receive any other emoluments during the said financial year.

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

Dr. Eric Li, GBS, OBE, JP, LLD, DSocSc., HonDSocSc (EdUHK), B.A., FCPA (Practising), FCA, FCPA (Aust.), 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 (now known as Bison Finance Group Limited).

Dr. Li is a member of the 13th National Committee of the Chinese People's Political Consultative Conference. He was a former member of the Legislative Council of Hong Kong and chairman of its Public Accounts Committee, a past president of the Hong Kong Institute of Certified Public Accountants and a former convenor-cum-member of the Financial Reporting Review Panel.

Dr. Li is also chairman of the Remuneration Committee and the Audit Committee of the Company.

For the financial year ended 30 June 2018, Dr. Li received a fee of HK$288,000 including the fee for acting as the chairman of the Audit Committee of the Company. Except the above fee, Dr. Li did not receive any other emoluments during the said financial year.

DIRECTORS' PROFILE

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

Mr. Ng Leung-sing was appointed Director of the Company in June 1997. Mr. Ng is chairman of Bank of China (Hong Kong) Trustees Limited 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.

For the financial year ended 30 June 2018, Mr. Ng received a fee of HK$288,000 including the fee for acting as member of the Audit Committee of the Company. Except the above fee, Mr. Ng did not receive any other emoluments during the said financial year.

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

Mr. Eric Gan was appointed Director of the Company in December 2005. Mr. Gan is founder and president of eAccess Ltd., the fourth mobile operator (EMOBILE brand) in Japan which become a wholly-owned subsidiary of SoftBank Corp in 2013. Mr. Gan is currently an executive vice president of Softbank Corp.

Prior to the establishment of eAccess, Mr. Gan worked as a telecom analyst and managing director for Goldman Sachs Japan when he was involved in many telecommunication financing deals in Japan/Asia, including the listing of SmarTone, NTT DoCoMo (one of the world's largest IPOs), NTT equity tranches and many other telecom related IPO and advisory projects.

Mr. Gan was born in Hong Kong and graduated from Imperial College, University of London. Mr. Gan now lives in Japan (since 1990).

Mr. Gan is also chairman of the Nomination Committee and a member of the Audit Committee of the Company.

For the financial year ended 30 June 2018, Mr. Gan received a fee of HK$288,000 including the fee for acting as member of the Audit Committee of the Company. Except the above fee, Mr. Gan did not receive any other emoluments during the said financial year.

DIRECTORS' PROFILE

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

Mrs. Christine Ip was appointed Director of the Company in November 2012. Mrs. Ip joined United Overseas Bank Limited ("UOB") in 2011. She is a Managing Director responsible for developing the Bank's Greater China strategy. Mrs. Ip has been appointed as CEO of UOB Hong Kong since 2012 and CEO Greater China with effect from 1 July 2016.

Mrs. Ip is a seasoned banker with more than 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.

For the financial year ended 30 June 2018, Mrs. Ip received a fee of HK$144,000. Except the above fee, Mrs. Ip did not receive any other emoluments during the said financial year.

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

Mr. Kenny Lam 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.

For the financial year ended 30 June 2018, Mr. Lam received a fee of HK$144,000. Except the above fee, Mr. Lam did not receive any other emoluments during the said financial year.

DIRECTORS' PROFILE

Notes:

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

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

Ms. Anna Yip, Executive Director, entered into an employment contract with the Company for her serving as Executive Director and Chief Executive Officer of the Company, with no fixed term of service. She is entitled to a basic salary which is subject to review by the Board from time to time with reference to her responsibility and performance. She is also entitled to a discretionary performance bonus, the computation of which is based on her performance and contributions to the Group. Ms. Yip's appointment as a director of the Company is subject to retirement by rotation and re-election at annual general meetings in accordance with the Bye-laws of the Company and the Listing Rules. Ms. Yip is entitled to a director's fee which is determined by the Board under the authority granted by shareholders at annual general meetings. The fee is subject to annual assessment based on prevailing market rate of directors' fees for companies listed in Hong Kong.

The Company and Mr. Chan Kai-lung, Patrick, Executive Director, entered into an employment contract dated 1 May 2002 under which Mr. Chan has been appointed to act as Executive Director of the Group with effect from 15 May 2002 with no fixed term of service. He is entitled to a basic salary which is subject to review by the Board from time to time with reference to his responsibility and performance. He is also entitled to discretionary bonus, the computation of which is based on his performance and profitability of the Group. Mr. Chan's appointment as a director of the Company is subject to retirement by rotation and re-election at annual general meetings in accordance with the Bye-laws of the Company and the Listing Rules. Mr. Chan is entitled to a director's fee which is determined by the Board under the authority granted by shareholders at annual general meetings. The fee is subject to annual assessment based on prevailing market rate of directors' fees for companies listed in Hong Kong.

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

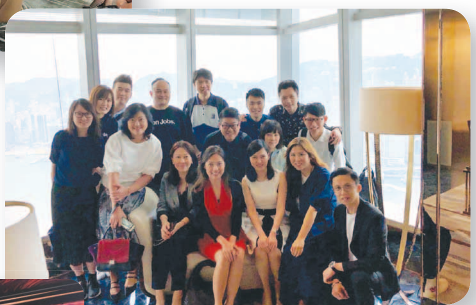
The Directors' interests in shares of the Company or any of its associated corporations, if any, within the meaning of Part XV of the Securities and Futures Ordinance as at 31 December 2018 are disclosed in "Directors' and chief executive's interests" section on pages 63 to 66 of this Interim Report.

Together We Nurture

SmarTone understands people are the most valuable asset 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.

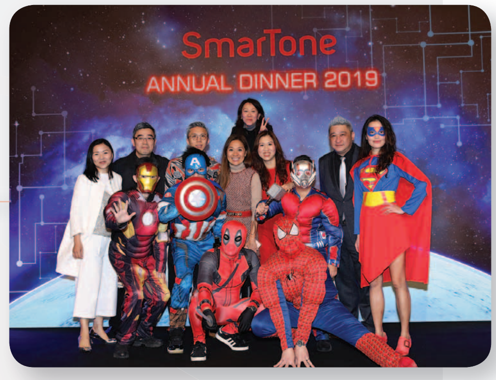
1. Grooming Talents

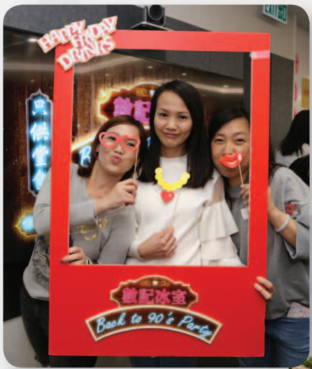
Introducing diversified opportunities for ***people development***, including cross-sector exchanges for frontline service staff as well as listening sessions.

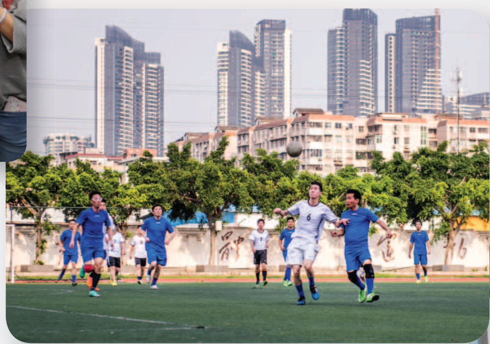


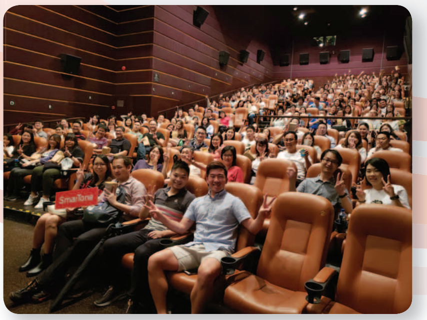
2. Caring for Staff

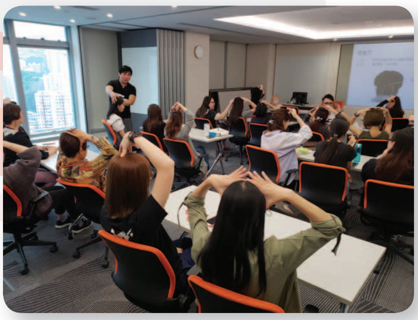
Aspiring ***work-life balance*** to embark staff's innovation and creativity in a fun workplace, an innovative and creative staff-engaging approach-resonates in the staff's minds.









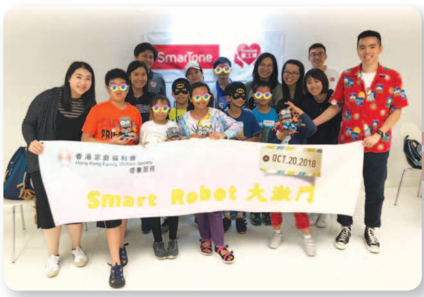


Empowering Our Future

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

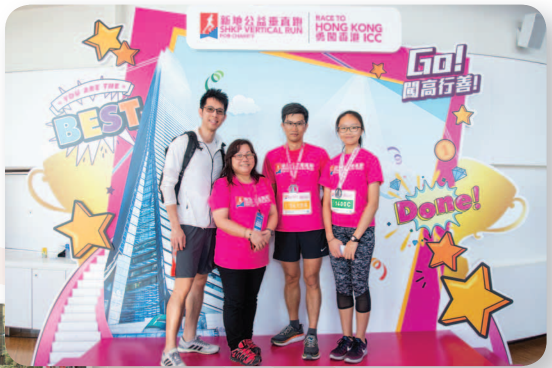
1. Caring for the Community

Giving care and warmth to those in need in the community where we serve, making our business more meaningful.

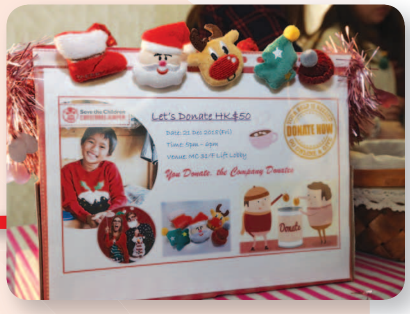


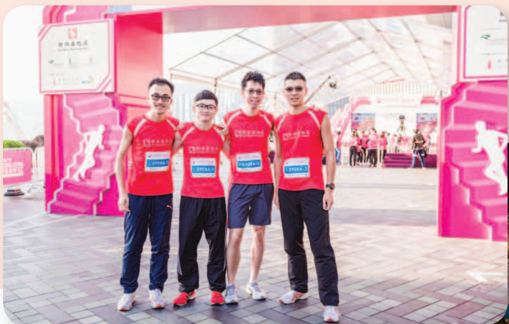
COMMUNITY ENGAGEMENT

2 . Supporting Charities



With our valuable assets, staff and powerful network, we rendered full support to charity events in town.





REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

羅兵咸永道

TO THE BOARD OF DIRECTORS OF
SMARTONE TELECOMMUNICATIONS HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 25 to 61, which comprises the condensed consolidated balance sheet of SmarTone Telecommunications Holdings Limited (the "Company") and its subsidiaries (together, the "Group") as at 31 December 2018 and the condensed consolidated profit and loss account, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information of the Group is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 30 January 2019

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six month ended 31 December 2018
(Expressed in Hong Kong dollars)

	Notes	Unaudited six months ended 31 December **2018** **$000**	 2017 $000
Service revenue		**2,344,586**	2,521,674
Handset and accessory sales		**2,841,975**	1,585,903
Revenues	5	**5,186,561**	4,107,577
Cost of inventories sold		**(2,812,795)**	(1,547,406)
Cost of services provided		**(190,700)**	(179,747)
Staff costs		**(363,755)**	(358,102)
Other operating expenses		**(880,005)**	(942,295)
Depreciation, amortisation and loss on disposal	8	**(500,344)**	(627,192)
Operating profit		**438,962**	452,835
Finance income	6	**35,808**	29,189
Finance costs	7	**(54,548)**	(64,259)
Profit before income tax	8	**420,222**	417,765
Income tax expense	9	**(94,030)**	(93,455)
Profit after income tax		**326,192**	324,310
Attributable to			
Equity holders of the Company		**332,410**	328,117
Non-controlling interests		**(6,218)**	(3,807)
		326,192	324,310
Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in cents per share)	11		
Basic		**29.7**	29.8
Diluted		**29.7**	29.8

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six month ended 31 December 2018
(Expressed in Hong Kong dollars)

	Unaudited six months ended 31 December	
	2018	2017
	$000	$000
Profit for the period	**326,192**	324,310
Other comprehensive (loss)/income		
Item that may be reclassified subsequently to profit and loss:		
Fair value loss on financial investments, net of tax	**–**	(686)
Currency translation differences	**(5,326)**	2,082
Item that will not be reclassified subsequently to profit and loss:		
Fair value loss on financial asset at fair value through other comprehensive income, net of tax	**(939)**	–
Other comprehensive (loss)/income for the period, net of tax	**(6,265)**	1,396
Total comprehensive income for the period	**319,927**	325,706
Total comprehensive income attributable to		
Equity holders of the Company	**326,145**	329,513
Non-controlling interests	**(6,218)**	(3,807)
	319,927	325,706

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

CONDENSED CONSOLIDATED BALANCE SHEET

As at 31 December 2018 and 30 June 2018
(Expressed in Hong Kong dollars)

	Notes	**Unaudited 31 December 2018 $000**	Audited 30 June 2018 $000
Non-current assets			
Leasehold land and land use rights		**10,362**	11,315
Fixed assets	13	**2,826,077**	2,970,680
Customer acquisition and retention costs		**57,176**	–
Contract assets		**145,702**	–
Interest in an associate		**3**	3
Financial assets at amortised cost	14	**437,133**	–
Held-to-maturity debt securities	14	**–**	486,599
Intangible assets	15	**2,907,693**	3,516,902
Deposits and prepayments	16	**123,563**	117,135
Deferred income tax assets		**5,341**	5,542
Total non-current assets		**6,513,050**	7,108,176
Current assets			
Inventories		**318,946**	161,465
Financial asset at fair value through other comprehensive income		**5,707**	–
Financial assets at amortised cost	14	**111,773**	–
Available-for-sales financial assets		**–**	6,646
Held-to-maturity debt securities	14	**–**	80,092
Contract assets		**329,374**	–
Trade receivables	16	**474,885**	364,757
Deposits and prepayments	16	**133,398**	172,877
Other receivables	16	**64,935**	43,645
Tax reserve certificate		**252,362**	252,362
Short-term bank deposits		**2,385**	96,155
Cash and cash equivalents		**1,376,710**	1,731,951
Total current assets		**3,070,475**	2,909,950
Current liabilities			
Trade payables	17	**316,791**	521,620
Other payables and accruals		**718,104**	852,081
Contract liabilities		**253,173**	–
Current income tax liabilities		**412,227**	457,389
Bank borrowings	18	**130,236**	135,789
Customer prepayments and deposits		**213,445**	247,081
Deferred income		**–**	222,996
Mobile licence fee liabilities		**35,209**	60,041
Total current liabilities		**2,079,185**	2,496,997

CONDENSED CONSOLIDATED BALANCE SHEET

As at 31 December 2018 and 30 June 2018
(Expressed in Hong Kong dollars)

	Notes	**Unaudited 31 December 2018 $000**	Audited 30 June 2018 $000
Non-current liabilities			
Customer prepayments and deposits		**49,811**	98,087
Asset retirement obligations		**42,197**	43,027
Bank and other borrowings	18	**2,239,564**	2,294,592
Mobile licence fee liabilities		**100,183**	127,991
Deferred income tax liabilities		**121,907**	125,708
Total non-current liabilities		**2,553,662**	2,689,405
Net assets		**4,950,678**	4,831,724
Capital and reserves			
Share capital	19	**112,122**	112,426
Reserves		**4,811,837**	4,686,655
Total equity attributable to equity holders of the Company		**4,923,959**	4,799,081
Non-controlling interests		**26,719**	32,643
Total equity		**4,950,678**	4,831,724

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six month ended 31 December 2018
(Expressed in Hong Kong dollars)

	Unaudited six months ended 31 December	
	2018	2017
	$000	$000
Cash flows from operating activities	**348,948**	1,501,215
Income tax paid	**(154,780)**	(124,949)
Net cash inflow from operating activities	**194,168**	1,376,266
Cash flows from investing activities		
Payment for purchase of fixed assets	**(307,756)**	(388,430)
Payment of mobile licence fees	**(62,350)**	(38,280)
Additions of handset subsidies	**–**	(319,563)
Decrease in short-term deposits	**93,441**	124,899
Proceeds from disposal of financial assets at amortised cost	**15,690**	105,609
Other investing activities	**42,566**	32,063
Net cash outflow from investing activities	**(218,409)**	(483,702)
Cash flows from financing activities		
Payment for repurchase of shares	**(12,444)**	(120,536)
Purchase of shares for Share Award Scheme	**(4,677)**	–
Proceeds from bank borrowings	**66,000**	–
Repayment of bank borrowings	**(127,303)**	(69,709)
Dividends paid to the Company's equity holders	**(250,194)**	(99,287)
Net cash outflow from financing activities	**(328,618)**	(289,532)
Net (decrease)/increase in cash and cash equivalents	**(352,859)**	603,032
Effect of foreign exchange rate change	**(2,382)**	1,402
Cash and cash equivalents at 1 July	**1,731,951**	1,146,795
Cash and cash equivalents at 31 December	**1,376,710**	1,751,229

The above condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six month ended 31 December 2018
(Expressed in Hong Kong dollars)

	Unaudited										
	Attributable to equity holders of the Company										
	Share capital $000	Share premium $000	Revaluation reserve $000	Capital redemption reserve $000	Contributed surplus $000	Employee share-based compensation reserve $000	Exchange reserve $000	Retained profits $000	Total $000	Non-controlling interests $000	Total $000
At 1 July 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 period	–	–	–	–	–	–	–	328,117	328,117	(3,807)	324,310
Other comprehensive income											
Fair value loss on financial investments, net of tax	–	–	(686)	–	–	–	–	–	(686)	–	(686)
Currency translation differences	–	–	–	–	–	–	2,082	–	2,082	–	2,082
Total comprehensive income for the period ended 31 December 2017	–	–	(686)	–	–	–	2,082	328,117	329,513	(3,807)	325,706
Transactions with owners											
Share-based payments	–	–	–	–	–	1,224	–	–	1,224	–	1,224
Repurchase of shares	(1,277)	–	–	1,277	(2,158)	–	–	(118,378)	(120,536)	–	(120,536)
Payment of 2017 final dividend	2,814	259,254	–	–	–	–	–	(361,355)	(99,287)	–	(99,287)
Total transactions with owners	1,537	259,254	–	1,277	(2,158)	1,224	–	(479,733)	(218,599)	–	(218,599)
At 31 December 2017	112,118	1,397,028	5,428	13,046	349	5,515	3,410	3,167,583	4,704,477	36,927	4,741,404

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six month ended 31 December 2018
(Expressed in Hong Kong dollars)

	Unaudited										
	Attributable to equity holders of the Company										
	Share Capital $000	Share premium $000	Revaluation reserve $000	Capital redemption reserve $000	Contributed surplus $000	Employee share-based compensation reserve $000	Exchange reserve $000	Retained profits $000	Total $000	Non-controlling interests $000	Total $000
At 30 June 2018 as originally reported	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
Change in accounting policy (note 3)	-	-	-	-	-	-	-	61,504	61,504	294	61,798
Restated total equity at 1 July 2018	112,426	1,547,727	4,748	14,548	348	6,595	3,378	3,170,815	4,860,585	32,937	4,893,522
Comprehensive income											
Profit for the period	-	-	-	-	-	-	-	332,410	332,410	(6,218)	326,192
Other comprehensive income											
Fair value loss on financial asset at fair value through other comprehensive income, net of tax	-	-	(939)	-	-	-	-	-	(939)	-	(939)
Currency translation differences	-	-	-	-	-	-	(5,326)	-	(5,326)	-	(5,326)
Total comprehensive income for the period ended 31 December 2018	-	-	(939)	-	-	-	(5,326)	332,410	326,145	(6,218)	319,927
Transactions with owners											
Share-based payments	-	-	-	-	-	4,544	-	-	4,544	-	4,544
Lapse of share award	-	-	-	-	41	(41)	-	-	-	-	-
Repurchase of shares (note 19(a))	(377)	-	-	377	-	-	-	(12,444)	(12,444)	-	(12,444)
Purchase of shares for Share Award Scheme	-	-	-	-	(4,677)	-	-	-	(4,677)	-	(4,677)
Payment of 2018 final dividend (note 19(b))	73	7,447	-	-	-	-	-	(257,714)	(250,194)	-	(250,194)
Total transactions with owners	(304)	7,447	-	377	(4,636)	4,503	-	(270,158)	(262,771)	-	(262,771)
At 31 December 2018	112,122	1,555,174	3,809	14,925	(4,288)	11,098	(1,948)	3,233,067	4,923,959	26,719	4,950,678

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1 General information

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

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

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

These unaudited condensed consolidated interim financial information ("Interim Financial Statements") are presented in Hong Kong dollars, unless otherwise stated. These Interim Financial Statements have been approved for issue by the board of directors on 30 January 2019.

2 Basis of preparation

These Interim Financial Statements for the six months ended 31 December 2018 have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim Financial Reporting". These Interim Financial Statements should be read in conjunction with the annual financial statements for the year ended 30 June 2018, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The accounting policies applied are consistent with those of the annual financial statements for the year ended 30 June 2018, as described in those annual financial statements except for the adoption of the new standards, amendments to standards and interpretations to existing standards as set out below.

(a) New standards, amendments to standards and interpretations to existing standards adopted by the Group

The Group has applied the following new standards, amendments to standards and interpretations to existing standards for the first time for their annual reporting commencing 1 July 2018.

Annual Improvements Project	Annual Improvements 2014–2016 Cycle
HKAS 28 (Amendment)	Investments in Associates and Joint Ventures
HKAS 40 (Amendments)	Transfers of Investment Property
HKFRS 1 (Amendment)	First Time Adoption of HKFRS
HKFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions
HKFRS 4 (Amendments)	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
HKFRS 15 (Amendments)	Clarifications to HKFRS 15
HK (IFRIC) 22	Foreign Currency Transactions and Advance Consideration

(Expressed in Hong Kong dollars)

2 Basis of preparation *(continued)*

(a) New standards, amendments to standards and interpretations to existing standards adopted by the Group *(continued)*

The Group had to change its accounting policies and make certain modified retrospective adjustments following the adoption of HKFRS 15. The impact of the adoption of this standard is disclosed in note 3 below. The other standards did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

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

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

The following new standards, amendments to standards and interpretations to existing standards have been issued but are not yet effective for the financial year beginning 1 July 2018 and have not been early adopted.

Annual Improvements Project	Annual Improvements to HKFRS Standards 2015–2017 Cycle[1]
HKAS 19 (Amendments)	Plan Amendment, Curtailment or Settlement[1]
HKAS 28 (Amendments)	Long-term Interests in Associates and Joint Ventures[1]
HKFRS 9 (Amendments)	Prepayment Features with Negative Compensation[1]
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[2]
HK (IFRIC) 23	Uncertainty over Income Tax Treatments[1]

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

2 Basis of preparation *(continued)*

(b) 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 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 significant complexity involved of applying the full retrospective approach, the Group intends to adopt the modified retrospective approach. Under the modified retrospective approach, (i) comparative information for prior periods will not be restated; (ii) the date of the initial application of HKFRS 16 will be 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 will recognise 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 Basis of preparation *(continued)*

(b) 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.

3 Change in accounting policy

This note explains the impact of the adoption of HKFRS 9 *Financial Instruments* and HKFRS 15 *Revenue from Contracts with Customers* on the Group's financial statements that have been applied from 1 July 2018.

(a) HKFRS 9, "Financial Instruments"

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

Accounting policies

(i) *Classification*

From 1 July 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value through other comprehensive income ("FVOCI"), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will be recorded in other comprehensive income ("OCI"). For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at FVOCI.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

3 Change in accounting policy *(continued)*

(a) HKFRS 9, "Financial Instruments" *(continued)*

Accounting policies *(continued)*

(ii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. The Group classifies its debt instruments at amortised cost. Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the consolidated profit and loss account.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

(iii) Impairment

From 1 July 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

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

The Group has adopted HKFRS 15 from 1 July 2018 which resulted in change in accounting policy. In accordance with the transition provisions in HKFRS 15, the Group has adopted the modified retrospective approach for transition to the new revenue standard. Under this transition approach, (i) comparative information for prior periods is not restated; (ii) the date of the initial application of HKFRS 15 is the first day of the annual reporting period in which the Group first applies the requirement of HKFRS 15, i.e. 1 July 2018; (iii) the Group recognises the cumulative effect of initial application of HKFRS 15 as an adjustment to the opening balance of retained profit (or other component of equity, as appropriate) in the year of adoption, i.e. as at 1 July 2018; and (iv) the Group elects to apply the new standard only to contracts that are not completed contracts at 1 July 2018.

3 Change in accounting policy *(continued)*

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

Accounting policies

(i) Sales of goods

Revenue from the sales of goods is recognised when control of the products has transferred to the customer, 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 contract liabilities.

(iii) Multiple-element arrangements

The amount of revenue recognised for each performance obligation is determined by considering the standalone selling prices or estimated fair values of each of the services element and handset device element provided within the bundled contracts.

(iv) Customer acquisition and retention costs eligible for capitalisation

The incremental costs of obtaining telecommunications services contracts are those costs that would not have been incurred if the contract had not been obtained. These incremental costs are required to be capitalised as an asset when incurred, and amortised on a straight-line basis in the consolidated profit and loss account over the minimum enforceable contractual period.

In previous reporting periods, incremental costs of obtaining telecommunications services contracts were recognised in the consolidated profit and loss account as incurred.

(v) Contract assets

Contract assets relating to multiple-element arrangements are recognised when the Group has performed the service or transferred the good to the customer before the customer pays consideration or before payment is due.

(vi) Contract liabilities

The Group recognises contract liabilities when a customer pays consideration, or the Group has a right to an amount of consideration that is unconditional, before the Group performs a service or transfers a good to the customer.

3 Change in accounting policy *(continued)*

(c) Impact of adoption to the interim financial statements

The following tables illustrate the amounts by each financial statements line item affected in current period by the application of HKFRS 9 and HKFRS 15 as compared to HKAS 18 that were previously in effect before the adoption of HKFRS 15:

	Unaudited six months ended 31 December 2018		
Condensed Consolidated Profit and Loss Account	**Reported under current accounting policies $000**	**Effect of HKFRS 15 $000**	**Balance without the adoption of HKFRS 15 $000**
Service revenue	2,344,586	207,806	2,552,392
Handset and accessory sales	2,841,975	(210,855)	2,631,120
Revenues	5,186,561	(3,049)	5,183,512
Cost of inventories sold	(2,812,795)	204,265	(2,608,530)
Cost of services provided	(190,700)	–	(190,700)
Staff costs	(363,755)	–	(363,755)
Other operating expenses	(880,005)	(33,109)	(913,114)
Depreciation, amortisation and loss on disposal	(500,344)	(177,188)	(677,532)
Operating profit	438,962	(9,081)	429,881
Finance income	35,808	–	35,808
Finance costs	(54,548)	–	(54,548)
Profit before income tax	420,222	(9,081)	411,141
Income tax expense	(94,030)	1,531	(92,499)
Profit after income tax	326,192	(7,550)	318,642
Attributable to			
Equity holders of the Company	332,410	(7,606)	324,804
Non-controlling interests	(6,218)	56	(6,162)
	326,192	(7,550)	318,642

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

3 Change in accounting policy *(continued)*

(c) Impact of adoption to the interim financial statements *(continued)*

Condensed Consolidated Balance Sheet	Unaudited 31 December 2018 Reported under current accounting policies $000	Effect under HKFRS 9 $000	Effect under HKFRS 15 $000	Balance without the adoption of HKFRS 9 and HKFRS 15 $000
Non-current assets				
Leasehold land and land use rights	10,362	–	–	10,362
Fixed assets	2,826,077	–	–	2,826,077
Customer acquisition and retention costs	57,176	–	(57,176)	–
Contract assets	145,702	–	(145,702)	–
Interest in an associate	3	–	–	3
Financial assets at amortised cost	437,133	(437,133)	–	–
Held-to-maturity debt securities	–	437,133	–	437,133
Intangible assets	2,907,693	–	463,367	3,371,060
Deposits and prepayments	123,563	–	–	123,563
Deferred income tax assets	5,341	–	–	5,341
Total non-current assets	6,513,050	–	260,489	6,773,539
Current assets				
Inventories	318,946	–	–	318,946
Financial asset at fair value through other comprehensive income	5,707	(5,707)	–	–
Financial assets at amortised cost	111,773	(111,773)	–	–
Available-for-sales financial assets	–	5,707	–	5,707
Held-to-maturity debt securities	–	111,773	–	111,773
Contract assets	329,374	–	(329,374)	–
Trade receivables	474,885	–	–	474,885
Deposits and prepayments	133,398	–	–	133,398
Other receivables	64,935	–	–	64,935
Tax reserve certificate	252,362	–	–	252,362
Short-term bank deposits	2,385	–	–	2,385
Cash and cash equivalents	1,376,710	–	–	1,376,710
Total current assets	3,070,475	–	(329,374)	2,741,101
Current liabilities				
Trade payables	316,791	–	–	316,791
Other payables and accruals	718,104	–	38,652	756,756
Contract liabilities	253,173	–	(253,173)	–
Current income tax liabilities	412,227	–	(13,535)	398,692
Bank borrowings	130,236	–	–	130,236
Customer prepayments and deposits	213,445	–	22,196	235,641
Deferred income	–	–	205,637	205,637
Mobile licence fee liabilities	35,209	–	–	35,209
Total current liabilities	2,079,185	–	(223)	2,078,962

3 Change in accounting policy *(continued)*

(c) Impact of adoption to the interim financial statements *(continued)*

Condensed Consolidated Balance Sheet	Reported under current accounting policies $000	Effect under HKFRS 9 $000	Effect under HKFRS 15 $000	Balance without the adoption of HKFRS 9 and HKFRS 15 $000
	Unaudited 31 December 2018			
Non-current liabilities				
Customer prepayments and deposits	49,811	–	–	49,811
Asset retirement obligations	42,197	–	–	42,197
Bank and other borrowings	2,239,564	–	–	2,239,564
Mobile licence fee liabilities	100,183	–	–	100,183
Deferred income tax liabilities	121,907	–	–	121,907
Total non-current liabilities	2,553,662	–	–	2,553,662
Net assets	4,950,678	–	(68,662)	4,882,016
Capital and reserves				
Share capital	112,122	–	–	112,122
Reserves	4,811,837	–	(68,424)	4,743,413
Total equity attributable to equity holders of the Company	4,923,959	–	(68,424)	4,855,535
Non-controlling interests	26,719	–	(238)	26,481
Total equity	4,950,678	–	(68,662)	4,882,016

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

3 Change in accounting policy *(continued)*

(c) Impact of adoption to the interim financial statements *(continued)*

Condensed Consolidated Balance Sheet	30 June 2018 As previously reported $000	Effect under HKFRS 9 $000	Effect under HKFRS 15 $000	1 July 2018 $000
Non-current assets				
Leasehold land and land use rights	11,315	–	–	11,315
Fixed assets	2,970,680	–	–	2,970,680
Customer acquisition and retention costs	–	–	54,511	54,511
Contract assets	–	–	159,520	159,520
Interest in an associate	3	–	–	3
Financial assets at amortised cost	–	486,599	–	486,599
Held-to-maturity debt securities	486,599	(486,599)	–	–
Intangible assets	3,516,902	–	(466,474)	3,050,428
Deposits and prepayments	117,135	–	–	117,135
Deferred income tax assets	5,542	–	–	5,542
Total non-current assets	7,108,176	–	(252,443)	6,855,733
Current assets				
Inventories	161,465	–	–	161,465
Financial asset at fair value through other comprehensive income	–	6,646	–	6,646
Financial assets at amortised cost	–	80,092	–	80,092
Available-for-sales financial assets	6,646	(6,646)	–	–
Held-to-maturity debt securities	80,092	(80,092)	–	–
Contract assets	–	–	305,299	305,299
Trade receivables	364,757	–	–	364,757
Deposits and prepayments	172,877	–	–	172,877
Other receivables	43,645	–	–	43,645
Tax reserve certificate	252,362	–	–	252,362
Short-term bank deposits	96,155	–	–	96,155
Cash and cash equivalents	1,731,951	–	–	1,731,951
Total current assets	2,909,950	–	305,299	3,215,249
Current liabilities				
Trade payables	521,620	–	–	521,620
Other payables and accruals	852,081	–	(37,696)	814,385
Contract liabilities	–	–	262,432	262,432
Current income tax liabilities	457,389	–	12,004	469,393
Bank borrowings	135,789	–	–	135,789
Customer prepayments and deposits	247,081	–	(22,686)	224,395
Deferred income	222,996	–	(222,996)	–
Mobile licence fee liabilities	60,041	–	–	60,041
Total current liabilities	2,496,997	–	(8,942)	2,488,055

3 Change in accounting policy *(continued)*

(c) Impact of adoption to the interim financial statements *(continued)*

Condensed Consolidated Balance Sheet	30 June 2018 As previously reported $000	Effect under HKFRS 9 $000	Effect under HKFRS 15 $000	1 July 2018 $000
Non-current liabilities				
Customer prepayments and deposits	98,087	–	–	98,087
Asset retirement obligations	43,027	–	–	43,027
Bank and other borrowings	2,294,592	–	–	2,294,592
Mobile licence fee liabilities	127,991	–	–	127,991
Deferred income tax liabilities	125,708	–	–	125,708
Total non-current liabilities	2,689,405	–	–	2,689,405
Net assets	4,831,724	–	61,798	4,893,522
Capital and reserves				
Share capital	112,426	–	–	112,426
Reserves	4,686,655	–	61,504	4,748,159
Total equity attributable to equity holders of the Company	4,799,081	–	61,504	4,860,585
Non-controlling interests	32,643	–	294	32,937
Total equity	4,831,724	–	61,798	4,893,522

4 Financial risk management and financial instruments

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, interest rate risk and price risk), credit risk and liquidity risk.

The Interim Financial Statements do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 30 June 2018.

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

(b) Fair value estimation

This note provides an update on the judgements and estimates made by the Group in determining the fair values of the financial instruments since the last annual financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group classifies 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 31 December 2018 and 30 June 2018.

	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Asset				
Financial asset at fair value through other comprehensive income				
At 31 December 2018 (Unaudited)	**–**	**5,707**	**–**	**5,707**
Available-for-sale financial assets				
At 30 June 2018 (Audited)	–	6,646	–	6,646

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

4 Financial risk management and financial instruments *(continued)*

(b) Fair value estimation *(continued)*

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and financial asset at fair value through other comprehensive income) 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.

The financial assets at fair value through other comprehensive income are stated at fair value based on the net asset value per unit of the respective funds as determined by the managers of the relevant funds.

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.

5 Segment reporting *(continued)*

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

(a) Segment results

	Unaudited six months ended 31 December 2018			
	Hong Kong	**Macau**	**Elimination**	**Consolidated**
	$000	**$000**	**$000**	**$000**
External revenue	**4,862,697**	**323,864**	**–**	**5,186,561**
Inter-segment revenue	**309,182**	**2,922**	**(312,104)**	**–**
Total revenue	**5,171,879**	**326,786**	**(312,104)**	**5,186,561**
Timing of revenue recognition				
At a point in time	**2,882,985**	**267,294**	**(308,304)**	**2,841,975**
Over time	**2,288,894**	**59,492**	**(3,800)**	**2,344,586**
	5,171,879	**326,786**	**(312,104)**	**5,186,561**
EBITDA #	**941,238**	**(1,932)**	**–**	**939,306**
Depreciation, amortisation and loss on disposal	**(480,919)**	**(19,432)**	**7**	**(500,344)**
Operating profit/(loss)	**460,319**	**(21,364)**	**7**	**438,962**
Finance income				**35,808**
Finance costs				**(54,548)**
Profit before income tax				**420,222**

5 Segment reporting *(continued)*

(a) Segment results *(continued)*

	Unaudited six months ended 31 December 2017			
	Hong Kong $000	Macau $000	Elimination $000	Consolidated $000
External revenue	3,861,832	245,745	–	4,107,577
Inter-segment revenue	187,493	3,500	(190,993)	–
Total revenue	4,049,325	249,245	(190,993)	4,107,577
Timing of revenue recognition				
At a point in time	1,598,643	173,955	(186,695)	1,585,903
Over time	2,450,682	75,290	(4,298)	2,521,674
	4,049,325	249,245	(190,993)	4,107,577
EBITDA #	1,067,805	12,222	–	1,080,027
Depreciation, amortisation and loss on disposal	(602,209)	(24,991)	8	(627,192)
Operating profit/(loss)	465,596	(12,769)	8	452,835
Finance income				29,189
Finance costs				(64,259)
Profit before income tax				417,765

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

5 Segment reporting *(continued)*

(b) Segment assets/(liabilities)

	At 31 December 2018 (Unaudited)			
	Hong Kong	**Macau**	**Unallocated**	**Consolidated**
	$000	**$000**	**$000**	**$000**
Segment assets	**8,371,218**	**399,988**	**812,319**	**9,583,525**
Segment liabilities	**(3,972,032)**	**(126,681)**	**(534,134)**	**(4,632,847)**

	At 30 June 2018 (Audited)			
	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)

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

6 Finance income

	Unaudited six months ended 31 December	
	2018	2017
	$000	$000
Interest income from listed debt securities	**12,222**	16,201
Interest income from bank deposits	**22,331**	11,159
Gain on disposal of listed debt securities	**–**	1,391
Accretion income	**1,255**	438
	35,808	29,189

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

7 Finance costs

	Unaudited six months ended 31 December	
	2018	2017
	$000	$000
Interest expense		
Bank and other borrowings	**43,021**	45,168
Bank charges for credit card instalment	**1,048**	5,496
Accretion expenses		
Mobile licence fee liabilities	**9,710**	12,010
Asset retirement obligations	**751**	694
Net exchange loss on financing activities (note 10)	**18**	891
	54,548	64,259

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

8 Profit before income tax

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

	Unaudited six months ended 31 December	
	2018	2017
	$000	$000
Charging:		
Operating lease rentals for land and buildings, transmission sites and leased lines	**523,214**	533,056
Impairment loss of trade receivables (note 16)	**2,522**	6,041
Impairment loss of inventories	**1,630**	–
Net exchange loss (note 10)	**–**	3,762
Loss on disposal of fixed assets	**5,729**	4,346
Depreciation of fixed assets, leasehold land and land use rights	**324,411**	324,650
Amortisation of handset subsidies	**–**	155,461
Amortisation of mobile licence fees	**142,735**	142,735
Amortisation of customer acquisition and retention costs	**27,469**	–
Share-based payments	**4,544**	1,224
Crediting:		
Reversal of impairment loss of inventories	**–**	2,008
Net exchange gain (note 10)	**5,600**	–

9 Income tax expense

	Unaudited six months ended 31 December	
	2018	2017
	$000	$000
Current income tax		
Hong Kong profits tax	**96,556**	94,953
Overseas tax	**538**	696
Under-provision in prior year		
Hong Kong profits tax	**536**	1,455
Total current income tax expense	**97,630**	97,104
Deferred income tax		
Decrease in deferred income tax assets	**201**	231
Decrease in deferred income tax liabilities	**(3,801)**	(3,880)
Total deferred income tax expense	**(3,600)**	(3,649)
Income tax expense	**94,030**	93,455

Income tax expense is recognised based on management's estimate of the weighted average annual income tax rate expected for the full financial year.

10 Net exchange (gain)/loss

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

	Unaudited six months ended 31 December	
	2018	2017
	$000	$000
Other operating expenses	**(5,618)**	2,871
Finance costs (note 7)	**18**	891
	(5,600)	3,762

11 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 period.

	Unaudited six months ended 31 December	
	2018	2017
	Cents	Cents
Total basic earnings per share attributable to the equity holders of the Company	**29.7**	29.8

(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.

	Unaudited six months ended 31 December	
	2018	2017
	Cents	Cents
Total diluted earnings per share attributable to the equity holders of the Company	**29.7**	29.8

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

	Unaudited six months ended 31 December	
	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	**332,410**	328,117

11 Earnings per share *(continued)*

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

	Unaudited six months ended 31 December	
	2018	2017
	Number	Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share (less shares held for Share Award Scheme)	**1,120,512,051**	1,100,394,473
Adjustments for calculation of diluted earnings per share:		
Effect of Awarded Shares	**410,709**	–
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**1,120,922,760**	1,100,394,473

12 Dividends

(a) In respect of the period

	Unaudited six months ended 31 December	
	2018	2017
	$000	$000
Interim dividend declared of 18 cents (2017: 18 cents) per fully paid share	**201,822**	201,813

At a meeting held on 30 January 2019, the directors declared an interim dividend of 18 cents per fully paid share for the year ending 30 June 2019. The interim dividend declared is not reflected as a dividend payable in these Interim Financial Statements, but will be reflected as an appropriation of retained profits for the year ending 30 June 2019.

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

(b) Attributable to prior year paid in the period

	Unaudited six months ended 31 December	
	2018	2017
	$000	$000
Final dividend of 23 cents (2017: 33 cents) per fully paid share	**257,714**	361,355

13 Fixed assets

	Unaudited $000
Opening net book amount at 1 July 2018	**2,970,680**
Additions	**192,849**
Disposals	**(12,740)**
Exchange differences	**(621)**
Depreciation	**(324,091)**
Closing net book amount at 31 December 2018	**2,826,077**
Opening net book amount at 1 July 2017	3,071,725
Additions	217,956
Disposals	(5,020)
Exchange differences	395
Depreciation	(324,321)
Closing net book amount at 31 December 2017	2,960,735

During the six months ended 31 December 2018, major fixed assets acquired by the Group included network and testing equipment, including network under construction amounting to $162,860,000.

At 31 December 2018, buildings with carrying amount of $76,401,000 (30 June 2018: $77,620,000) were pledged as security for bank borrowings of the Group (note 18).

14 Financial assets at amortised cost

	Unaudited 31 December 2018			Audited 30 June 2018		
	Current $000	**Non-current $000**	**Total $000**	Current $000	Non-current $000	Total $000
Listed bonds (i)	**111,773**	**437,133**	**548,906**	–	–	–

(i) Financial assets previously classified as held-to-maturity investments

	Unaudited 31 December 2018 $000	Audited 30 June 2018 $000
Non-current assets		
Listed bonds	**–**	486,599
Current assets		
Listed bonds	**–**	80,092
	–	566,691

The above investments have been reclassified to financial assets at amortised cost on adoption of HKFRS 9 Financial Instruments.

In previous years, the Group classified investments as held-to-maturity if:

- they were non-derivative financial assets;
- they were quoted in an active market;
- they had fixed or determinable payments and fixed maturities; and
- the Group intended to, and was able to, hold them to maturity.

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

None of the held-to-maturity investments were either past due or impaired in the prior year.

15 Intangible assets

	Unaudited		
	Handset subsidies $000	Mobile licence fees $000	Total $000
Opening net book amount at 30 June 2018	**466,474**	**3,050,428**	**3,516,902**
Change in accounting policy (note 3)	**(466,474)**	**–**	**(466,474)**
Restated opening net book amount at 1 July 2018	**–**	**3,050,428**	**3,050,428**
Amortisation	**–**	**(142,735)**	**(142,735)**
Closing net book amount at 31 December 2018	**–**	**2,907,693**	**2,907,693**
Opening net book amount at 1 July 2017	295,501	3,335,898	3,631,399
Additions	319,563	–	319,563
Amortisation	(155,461)	(142,735)	(298,196)
Disposal	(3,167)	–	(3,167)
Closing net book amount at 31 December 2017	456,436	3,193,163	3,649,599

16 Trade and other receivables

	Unaudited 31 December 2018			Audited 30 June 2018		
	Current $000	**Non-current $000**	**Total $000**	Current $000	Non-current $000	Total $000
Trade receivables	**482,288**	**–**	**482,288**	372,791	–	372,791
Provision for impairment	**(7,403)**	**–**	**(7,403)**	(8,034)	–	(8,034)
	474,885	**–**	**474,885**	364,757	–	364,757
Other receivables	**64,935**	**–**	**64,935**	43,645	–	43,645
	539,820	**–**	**539,820**	408,402	–	408,402
Deposits	**67,369**	**79,682**	**147,051**	77,950	72,220	150,170
Prepayments	**66,029**	**43,881**	**109,910**	94,927	44,915	139,842
Total trade and other receivables	**673,218**	**123,563**	**796,781**	581,279	117,135	698,414

16 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:

	Unaudited 31 December 2018 $000	Audited 30 June 2018 $000
Current to 30 days	**360,205**	276,802
31 – 60 days	**43,183**	45,066
61 – 90 days	**29,574**	4,705
Over 90 days	**41,923**	38,184
	474,885	364,757

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 $2,522,000 (2017: $6,041,000) for the impairment of its trade receivables during the six months ended 31 December 2018. The loss has been included in "other operating expenses" in the condensed consolidated profit and loss account.

17 Trade payables

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

	Unaudited 31 December 2018 $000	Audited 30 June 2018 $000
Current to 30 days	**72,013**	377,911
31 – 60 days	**68,873**	42,004
61 – 90 days	**35,460**	12,016
Over 90 days	**140,445**	89,689
	316,791	521,620

18 Bank and other borrowings

	Unaudited 31 December 2018			Audited 30 June 2018		
	Current $000	**Non-current $000**	**Total $000**	Current $000	Non-current $000	Total $000
Secured bank borrowings	**–**	**66,000**	**66,000**	5,976	54,209	60,185
Unsecured bank borrowings	**130,236**	**761,836**	**892,072**	129,813	827,528	957,341
Guaranteed notes (a)	**–**	**1,411,728**	**1,411,728**	–	1,412,855	1,412,855
Total bank and other borrowings	**130,236**	**2,239,564**	**2,369,800**	135,789	2,294,592	2,430,381

(a) On 8 April 2013, SmarTone Finance Limited, an indirect wholly-owned subsidiary of the Company, issued US$200 million, 3.875% guaranteed notes due in 2023, which are listed on The Stock Exchange of Hong Kong Limited. The notes are irrevocably and unconditionally guaranteed by the Company and will rank pari passu with all other outstanding unsecured and unsubordinated obligations of the Company.

The carrying amounts of the Group's bank borrowings included under current liabilities approximate their fair values, as the impact of discounting is not significant. The fair values of the bank borrowings included under non-current liabilities as estimated by discounting their future cash flows at the prevailing market borrowing rates at the period end date for similar borrowings and the fair values of guaranteed notes as calculated using the market price are as follows:

	Level 1 $000	**Level 2 $000**	**Level 3 $000**	**Total $000**
At 31 December 2018				
Secured bank borrowings	**–**	**66,000**	**–**	**66,000**
Unsecured bank borrowings	**–**	**753,874**	**–**	**753,874**
Guaranteed notes	**1,416,608**	**–**	**–**	**1,416,608**
Total	**1,416,608**	**819,874**	**–**	**2,236,482**

	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

At 31 December 2018, secured bank borrowings are secured by certain buildings of the Group (note 13) (30 June 2018: same).

19 Share capital

	Unaudited	
	Shares of $0.1 each	$000
Authorised		
At 30 June 2018 and 31 December 2018	**2,000,000,000**	**200,000**
Issued and fully paid		
At 1 July 2018	**1,124,269,277**	**112,426**
Repurchase of shares (a)	**(3,771,500)**	**(377)**
Issue of shares in lieu of cash dividends (b)	**733,527**	**73**
At 31 December 2018	**1,121,231,304**	**112,122**

(a) During the six months ended 31 December 2018, the Company repurchased and cancelled 1,563,500 shares on the HKSE. Of these repurchased shares together with 2,208,000 repurchased in June 2018, 3,771,500 shares were cancelled prior to 31 December 2018. The amount paid to acquire the 1,563,500 cancelled shares of $12,444,000 was deducted from equity attributable to equity holders and the amount paid to acquire the 2,208,000 cancelled shares of $18,178,000 has been paid during the year ended 30 June 2018.

(b) On 5 September 2018, the board of directors declared a final dividend of 23 cents per fully paid share for the year ended 30 June 2018. The shareholders were provided with an option to receive the final dividend in form of scrip dividend. On 14 December 2018, 733,527 shares were issued at $10.252 per share in respect of the final dividend.

20 Share option scheme and share award scheme

(a) Share option scheme

(i) Movements in share options

	Unaudited	
	Average exercise price per share	Numbers of share options
At 30 June 2018 and 31 December 2018	**$14.28**	**3,000,000**

At 31 December 2018, 2,000,000 share options were exercisable with average exercise price of $14.28 per share.

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

(a) Share option scheme *(continued)*

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

Date of grant	Exercise period	Exercise price per share	**Unaudited 31 December 2018 Number of share options**	Audited 30 June 2018 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 six months ended 31 December 2018 and 2017.

(b) Share award scheme

(i) Movements in share award

	Unaudited
Number of awarded shares	
Outstanding at 1 July 2018	**1,871,800**
Lapsed	**(35,200)**
Outstanding at 31 December 2018	**1,836,600**

21 Commitments and contingent liabilities

(a) Capital commitments

	Unaudited 31 December 2018 $000	Audited 30 June 2018 $000
Fixed assets		
Contracted for	**67,038**	24,899

21 Commitments and contingent liabilities *(continued)*

(b) Operating lease commitments

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

At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	Unaudited 31 December 2018 $000	Audited 30 June 2018 $000
Land and buildings and transmission sites		
No later than 1 year	**602,960**	583,863
Later than 1 year and no later than 5 years	**434,427**	454,132
Later than 5 years	**–**	1,521
	1,037,387	1,039,516
Leased lines		
No later than 1 year	**216,756**	236,479
Later than 1 year and no later than 5 years	**571,391**	618,703
Later than 5 years	**161,812**	197,031
	949,959	1,052,213

(c) Performance bonds

	Unaudited 31 December 2018 $000	Audited 30 June 2018 $000
Macau	**3,883**	3,883

The performance bond was issued by a bank in favour of the Telecommunications Authorities of Macau in accordance with various telecommunications licences issued by the authority to the Group. The bank's obligation under the performance bond is guaranteed by the Company and various subsidiaries of the Company.

21 Commitments and contingent liabilities *(continued)*

(d) During the six months ended 31 December 2018, a bank issued a standby letter of credit of $1,400,000,000 to a subsidiary of the Company in favor of the Office of the Communications Authority ("OFCA") regarding the acceptance of the offer of the right of first refusal for the re-assignment of two of the spectrum. This standby letter of credit will be amended to the reduced amount of $1,080,000,000.

A bank also issued a standby letter of credit with amount of $1,520,000,000 to a subsidiary of the Company in favor of OFCA for submission of a deposit to participate in the auction for two of the spectrum. This standby letter of credit will be cancelled and replaced by two letters of credit of $580,000,000 and $760,000,000 respectively, being the final amount of spectrum utilisation fees determined during the auction, to be issued in March 2019.

(e) At 31 December 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 $1,139,443,000) and $600,000,000, of which US$57,610,000 (approximately $451,176,000) and $450,000,000 of the banking facilities were utilised by the subsidiary.

22 Related party transactions

The Group is controlled by Cellular 8 Holdings Limited, which owns 67.36% of the Company's shares as at 31 December 2018. The remaining 32.64% of the shares are widely held, of which 3.81% is held by another subsidiary of Sun Hung Kai Properties Limited ("SHKP"). The ultimate holding company of the Group is SHKP, a company incorporated in Hong Kong.

(a) During the six months ended 31 December 2018, the Group had significant transactions with certain fellow subsidiaries and associates of SHKP in the ordinary course of business as set out below. All related party transactions are carried out in accordance with the terms of the relevant agreements governing the transactions.

	Unaudited six months ended 31 December	
	2018	2017
	$000	$000
Operating lease rentals for land and buildings and transmission sites (i)	**62,651**	64,158
Insurance expenses (ii)	**2,142**	2,398

(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 six months ended 31 December 2018, rental and licence fees paid and payable to subsidiaries and associated companies of SHKP totalled $62,651,000 (2017: $64,158,000).

22 Related party transactions *(continued)*

(a) *(continued)*

(ii) Insurance services

Sun Hung Kai Properties Insurance Limited, a wholly owned subsidiary of SHKP, provides general insurance services to the Group. For the six months ended 31 December 2018, insurance premiums paid and payable were $2,142,000 (2017: $2,398,000).

(b) At 31 December 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.

(c) Key management compensation

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

	Unaudited six months ended 31 December	
	2018	2017
	$000	$000
Salaries, bonuses and other short-term employee benefits	**18,742**	20,407
Share-based payments	**1,289**	1,224
	20,031	21,631

(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:

	Unaudited 31 December 2018 $000	Audited 30 June 2018 $000
Deposits and prepayments	**27,147**	24,983
Other payables and accruals	**4,099**	4,610

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

OTHER INFORMATION

(Financial figures are expressed in Hong Kong dollars)

Interim dividend

The Directors declared an interim dividend of 18 cents per share for the six months ended 31 December 2018 (2017: 18 cents). The interim dividend will be payable in cash, with an option to receive new and fully paid shares in lieu of cash under a scrip dividend scheme (the "Scrip Dividend Scheme"). The Directors may, after having made enquiry regarding the legal restrictions under the laws of the relevant place and the requirements of the relevant regulatory body or stock exchange in relation to the Scrip Dividend Scheme, exclude any shareholder outside Hong Kong from the Scrip Dividend Scheme provided that the Directors consider such exclusion to be necessary or expedient on account either of the legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place. Such shareholders will receive the interim dividend in cash. A circular containing details of the Scrip Dividend Scheme and the relevant election form are expected to be sent to shareholders on or about Tuesday, 26 February 2019.

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

The interim dividend will be distributed, and the share certificates issued under the Scrip Dividend Scheme will be sent on or about Wednesday, 27 March 2019 to shareholders whose names appear on the Register of Members of the Company on Monday, 18 February 2019.

Closure of register of members

The record date for entitlement to the interim dividend is Monday, 18 February 2019. For determining the entitlement to the interim dividend, the Register of Members of the Company will be closed for one day on Monday, 18 February 2019 during which no transfer of shares will be effected. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Friday, 15 February 2019.

OTHER INFORMATION

(Financial figures are expressed in Hong Kong dollars)

Directors' and chief executive's interests

As at 31 December 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 HKSE pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under section 352 of the SFO, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Rules Governing the Listing of Securities on the HKSE (the "Listing Rules"), to be notified to the Company and the HKSE, were as follows:

1. Long positions in shares and underlying shares of the Company

	Number of shares held					
Name of Director	Personal interests (held as beneficial owner)	Other interests	Total	Number of underlying shares held under equity derivatives	Total	% of shares in issue
Kwok Ping-luen, Raymond	–	5,111,968[1]	5,111,968	–	5,111,968	0.46
Fung Yuk-lun, Allen	437,359	–	437,359	–	437,359	0.04
Anna Yip	–	–	–	3,000,000[2] (Personal interests in share options)	3,109,000	0.28
				109,000[3] (Personal interests in unvested shares under share award scheme)		
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

(Financial figures are expressed in Hong Kong dollars)

Notes:

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

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

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	524,284,686[1] 70,000[2]	524,543,429	–	524,543,429	18.11
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[3]	7,000	–	7,000	0.00
Li Ka-cheung, Eric	–	4,028[4]	4,028	–	4,028	0.00

Notes:

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

2. These shares in SHKP were held by the spouse of Mr. Kwok Ping-luen, Raymond.

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

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")

	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	–	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:

				Number of share options				
Name of Director	Date of grant	Exercise price $	Exercise period*	Outstanding at 1 July 2018	Granted during the period	Exercised during the period	Cancelled/ Lapsed during the period	Outstanding at 31 December 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 31 December 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.

Movements of the share options granted to the participants pursuant to the Share Option Scheme during the six months ended 31 December 2018 are as follows:

				Number of share options				
Grantee	Date of grant	Exercise price $	Exercise period[1]	Outstanding at 1 July 2018	Granted during the period	Exercised during the period	Cancelled/ Lapsed during the period	Outstanding at 31 December 2018
Director								
Anna Yip	25 July 2016	14.28	25 July 2017 to 24 July 2021	3,000,000	—	—	—	3,000,000

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(Financial figures are expressed in Hong Kong dollars)

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.

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 period.

Share award scheme

A share award scheme (the "Share Award Scheme") was adopted by the Board on 29 June 2018 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 Share Award Scheme, 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.

Movements of the awarded shares granted to the selected employees pursuant to the Share Award Scheme during the six months ended 31 December 2018 are as follows:

			Number of awarded shares				
Awardee	**Date of award**	**Vesting period[1]**	**Outstanding at 1 July 2018**	**Awarded during the period**	**Vested during the period**	**Lapsed during the period**	**Outstanding at 31 December 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	–	–	(35,200)	1,581,600

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.

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(Financial figures are expressed in Hong Kong dollars)

Interests of substantial shareholder

As at 31 December 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	71.17%
HSBC Trustee (C.I.) Limited ("HSBCCI")[2]	798,984,902	71.25%

Notes:

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.

2. As HSBCCI is entitled to control the exercise of one-third or more of the voting power at general meetings of SHKP, HSBCCI is deemed to have interest in the 798,054,590 shares of the Company held indirectly by SHKP for the purpose of Part XV of the SFO.

Save as disclosed above, as at 31 December 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.

Purchase, sale or redemption of shares

During the six months ended 31 December 2018, the Company repurchased 1,563,500 shares of the Company on the HKSE. These repurchased shares were cancelled prior to 31 December 2018. Details of the repurchases were as follows:

Month of repurchase	Number of shares repurchased	Price per share		Aggregate price paid
		Highest $	Lowest $	$
July 2018	744,000	8.00	7.93	5,938,000
September 2018	819,500	8.14	7.83	6,506,000
	1,563,500			12,444,000

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(Financial figures are expressed in Hong Kong dollars)

The Directors considered that the repurchases could lead to an enhancement of the Company's earnings per share. Save as disclosed above, at no time during the six months ended 31 December 2018 was there any purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's shares.

Review of interim results

An Audit Committee has been established by the Company to provide advice and recommendations to the Board. The chairman of the Committee is Dr. Li Ka-cheung, Eric (with professional accounting expertise) and the other members are Mr. Ng Leung-sing and Mr. Gan Fock-kin, Eric. All the members of the Committee are Independent Non-Executive Directors of the Company. The Committee members possess appropriate business or financial expertise and experience to provide relevant advice and recommendations to the Company.

The Audit Committee held a meeting on 25 January 2019 and reviewed the interim financial statements of the Group for the six months ended 31 December 2018 as well as the report of the Risk Management Committee and the report of Internal Audit. The Committee was satisfied that the accounting policies and methods of computation adopted by the Group are appropriate and in line with the market participants in Hong Kong. The Committee found no unusual items that were omitted from the financial statements and was satisfied with the disclosures of data and explanations shown in the financial statements. The Committee was also satisfied with the risk management and internal control measures adopted by the Group.

The interim financial statements for the six months ended 31 December 2018 have not been audited but have been reviewed by the Company's external auditor.

The financial information disclosed in this interim report complies with the disclosure requirements of Appendix 16 of the Listing Rules.

Corporate governance

The Company is committed to building and maintaining high standards of corporate governance. Throughout the six months ended 31 December 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 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. 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 30 October 2018 due to overseas commitments or other prior engagements. The remaining eight Independent Non-Executive Directors and Non-Executive Directors (representing 73% 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.

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(Financial figures are expressed in Hong Kong dollars)

Compliance with model code for securities transactions by Directors

The Group adopted the Model Code set out in Appendix 10 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 six months ended 31 December 2018, they had fully complied with the required standard set out in the Model Code and there was no event of non-compliance.

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

Hong Kong, 30 January 2019

As at the date of this report, the Executive Directors of the Company are Ms. Anna YIP (Chief Executive Officer), Mr. CHAN Kai-lung, Patrick and CHAU Kam-kun, Stephen; Non-Executive Directors are Mr. KWOK Ping-luen, Raymond (Chairman), Mr. CHEUNG Wing-yui (Deputy Chairman), Mr. FUNG Yuk-lun, Allen (Deputy Chairman), Mr. David Norman PRINCE, Mr. SIU Hon-wah, Thomas and Mr. John Anthony MILLER; Independent Non-Executive Directors are Dr. LI Ka-cheung, Eric, JP, Mr. NG Leung-sing, JP, Mr. GAN Fock-kin, Eric, Mrs. IP YEUNG See-ming, Christine and Mr. LAM Kwok-fung, Kenny.