SmarTone Telecommunications Holdings Limited

Stock Code : 0315

ANNUAL REPORT 2018/19

SmarTone's Powerful Network Leads the Way to the 5G Future

Integrating Technology with Humanity to Unleash Possibilities

5G MAKE US SMART

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

DIRECTORS AND CORPORATE INFORMATION

Board of Directors

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

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

Company Secretary

Mr. MAK Yau-hing, Alvin

Authorised Representatives

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

Registered Office

Clarendon House, 2 Church Street
Hamilton HM 11, Bermuda

Head Office and Principal Place of Business

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

Auditors

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

Hong Kong Share Registrar

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

Principal Share Registrar

MUFG Fund Services (Bermuda) Limited
4th Floor North, Cedar House
41 Cedar Avenue
Hamilton HM 12, Bermuda

Principal Bankers

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

Legal Advisors to the Company

As to Hong Kong law
Norton Rose Fulbright

As to Bermuda law
Conyers, Dill & Pearman

Bermuda Resident Representative

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

FINANCIAL HIGHLIGHTS

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

	Year ended or as at 30 June		
	2019	2018	Change
Consolidated profit and loss account			
Revenues	**8,415**	9,988	(16%)
Profit attributable to equity holders of the Company	**632**	615	3%
Basic earnings per share ($)	**0.56**	0.55	2%
Total dividends per share ($)	**0.39**	0.41	(5%)
Consolidated balance sheet			
Total assets	**9,883**	10,018	(1%)
Current liabilities	**(2,673)**	(2,497)	7%
Total assets less current liabilities	**7,210**	7,521	(4%)
Non-current liabilities	**(2,133)**	(2,689)	(21%)
Non-controlling interests	**(20)**	(33)	(40%)
Net assets	**5,057**	4,799	5%
Share capital	**112**	112	0%
Reserves	**4,945**	4,687	6%
Total equity attributable to equity holders of the Company	**5,057**	4,799	5%

	Year ended 30 June		
	2019	2018	Change
Consolidated cash flows			
Net cash generated from operating activities	**1,304**	2,231	(42%)
Interest received	**70**	63	11%
Payment for purchase of fixed assets	**(519)**	(623)	(17%)
Proceeds from disposal of financial assets at amortised cost (2018: held-to-maturity debt securities)	**78**	145	(46%)
Payment of mobile licence fees	**(62)**	(62)	–
Additions of handset subsidies	**–**	(515)	(100%)
Dividends paid	**(374)**	(147)	154%
Repayment of bank borrowings (net)	**(128)**	(140)	(8%)
Payment for repurchase of guaranteed notes	**–**	(141)	(100%)
Payment or prepayment for repurchase of shares	**(58)**	(266)	(78%)
Others	**(2)**	1	N/A
Net increase in pledged bank deposits, short-term bank deposits, and cash and cash equivalents	**309**	546	(44%)

BUSINESS HIGHLIGHTS

Together We Thrive

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

1. Technology Leadership

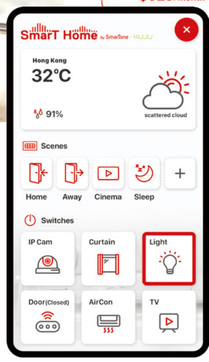
Pioneered Hong Kong's first ***5G live field trial*** in 3.5 GHz and 28 GHz bands simultaneously.

A dedicated ***SmarTone Cybersecurity Team*** offering three-pronged tactics of "People, Process and Technology", helping enterprises detect and prevent cyberthreats.

"SmarTone 5G X Fun Roadshow" offered an exciting first-hand 5G experience.

2. Empowering Innovation

SmarT Home leads with distinct products using reliable Z-wave wireless technology to achieve desirable home automation with ease.



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 ***Smiling Enterprise Award 2018-2019.***

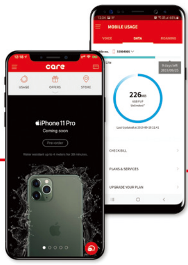
SmarTone Plus

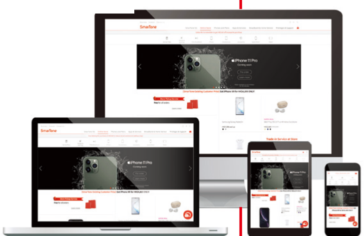
A premium membership class has been discovering a world of prestige for customers, including birthday celebrations, selected offers, priority and privileges, refined experiences as well as flash surprises.

4. Digitalisation

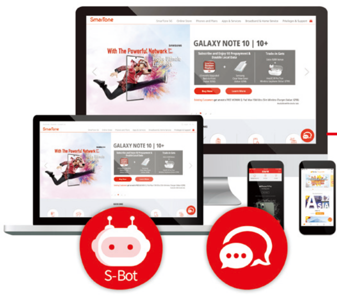
Full digital brand ***"Birdie Mobile"*** continues to win in the digital savvy segment with numerous awards and industry recognitions.

Enhancing ***cutting-edge customer experience*** through digitalisation.





Chatbot continues to improve customer experience and enhance efficiency.



S-Bot

CHAIRMAN'S STATEMENT

(Financial figures are expressed in Hong Kong dollars)

Business review

During the year under review the mobile market remained intensely competitive. SmarTone maintained its focus on building a strong brand, strengthening its customer segmentation, and enhancing customer experience supported by an excellent network. Customer numbers increased 7% to 2.55 million and postpaid churn rate was at an industry-low of 0.8%.

Under HKAS 18 which provides a consistent basis for comparison, group service revenue was flat at $5,047 million. Growth in the Enterprise Solutions business, Digital Brand and Hong Kong roaming offset the pressure from pricing competition and a weaker handset business. The Company's productivity drive resulted in a 2% decline in total operating costs despite growth in customers and data usage. Group EBITDA increased 1% to $2,168 million, while group net profit declined 1% to $608 million. Excluding a one-off cost adjustment, underlying group net profit declined 10% to $556 million.

Under HKFRS 15, group service revenue was restated to $4,634 million as part of the revenue in handset-bundled plans was reallocated to handset and accessories sales. As a result, group EBITDA is restated to $1,842 million as handset cost was reflected upfront above EBITDA. Group net profit for the year was restated to $632 million. Excluding a one-off cost adjustment, underlying group net profit would have been $581 million.

The increased focus on customer segmentation and delivering tailored services supported growth in customer numbers, particularly in the high-tier segment, corporate customers and the digital brand. Mobile postpaid ARPU continued to be industry-leading at $224 (HKFRS 15).

The Enterprise Solutions business achieved strong growth by capturing corporate demand for advanced information and communication solutions. In March, SmarTone unveiled the Cybersecurity Solutions practice. By working with leading-edge solution providers around the world, SmarTone Cybersecurity offers a total solution to prevent and detect cyber threats as well as providing timely responses when incidents happen. Early response from customers has been very encouraging.

The Company's digitalisation drive continued to focus on customer experience and operational effectiveness. S-Bot, the first bilingual AI chatbot launched by a Hong Kong operator, helped to reduce response time and enhance contact centre productivity. In addition, the SmarTone Online Store was recognised by the HK Retail Management Association as one of Hong Kong's Top 10 E-Shops.

SmarTone's digital brand, Birdie, continued to register healthy customer growth in the student and millennial segments. It has won a number of prestigious digital marketing and telecom awards. The Company also launched Birdie Farm, the first game in Hong Kong to enable players to 'grow' in-game rewards into mobile data. In the coming year, Birdie will continue to build its digital community, enhance customer experience and expand partnerships.

SmarTone continued to invest in the latest technologies to deliver excellent network performance. The Company was the first operator in Hong Kong to launch Licensed Assisted Access (LAA) to achieve download speeds from 600Mbps to 1Gbps. This, in combination with the installation of small cells at selected hotspots, have significantly improved network performance in those high traffic areas. In addition, SmarTone has been investing in preparation for 5G. In March, the Company pioneered Hong Kong's first simultaneous 5G live trial in the 3.5GHz and 28GHz bands. The trial results lay the foundation for SmarTone to deliver cutting-edge 5G network performance in the future.

Dividend

In line with the Company's 75% payout policy, the Board proposed a final dividend of 21 cents, making a full-year dividend of 39 cents per share, based on underlying net profit of $581 million (excluding one-off cost adjustment). Shareholders have the option to receive new and fully paid shares in lieu of cash under a scrip dividend scheme.

(Financial figures are expressed in Hong Kong dollars)

Outlook

The operating environment is marked by unusual macroeconomic uncertainties and intense competition, which will put pressure on profitability. There will be substantial headwinds in the near term. The Company will focus on fundamentals to be successful in the highly competitive market, and drive for growth in high potential areas. This includes deepening its segmentation strategy, expanding Enterprise Solutions, enhancing customer experience and improving productivity through digitalisation.

Development of 5G technology promises higher data speeds, much lower latency and larger network capacity. In the medium term, 5G will bring ample new business opportunities, especially with the development of Smart City initiatives. In the coming months, SmarTone will progressively invest to embrace new business opportunities from 5G.

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, 6 September 2019

MANAGEMENT DISCUSSION AND ANALYSIS

(Financial figures are expressed in Hong Kong dollars)

Review of financial results

During the year under review, Hong Kong customer number grew 7% year-on-year to 2.55 million through growth in different segments. Postpaid churn rate remained stable at an industry low of 0.8%.

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 decreased by 16% to $8,415 million (2017/18: $9,988 million).

Under HKFRS 15, Group service revenue fell 8% to $4,634 million (2017/18: $5,059 million) as part of the service revenue of handset bundled plans was allocated to handset and accessory sales. Based on the previous accounting standard HKAS 18 which provides a consistent basis for comparison with last year, Group service revenue remained stable despite intense competition. Mobile postpaid ARPU fell 4% to $247 under HKAS 18 ($224 under HKFRS 15).

Roaming revenue, which made up of 16% of Group's service revenue (2017/18: 14%) remained stable as healthy growth in data roaming was largely offset by weakness in voice roaming.

Group's handset and accessory sales fell by $1,148 million or 23% to $3,781 million (2017/18: $4,929 million) amid lower demand for flagship handsets and lengthening handset replacement cycle.

Under HKFRS 15, cost of inventories sold fell by $1,144 million or 24% to $3,723 million (2017/18: $4,867 million), in line with the corresponding decrease in handset and accessory sales. Handset subsidy can no longer be amortised and has to be reflected as cost of inventories sold as incurred.

Staff costs rose by $28 million or 4% to $748 million (2017/18: $720 million) amid annual salary increment and increase in share-based payments due to the grant of share awards to over 300 staff during the year.

Cost of services provided and other operating expenses fell by $163 million or 7% to $2,102 million (2017/18: $2,265 million) as sales commissions were capitalised as customer acquisition costs and amortised over the contract period under HKFRS 15 instead of expensed as incurred previously.

Based on the previous accounting standard, cost of services provided and other operating expenses fell by $98 million or 4% as a result of ongoing efficiency drives, despite higher customer number and data usage.

Depreciation and loss on disposal rose by $15 million or 2% to $678 million (2017/18: $664 million) amid write off of certain obsolete equipment.

Handset subsidy amortisation fell by $341 million (2017/18: $341 million) as handset subsidy is no longer amortised under HKFRS 15. It has to be reflected as cost of inventories sold.

Amortisation of customer acquisition costs rose by $55 million (2017/18: nil) as sales commissions are capitalised as customer acquisition costs and amortised over contract period under HKFRS 15 instead of expensed as incurred previously.

Spectrum utilisation fee amortisation remained stable at $285 million.

Finance income rose by $24 million or 39% to $85 million (2017/18: $61 million) mainly amid higher deposit interest income.

Finance costs fell by $13 million or 11% to $108 million (2017/18: $121 million) mainly amid lower interest expenses on US$ notes payable, lower handset instalment charges and lower accretion expenses on mobile licence fee liabilities.

Income tax expense amounted to $182 million (2017/18: $180 million), reflecting an effective tax rate of 22.7% (2017/18: 22.8%). 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 year under review, Group EBITDA fell by 14% to $1,842 million (2017/18: $2,136 million) mainly due to the adoption of HKFRS 15. Group operating profit was $823 million, representing a 3% decrease as compared with last year. Group profit attributable to shareholders rose by 3% to $632 million (2017/18: $615 million). Excluding a one-off cost adjustment in current year, Group profit attributable to shareholders would have been 6% lower at $581 million.

Capital structure, liquidity and financial resources

The Group maintained a strong balance sheet for the year under review. During the year, the Group was financed by share capital, internally generated funds and bank and other borrowings. As at 30 June 2019, the Group recorded share capital of $112 million, total equity of $5,077 million and total borrowings of $2,303 million.

The Group's cash resources remained robust with cash and bank balances (including short-term bank deposits) of $2,129 million as at 30 June 2019 (30 June 2018: $1,828 million).

As at 30 June 2019, the Group had bank and other borrowings of $2,303 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 cash, including financial assets at amortised costs, amounted to $310 million as at 30 June 2019 (30 June 2018: net debt of $36 million). Net cash to EBITDA was 0.17X as at 30 June 2019 (30 June 2018: net debt to EBITDA was 0.02X).

The Group had net cash generated from operating activities and interest received of $1,304 million and $70 million respectively during the year ended 30 June 2019. The Group's major outflows of funds during the year were payments for purchase of fixed assets, payment for dividends, tax 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 2020 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 $75 million as at 30 June 2019 (30 June 2018: $78 million).

MANAGEMENT DISCUSSION AND ANALYSIS

(Financial figures are expressed in Hong Kong dollars)

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 30 June 2019. 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 and other receivables, cash and cash equivalents, bank deposits, financial asset at fair value through other comprehensive income, financial assets at amortised costs, trade and other payables and bank and other borrowings denominated in United States dollars. The Group does not currently undertake any foreign exchange hedging.

Contingent liabilities

Performance bonds

Certain banks, on the Group's behalf, had issued performance bonds to the telecommunications authorities of Hong Kong and Macau in respect of obligations under mobile licences issued by those authorities. The total amount outstanding as at 30 June 2019 under these performance bonds was $404 million (30 June 2018: $4 million).

During the year under review, a bank issued a standby letter of credit of $1,080 million to a subsidiary of the Company in favour 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.

A bank also issued two standby letters of credit with amounts of $580 million and $760 million respectively, being the final amount of spectrum utilisation fees determined during the auction.

Employees, share award scheme and share option scheme

The Group had 1,893 full-time employees as at 30 June 2019 (30 June 2018: 1,898), with the majority of them based in Hong Kong. Total staff costs were $748 million for the year ended 30 June 2019 (2017/18: $720 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 year under review, 1,830,800 shares were granted and 157,200 share were lapsed. 3,545,400 shares (30 June 2018: 1,871,800) were outstanding as at 30 June 2019.

The Group has share option scheme under which the Company may grant options to participants, including directors and employees, to subscribe for shares of the Company. During the year under review, no share options were granted, cancelled or lapsed. 3,000,000 (30 June 2018: 3,000,000) share options were outstanding as at 30 June 2019.

Corporate Governance

The Company is committed to building and maintaining high standards of corporate governance. Throughout the year ended 30 June 2019, the Company has applied the principles and complied with the requirements set out in the Corporate Governance Code and Corporate Governance Report (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), except for the following deviations:

Code Provision A.4.1 of the CG Code provides that non-executive directors should be appointed for a specific term. Non-Executive Directors of the Company are not appointed with specific term but they are required to retire from office by rotation and are subject to re-election by shareholders at annual general meeting once every three years in accordance with the Company's Bye-laws. As such, no Director has a term of appointment longer than three years.

Code Provision A.6.7 of the CG Code provides that independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Code Provision E.1.2 of the CG Code also provides that the chairman of the board should attend the annual general meeting. Mr. Kwok Ping-luen, Raymond, Non-Executive Director and Chairman of the Board, and Mr. 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.

The Board

Roles of Directors

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

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

Corporate governance function

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

Composition

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

As at 30 June 2019, the Board comprises three Executive Directors, six Non-Executive Directors and five Independent Non-Executive Directors. The presence of eleven Non-Executive Directors, of whom five are independent, is considered by the Board to be a reasonable balance between Executive and Non-Executive Directors.

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

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

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

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

Appointment and re-election of Directors

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

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

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

Chairman and Chief Executive Officer

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

Board process

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

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

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

Directors' attendance at Board meetings and general meeting

Four Board meetings and a general meeting were held during the year ended 30 June 2019. The attendance record of the Directors at the meetings is set out below:

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

Directors' training

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

Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant.

All Directors have provided to the Company a record of the training they received during the year ended 30 June 2019, which includes attending seminars, giving talks at seminars and/or reading materials relevant to the Company's business or to the Directors' duties and responsibilities.

During the year ended 30 June 2019, the Directors participated in the following trainings:

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

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

Board Committees

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

Board Supervisory Committee (the "BSC")

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

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

Remuneration Committee

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

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

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

During the year ended 30 June 2019, the Remuneration Committee held a meeting (of which all members attended) and passed a written resolution for approving and/or recommending the emoluments to Directors and senior management.

Remuneration policy for Directors and senior management

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

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

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

Nomination Committee

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

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

During the year ended 30 June 2019, the Nomination Committee passed a written resolution for reviewing the size, structure and composition of the Board and recommending re-election of Directors.

The Nomination Committee has reviewed and recommended the re-election of those retiring Directors who offer themselves for re-election at the forthcoming 2019 Annual General Meeting.

Nomination policy

The Board has formalised its existing practices into a nomination policy. The policy sets out the criteria and procedures for the selection, appointment and re-election of the directors of the Company so as to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the achievement of the corporate goals and strategic objectives of the Group.

The Nomination Committee shall evaluate potential candidates by considering various factors including, without limitation, their professional expertise, and their industry and business experience.

The Committee shall also consider (i) the commitment of the potential candidates in devoting sufficient time and attention to the affairs of the Group; (ii) their potential contribution to board diversity; (iii) any material conflict of interest or potential material conflict of interest with the Group; and (iv) their independence with reference to the independence guidelines set out in the Listing Rules if the potential candidates will be appointed as independent non-executive directors of the Company.

In cases of re-election of existing directors who will retire at annual general meetings or general meetings of the Company, the Committee will review the rotation and retirement of directors and make recommendations to the Board accordingly.

Board diversity

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

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

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

Audit Committee

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

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

The Audit Committee's primary duties include ensuring the Group's financial statements, annual and interim reports, and the auditor's report present a true and balanced assessment of the Group's financial position; reviewing the Group's financial control, internal control and risk management systems; reviewing the Group's financial and accounting policies and practices; and recommending the appointment and remuneration of external auditor. The duties of the Audit Committee are set out in its specific terms of reference, which is available on the Company's website. The Audit Committee is provided with sufficient resources enabling it to discharge its duties.

The Audit Committee held two meetings during the year ended 30 June 2019 to review with management and the Company's internal and external auditors the Group's significant internal controls and financial matters as set out in the Committee's terms of reference. The Committee's review covers the audit plans and findings of internal and external auditors, external auditor's independence, the Group's accounting principles and practices, Listing Rules and statutory compliance, internal controls, risk management and financial reporting matters (including the interim and annual financial statements for the Board's approval).

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

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

The Audit Committee also held a meeting on 30 August 2019 and reviewed the financial statements of the Group for the year ended 30 June 2019 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 disclosure of data and explanations shown in the financial statements. The Committee was also satisfied that adequate and effective risk management and internal control systems have been maintained by the Group for the year ended 30 June 2019.

External auditor's independence

The nature and ratio of annual fees to external auditor for non-audit services and for audit services are subject to scrutiny by the Audit Committee. The provision of non-audit services by the external auditor requires prior approval of Audit Committee so as to ensure that the independence and objectivity of the external auditor will not be impaired. Details of the fees paid or payable to the auditor for the year ended 30 June 2019 are as follows:

	HK$
Audit services	2,638,000
Non-audit services	
Taxation	292,000
Review of interim financial statements	347,000
Others[1]	605,000
	1,244,000
Total fees	3,882,000

Note:

1. "Non-audit services – Others" mainly consists of consultancy services provided to the Group and other reporting services for regulatory authorities, landlords and business partners.

The consolidated financial statements of the Company and its subsidiaries as at and for the year ended 30 June 2019 have been audited by PricewaterhouseCoopers. Before the commencement of the said audit, the Committee received written confirmation from PricewaterhouseCoopers confirming that they are independent accountants with respect to the Company within the meaning of the requirements of section 290 of the Code of Ethics for Professional Accountants of the Hong Kong Institute of Certified Public Accountants.

The Committee was satisfied with the findings of their review of the audit fees, process and effectiveness, independence and objectivity of PricewaterhouseCoopers and had recommended the Board to propose a resolution of their re-appointment as the Company's external auditor at the forthcoming 2019 Annual General Meeting.

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

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

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

The responsibilities of the auditor for the consolidated financial statements are set out in the Independent Auditor's Report on pages 53 to 57 of this Annual Report.

Risk management and internal control systems

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

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

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

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

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

The Board, through the Audit Committee, conducted a review on the effectiveness of the Group's risk management and internal control systems and concluded that adequate and effective risk management and internal control systems have been maintained for the year ended 30 June 2019. The review considered the adequacy of resources, qualifications and experience of staff of the Group's accounting, financial reporting and internal audit functions, and their training programmes and budget. The review covered all material controls, including financial, operational and compliance controls and risk management functions. It was based on a framework which assesses the Group's risk management and internal control systems against control environment, risk management, control activities, information and communication and monitoring activities on all major business and operational processes. The review also considered (a) the changes, since the last annual review, in the nature and extent of significant risks, and the Group's ability to respond to changes in its business and the external environment; (b) the scope and quality of management's ongoing monitoring of risks and of the internal control systems, the work of its internal audit function and other assurance providers; (c) the extent and frequency of communication of monitoring results to the Board which enables it to assess control of the Group and the effectiveness of risk management; (d) significant control failings or weaknesses that have been identified during the period and the extent to which they have resulted in unforeseen outcomes or contingencies that have had, could have had or may in the future have, a material impact on the Group's financial performance or condition; and (e) the effectiveness of the Group's processes for financial reporting and Listing Rule compliance.

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

Compliance with model code for securities transactions by Directors

The Group adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules as the code of conduct regarding Directors' transactions in the securities of the Company. Upon specific enquiry, each Director had confirmed that during the year ended 30 June 2019, they had fully complied with the required standard set out in the Model Code and there was no event of non-compliance.

Shareholders' rights

Right to convene special general meeting

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

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

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

Right to put enquiries to the Board

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

Right to put forward proposals at general meetings

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

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

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

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

Communication with shareholders

Investor relations

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

Dividend policy

The Company seeks to provide stable and sustainable returns to the shareholders. In determining the dividend amount, the Board will take into account the Group's earning performance, financial position, investment and funding requirements, and future prospects. The normal target payout ratio is 75% of the Group's recurring profit attributable to shareholders of the year. The Board will review the dividend policy and payout ratio as appropriate from time to time.

REPORT OF THE DIRECTORS

(Financial figures are expressed in Hong Kong dollars)

The Directors submit their report together with the audited financial statements for the year ended 30 June 2019.

Principal activities and geographical analysis of operations

The principal activity of the Company is investment holding. The activities of its principal subsidiaries are shown in note 20 to the consolidated financial statements.

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

Business review

The Chairman's Statement on pages 8 to 9 and the Management Discussion and Analysis on pages 10 to 12 of this Annual Report provide a fair review of the Group's business for the year and indication of likely future development in the Group's business. The discussion thereon forms part of this Report of the Directors.

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

(i) Principal risks and uncertainties facing the Group

As set out in the section "Risk management and internal control systems" of the Corporate Governance Report on pages 21 to 22, effective risk management framework is in place to provide a consistent approach on the risk management process in identification, assessment, treatment and reporting of all the risks which are critical to Group's operations and business.

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

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

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

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

Details about the Group's financial risk management are set out in note 4 to the consolidated financial statements.

(ii) Environmental policies and performance

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

(iii) Compliance with laws and regulations

The Group recognises the importance of compliance with legal and regulatory requirements and risks of non-compliance with such requirements. The Group conducts on-going review of newly enacted/revised laws and regulations affecting the operations of the Group and provides relevant trainings and guidance to staff. To the best knowledge of the Directors, the Group has complied in all material respects the relevant laws and regulations that have significant impact on the operations of the Group for the year ended 30 June 2019.

(iv) Relationship with employees

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

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

(v) Relationship with customers

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

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

(vi) Relationship with suppliers

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

Results

The results of the Group for the year ended 30 June 2019 are set out in the consolidated profit and loss account on page 58.

Dividend

An interim dividend of $0.18 per share (2017/18: $0.18 per share) was paid on 27 March 2019. The Directors recommended a final dividend of $0.21 per share (2017/18: $0.23 per share), making a total dividend of $0.39 per share for the full year ended 30 June 2019 (2017/18: $0.41 per share). The proposed final dividend, if approved at the forthcoming annual general meeting of the Company, will be payable in cash, with an option for the shareholders of the Company to receive new fully paid shares of nominal value of $0.10 each in the share capital of the Company in lieu of cash, or partly in cash and partly in new shares under a scrip dividend scheme.

Five years financial summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is shown on page 52.

REPORT OF THE DIRECTORS

(Financial figures are expressed in Hong Kong dollars)

Distributable reserves

Distributable reserves of the Company at 30 June 2019, calculated under the Company's Bye-laws and the Bermuda laws, amounted to $2,238,395,000 (30 June 2018: $1,265,864,000).

Donations

During the year, charitable and other donations made by the Group amounted to $15,000 (2017/18: Nil).

Shares issued in the year

Details of the shares issued in the year ended 30 June 2019 are shown in note 33 to the consolidated financial statements.

Directors

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

* Mr. Kwok Ping-luen, Raymond
Chairman

* Mr. Cheung Wing-yui
Deputy Chairman

* Mr. Fung Yuk-lun, Allen
Deputy Chairman

Ms. Anna Yip
Chief Executive Officer

Mr. Chan Kai-lung, Patrick

Mr. Chau Kam-kun, Stephen

* Mr. David Norman Prince

* Mr. Siu Hon-wah, Thomas

* Mr. John Anthony Miller

** Dr. Li Ka-cheung, Eric, *JP*

** Mr. Ng Leung-sing, *JP*

** Mr. Gan Fock-kin, Eric

** Mrs. Ip Yeung See-ming, Christine

** Mr. Lam Kwok-fung, Kenny

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

REPORT OF THE DIRECTORS

(Financial figures are expressed in Hong Kong dollars)

In accordance with Bye-law No. 84 of the Company's Bye-laws, Mr. Kwok Ping-luen, Raymond, Mr. Chau Kam-kun, Stephen, Mr. Siu Hon-wah, Thomas, Dr. Li Ka-cheung, Eric and Mrs. Ip Yeung See-ming, Christine retire by rotation at the forthcoming annual general meeting. All retiring Directors, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

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

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

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

Directors' emoluments

The directors' fees payable to the Directors of the Company are determined by the Board under the authority granted by shareholders at annual general meetings. The fees are subject to annual assessment based on prevailing market rate of directors' fees for companies listed in Hong Kong. Other emoluments, if any, payable to the Directors of the Company are based on terms of the respective service contracts. Details of the emoluments paid and payable to the Directors of the Company for the financial year ended 30 June 2019 are shown in note 39 to the consolidated financial statements.

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

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

Biographical details of Directors

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

(Financial figures are expressed in Hong Kong dollars)

Directors' and chief executive's interests

As at 30 June 2019, the interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and The Stock Exchange of Hong Kong Limited (the "HKSE") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under section 352 of the SFO, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules, to be notified to the Company and the HKSE, were as follows:

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

	Number of shares held					
Name of Director	Personal interests (held as beneficial owner)	Other interests	Total	Number of underlying shares held under equity derivatives	Total	% of shares in issue
Kwok Ping-luen, Raymond	–	5,162,337[1]	5,162,337	–	5,162,337	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) 229,000[3] (Personal interests in unvested shares under share award scheme)	3,229,000	0.29
Chan kai-lung, Patrick	–	–	–	146,000[3] (Personal interests in unvested shares under share award scheme)	146,000	0.01
Chau Kam-kun, Stephen	–	11,000[4]	11,000	146,000[3] (Personal interests in unvested shares under share award scheme)	157,000	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	18.10
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")

Name of Director	Number of shares held: Personal interests (held as beneficial owner)	Number of shares held: Other interests	Number of shares held: Total	Number of underlying shares held under equity derivatives	Total	% of shares in issue
Kwok Ping-luen, Raymond	–	3,485,000[1]	3,485,000	–	3,485,000	0.15
Fung Yuk-lun, Allen	–	–	–	8,000,000[2]	8,000,000	0.34
Chau Kam-kun, Stephen	50,000	–	50,000	–	50,000	0.00

Notes:

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

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

Name of Director	Date of grant	Exercise price $	Exercise period*	Number of share options: Outstanding at 1 July 2018	Granted during the year	Exercised during the year	Cancelled/ Lapsed during the year	Outstanding at 30 June 2019
Fung Yuk-lun, Allen	8 March 2016	2.45	8 March 2017 to 7 March 2021	4,000,000	–	–	–	4,000,000
	22 May 2019	6.69	22 May 2020 to 21 May 2024	–	4,000,000	–	–	4,000,000

* The share options of SUNeVision can be exercised up to 30% of the grant from the first anniversary of the date of grant, up to 60% of the grant from the second anniversary of the date of grant, and in whole or in part of the grant from the third anniversary of the date of grant.

(Financial figures are expressed in Hong Kong dollars)

(c) Mr. Kwok Ping-luen, Raymond had the following interests in shares of the following associated corporations:

Name of associated corporation	Attributable holding through corporation	Attributable % of shares in issue through corporation	Actual Holding through corporation	Actual % interests in issued shares
Splendid Kai Limited	2,500	25	1,500[1]	15
Hung Carom Company Limited	25	25	15[1]	15
Tinyau Company Limited	1	50	1[1]	50
Open Step Limited	8	80	4[1]	40

Note:

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

Save as disclosed above, as at 30 June 2019, none of the Directors or chief executive of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the HKSE pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under section 352 of the SFO, or which were required to be notified to the Company and the HKSE pursuant to the Model Code.

Share option scheme

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

1. Principal terms of the Share Option Scheme

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

(a) Purpose

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

(b) Participants

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

(c) Maximum number of shares available for issue

The Company can issue options so that the total number of shares that may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company does not in aggregate exceed 10% of the shares in issue as at the date of adoption of the Share Option Scheme. The Company may renew this limit at any time, subject to shareholders' approval and the issue of a circular and in accordance with the Listing Rules provided that the number of shares to be issued upon exercise of all outstanding options granted and yet to be exercised under all the share option schemes of the Company does not exceed 30% of the shares in issue from time to time. At 6 September 2019, the number of shares available for issue in respect thereof is 102,761,185 shares which represents approximately 9.15% of the issued shares of the Company.

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

(d) Maximum entitlement of each participant

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

(e) Time of exercise of option

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

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

(f) Payment on acceptance of option

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

(g) Basis of determining the exercise price

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

(h) Remaining life

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

(Financial figures are expressed in Hong Kong dollars)

2. Movements of share options

Movements of the share options granted to the participants pursuant to the Share Option Scheme during the year ended 30 June 2019 are as follows:

				Number of share options				
Grantee	Date of grant	Exercise price $	Exercise period[1]	Outstanding at 1 July 2018	Granted during the year	Exercised during the year	Cancelled/ Lapsed during the year	Outstanding at 30 June 2019
Director								
Anna Yip	25 July 2016	14.28	25 July 2017 to 24 July 2021	3,000,000	–	–	–	3,000,000

Note:

1. The share options can be exercised up to one-third of the grant from the first anniversary of the date of grant, up to two-thirds of the grant from the second anniversary of the date of grant, and in whole or in part of the grant from the third anniversary of the date of grant.

As at 6 September 2019, options to subscribe for a total of 3,000,000 shares were still outstanding under the Share Option Scheme which represents approximately 0.27% of the issued shares of the Company.

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

Share award scheme

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

1. Principal terms of the Share Award Scheme

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

(a) Purpose and objectives

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

(b) Administration

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

(c) Duration

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

(d) Maximum limit

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

(e) Operation of the Share Award Scheme

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

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

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

(f) Vesting and Lapse

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

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

(g) Voting Rights

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

(h) Termination

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

(Financial figures are expressed in Hong Kong dollars)

2. Movements of awarded shares

Movements of the awarded shares granted to the selected employees pursuant to the Share Award Scheme during the year ended 30 June 2019 are as follows:

			Number of awarded shares				
Awardee	Date of award	Vesting period[1]	Outstanding at 1 July 2018	Awarded during the year	Vested during the year	Lapsed during the year	Outstanding at 30 June 2019
Directors							
Anna Yip	29 June 2018	29 June 2019 to 29 June 2021	109,000	–	–	–	109,000
	31 January 2019	31 January 2020 to 31 January 2022	–	120,000	–	–	120,000
Chan kai-lung, Patrick	29 June 2018	29 June 2019 to 29 June 2021	73,000	–	–	–	73,000
	31 January 2019	31 January 2020 to 31 January 2022	–	73,000	–	–	73,000
Chau Kam-kun, Stephen	29 June 2018	29 June 2019 to 29 June 2021	73,000	–	–	–	73,000
	31 January 2019	31 January 2020 to 31 January 2022	–	73,000	–	–	73,000
Employees	29 June 2018	29 June 2019 to 29 June 2021	1,616,800	–	–	(130,500)	1,486,300
	31 January 2019	31 January 2020 to 31 January 2022	–	1,564,800	–	(26,700)	1,538,100

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.

(Financial figures are expressed in Hong Kong dollars)

Interests of substantial shareholder

As at 30 June 2019, the interests or short positions of the persons, other than Directors or chief executive of the Company, in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO, were as follows:

Long positions in shares of the Company

Name	Total number of shares	% of shares in issue
Sun Hung Kai Properties Limited ("SHKP")[1]	798,054,590	70.96%
HSBC Trustee (C.I.) Limited ("HSBCCI")[2]	798,984,902	71.04%

Note:

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

   In addition, TFS is a wholly-owned subsidiary of Fourseas Investments Limited ("Fourseas") which in turn is a wholly-owned subsidiary of SHKP. For the purpose of Part XV of the SFO, SHKP and Fourseas were also deemed to be interested in the above-mentioned 798,054,590 shares in the Company.

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 30 June 2019, the Company had not been notified by any persons (other than Directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

Arrangement to acquire shares or debentures

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

(Financial figures are expressed in Hong Kong dollars)

Directors' interests in competing business

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

Permitted indemnity provision

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

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

Sufficiency of public float

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

Purchase, sale or redemption of shares

During the year ended 30 June 2019, the Company repurchased 7,350,000 shares of the Company on the HKSE. Of these repurchased shares, 6,800,000 shares were cancelled prior to 30 June 2019 and the balance of 550,000 shares were cancelled subsequently after 30 June 2019. Details of the repurchases were as follows:

Month of repurchase	Number of shares repurchased	Price per share Highest $	Price per share Lowest $	Aggregate price paid $
July 2018	744,000	8.00	7.93	5,938,000
September 2018	819,500	8.14	7.83	6,506,000
April 2019	585,000	8.20	8.16	4,785,000
May 2019	3,961,500	8.15	7.65	31,287,000
June 2019	1,240,000	7.66	7.30	9,219,000
	7,350,000			57,735,000

The Directors considered that the repurchases could lead to an enhancement of the Company's earnings per share. Save as disclosed above, and except that the trustee of the share award scheme of the Company, pursuant to the terms of the rules and trust deed of the scheme, purchased on the HKSE a total of 1,092,000 shares of the Company at a total consideration of $8,959,000, at no time during the year ended 30 June 2019 was there any purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's shares.

Pre-emptive rights

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

(Financial figures are expressed in Hong Kong dollars)

Equity-linked agreements

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

Management contracts

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

Major suppliers and customers

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

Percentage of purchases attributable to the Group's largest supplier	46%
Percentage of purchases attributable to the Group's five largest suppliers	57%
Percentage of revenues attributable to the Group's largest customer	27%
Percentage of revenues attributable to the Group's five largest customers	33%

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

Connected transactions

1. Certain related party transactions as disclosed in note 37 to the consolidated financial statements also constituted connected transactions. The following transactions between certain connected persons (as defined in the Listing Rules) and the Group have been entered into and/or are continuing for which relevant announcements, if necessary, had been made by the Company in accordance with the requirements of the Listing Rules.

    (a) Certain subsidiaries and associated companies of SHKP, the controlling shareholder of the Company, have leased premises to the Group for use as offices, retail stores and warehouses and have granted licences to the Group for the installation of base stations, antennae and telephone cables on certain premises owned by them. For the year ended 30 June 2019, rental and licence fees paid and payable to subsidiaries and associated companies of SHKP totalled $128,834,000.

    (b) Sun Hung Kai Properties Insurance Limited, a wholly-owned subsidiary of SHKP, provides general insurance services to the Group. For the year ended 30 June 2019, insurance premiums paid and payable were $4,072,000.

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

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

2. At 30 June 2019, the Group had an interest in an associate, the major shareholder of which is a subsidiary of SHKP. The principal activity of the associate is to invest in an equity fund which primarily invests in technology related companies in the People's Republic of China.

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

Auditor

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

On behalf of the Board

Kwok Ping-luen, Raymond
Chairman

Hong Kong, 6 September 2019

DIRECTORS PROFILE

Directors

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

Mr. Raymond Kwok (aged 66) 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 member of the 13th National Committee of the Chinese People's Political Consultative Conference. He is also a director of The Real Estate Developers Association of Hong Kong and a member of the Council of The Chinese University of Hong Kong.

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

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

Mr. Cheung Wing-yui (aged 69) 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.

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

Mr. Allen Fung (aged 51) 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.

Anna YIP *Executive Director & Chief Executive Officer*

Ms. Anna Yip (aged 49) 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.

DIRECTORS PROFILE

CHAN Kai-lung, Patrick *Executive Director*

Mr. Patrick Chan (aged 59) was appointed Non-Executive Director of the Company in October 1996 and became Executive Director in May 2002. He is the Company's Chief Financial Officer responsible for the formulation and execution of financial strategies, funding, investment, risk management and corporate development. He is also responsible for investor relations, legal and regulatory affairs and procurement.

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

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

CHAU Kam-kun, Stephen *Executive Director*

Mr. Stephen Chau (aged 58) 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.

David Norman PRINCE *Non-Executive Director*

Mr. David Prince (aged 68) 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 a member of the audit committee of Adecco SA which is the global leader in human resources services.

Mr. Prince was group finance director of Cable and Wireless plc. until December 2003 and prior to this, spent some 12 years working in the telecommunications industry in Hong Kong, Mainland China and Asia. From 1994 to 2000 he was finance director and latterly deputy chief executive officer of Hong Kong Telecommunications Limited until it was acquired by PCCW in 2000. He went on to join PCCW plc. as group chief financial officer. In 2002, he left PCCW to join Cable and Wireless as group finance director. Prior to his time in Hong Kong he held senior management roles for Cable and Wireless. His early career was spent in the gas, oil and electronic industries within Europe and the USA.

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

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

Mr. Thomas Siu (aged 66) was appointed Director of the Company in July 2008. Mr. Siu was the managing director of Wilson Group, which is a major transport infrastructure services provider in Hong Kong and is wholly-owned by Sun Hung Kai Properties Limited, and is currently a consultant of Wilson Group. Prior to joining Wilson Group, Mr. Siu had more than 25 years of experience in telecommunications and IT sectors. His experience covers finance, business operations and development. Mr. Siu is also a non-executive director of SUNeVision Holdings Ltd.

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

DIRECTORS PROFILE

John Anthony MILLER *Non-Executive Director*

Mr. John Anthony Miller (aged 69), 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.

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

Dr. Eric Li (aged 66), 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.

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

Mr. Ng Leung-sing (aged 70) was appointed Director of the Company in June 1997. Mr. Ng is chairman of Bank of China (Hong Kong) Trustees Limited and a director of BOCHK Charitable Foundation. He has been an independent non-executive director of Nine Dragons Paper (Holdings) Limited (since March 2013), Hanhua Financial Holding Co., Ltd. (since June 2013) and Grand Brilliance Group Holdings Limited (since 1 March 2018).

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

Mr. Ng was a director of The Hong Kong Mortgage Corporation Limited (until 13 April 2018), vice-chairman of Chiyu Banking Corporation Limited (until March 2017), independent non-executive director of MTR Corporation Limited (until May 2017), general manager of the Bank-wide Operation Department of Bank of China (Hong Kong) Limited from 2005 to 2009, and executive director and general manager of The China and South Sea Bank Limited, Hong Kong from 1990 to 1998. He was also the Chinese Representative of the Sino-British Land Commission and the trustee of the Hong Kong Government Land Fund from 1988 to 1997, a member of the Corporate Contribution Programme Organisation Committee of The Community Chest of Hong Kong from 1992 to 1996, a member of the Legislative Council of Hong Kong from 1996 to 2004 and from 2012 to 2016, a member of the Hong Kong Housing Authority from 1996 to 2004, a member of the Court of Lingnan University from 1999 to 2011, a member of the managing board of the Kowloon-Canton Railway Corporation from 2004 to 2007, and a member of the board of management of the Chinese Permanent Cemeteries from 2009 to 2015.

Mr. Ng was appointed as the Justice of the Peace in 2001, and was awarded the Silver Bauhinia Star by the HKSAR government in 2004.

Mr. Ng is also a member of the Remuneration Committee, the Nomination Committee and the Audit Committee of the Company.

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

Mr. Eric Gan (aged 56) 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.

DIRECTORS PROFILE

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

Mrs. Christine Ip (aged 55) was appointed Director of the Company in November 2012. Mrs. Ip joined United Overseas Bank Limited ("UOB") in 2011. She is a Managing Director responsible for developing the Bank's Greater China strategy. Mrs. Ip has been appointed as CEO of UOB Hong Kong since 2012 and CEO Greater China with effect from 1 July 2016.

Mrs. Ip is a seasoned banker with more than 30 years of experience in both Consumer and Corporate Banking, and she has significant experience in China. Prior to joining UOB, Mrs. Ip has held a range of senior management positions in product and sales management, customer segment management and risk management in Hong Kong, the United States, Canada, Singapore and China with Australia and New Zealand Bank, Standard Chartered Bank and HSBC.

Mrs. Ip's achievements have brought her the Asia Retail Congress award for "Best International Retail Banker" in 2008.

Mrs. Ip holds a Bachelor's degree in Arts from The University of Hong Kong and a MBA degree from The Hong Kong University of Science and Technology. Mrs. Ip is also an associate of The Institute of Bankers.

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

Mr. Kenny Lam (aged 45) was appointed Director of the Company in March 2017.

Mr. Lam is currently chief executive officer of Two Sigma Asia Pacific, Limited and head of the Asia Pacific region of Two Sigma (with effect from 8 April 2019).

Mr. Lam was group president of Noah Holdings Limited (Listed on the New York Stock Exchange) until March 2019. Prior to Noah, Mr. Lam was a global partner at McKinsey & Company based in Hong Kong, a co-Leader of the firm's Asia Financial Institutions Practice, and head of its Asia Private Banking and Asset Management Practice. Before McKinsey, Mr. Lam was with American law firm Shearman & Sterling in New York and Hong Kong.

Mr. Lam is a member of the Asia Business Leaders Advisory Council for the Government of Canada (under the Asia Pacific Foundation), and a member of the Executive Board for Asia of the Wharton School of the University of Pennsylvania.

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

Notes:

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

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

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

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

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

The details of the emoluments of the Directors on a named basis for the year ended 30 June 2019 are disclosed in note 39 to the consolidated financial statements.

The Directors' interests in shares of the Company or any of its associated corporations, if any, within the meaning of Part XV of the Securities and Futures Ordinance as at 30 June 2019 are disclosed in the "Directors' and chief executive's interests" section of the Report of the Directors on pages 28 to 31 of this Annual Report.

Senior management

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

STAFF ENGAGEMENT

Together We Nurture

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

1. Grooming Talents

Introduce diversified opportunities for ***people development***, including cross-sector exchanges for frontline service staff, townhall meeting, influencing skills training as well as lunch & learn sessions.

2. Caring for Staff

Aspiring ***work-life balance*** to embark staff's innovation and creativity in a fun workplace with festive delights, happy Friday drinks, happy family Friday, workplace massage session and sport events.

COMMUNITY ENGAGEMENT

Empowering Our Future

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

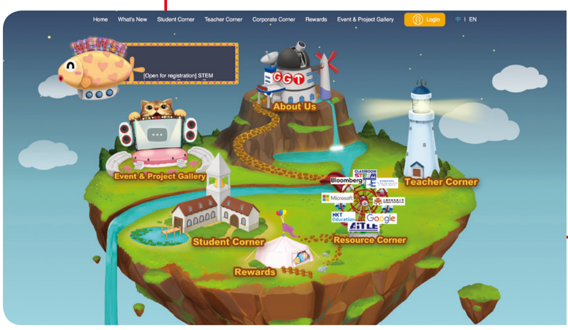
1. Caring for the Community

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

2. Supporting Charities

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

THE WOMEN'S FOUNDATION 婦女基金會
RESEARCH • COLLABORATE • CHANGE 研究・合作・改變



Save the Children 救助兒童會

GROUP FINANCIAL SUMMARY

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

	2019	2018	2017	2016	2015
Consolidated profit and loss account					
Revenues	**8,415**	9,988	8,715	18,356	18,659
Profit attributable to equity holders of the Company	**632**	615	672	797	935
Basic earnings per share ($)	**0.56**	0.55	0.62	0.75	0.89
Dividends					
Total dividends	**438**	458	659	644	634
Total per share for the year ($)	**0.39**	0.41	0.60	0.60	0.60
Consolidated balance sheet					
Total assets	**9,883**	10,018	9,776	10,403	10,814
Current liabilities	**(2,673)**	(2,497)	(2,185)	(2,863)	(3,292)
Total assets less current liabilities	**7,210**	7,521	7,591	7,540	7,522
Non-current liabilities	**(2,133)**	(2,689)	(2,956)	(3,176)	(3,614)
Non-controlling interests	**(20)**	(33)	(41)	(47)	(57)
Net assets	**5,057**	4,799	4,594	4,317	3,851
Share capital	**112**	112	111	108	106
Reserves	**4,945**	4,687	4,483	4,209	3,745
Total equity attributable to equity holders of the Company	**5,057**	4,799	4,594	4,317	3,851

羅兵咸永道

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

Opinion

What we have audited

The consolidated financial statements ("Consolidated Financial Statements") of SmarTone Telecommunications Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 58 to 140, which comprise:

- the consolidated balance sheet as at 30 June 2019;
- the consolidated profit and loss account for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the Consolidated Financial Statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the Consolidated Financial Statements give a true and fair view of the consolidated financial position of the Group as at 30 June 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

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

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

Independence

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

Key Audit Matters

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

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

- Revenue recognition
- Capitalisation of assets and useful lives

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition Refer to note 2(aa) and note 2(b) – Summary of significant accounting policies and note 3(a) – Critical accounting estimates and judgements. We focused on this area because the accuracy of revenue amounts recorded in the Consolidated Financial Statements is an inherent risk in the telecommunications industry. Revenue recognition is therefore designated as a significant audit risk. Significant effort is spent auditing the revenue recognised because of the high volume of transactions, complexity of the systems, frequent changes to a variety of tariff structures and different types of multiple-element contracts. In addition, the Group has adopted HKFRS 15 "Revenue from Contracts with Customers" from 1 July 2018 using the modified retrospective approach which does not require restatement of comparatives. Significant management judgement is required to assess the relative standalone selling price of each performance obligation and the allocation of revenue among those different performance obligations in multiple-element contracts. Management has used an in-house developed application to extract relevant data from the existing systems to allocate and recognise revenue under the new standard.	Our procedures in relation to revenue recognition included: • Testing the relevant IT control environment in which billing and other relevant support systems reside, including changes made to processes and new applications to support the implementation of HKFRS 15; • Assessing the appropriateness of management's assessments on the identification of performance obligations based on the contractual agreements and our knowledge of the business; • Assessing the reasonableness of management's judgements and estimates used to determine the stand-alone selling price of each performance obligation and to allocate revenue to multiple-element arrangements with reference to observable market data; • Testing, the key controls over the capture and measurement of revenue transactions and performing detailed testing of revenue transactions, on a sample basis, by tracing the transactions from the billing systems to supporting documents, such as underlying invoices, contractual agreements and evidence of cash receipts; • Testing, on a sample basis, the calculation and allocation of total transaction prices to each performance obligation of multiple-element arrangements and the related journal entries posting; and • Assessing the appropriateness of the methods used to determine the impact of the implementation of HKFRS 15 and resulting adjustments to opening retained earnings under the modified retrospective approach.

Key Audit Matters *(continued)*

Key Audit Matter	How our audit addressed the Key Audit Matter
Capitalisation of assets and useful lives Refer to note 2(h) – Summary of significant accounting policies; note 3(b) – Critical accounting estimates and judgements We focused on this area because a number of areas where management judgement impact the carrying value of fixed assets, and their respective depreciation profiles. These include: • the decision to capitalise or expense costs; • the timeliness of the transfer from assets in the course of construction; and • the annual asset life review by management to assess the appropriateness of their estimated economic useful lives.	We evaluated the design and tested the key controls in respect of the capitalisation of fixed assets. We tested, on a sample basis, the nature of costs incurred for network under construction and network and testing equipment to the underlying supporting invoices and assessed whether these expenditure met the capitalisation criteria. We also tested on a sample basis, the timing of transfer of network under construction to network and testing equipment during the year, to the engineering status reports and supporting documents. We tested the key controls over the annual review of asset lives. We assessed the asset lives by considering our knowledge of the business, the practice as well as technology development in the telecommunications industry.

Other Information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 6 September 2019

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 30 June 2019
(Expressed in Hong Kong dollars)

	Notes	2019 $000	2018 $000
Service revenue		**4,633,700**	5,059,258
Handset and accessory sales		**3,781,337**	4,929,234
Revenues	5	**8,415,037**	9,988,492
Cost of inventories sold		**(3,722,748)**	(4,867,053)
Cost of services provided		**(376,809)**	(368,475)
Staff costs	6	**(748,259)**	(720,333)
Other operating expenses		**(1,725,432)**	(1,896,417)
Depreciation, amortisation and loss on disposal	9	**(1,018,586)**	(1,289,773)
Operating profit		**823,203**	846,441
Finance income	7	**85,190**	61,423
Finance costs	8	**(107,733)**	(120,909)
Profit before income tax	9	**800,660**	786,955
Income tax expense	10	**(181,864)**	(179,803)
Profit after income tax		**618,796**	607,152
Attributable to			
Equity holders of the Company		**632,247**	615,243
Non-controlling interests		**(13,451)**	(8,091)
		618,796	607,152
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in cents per share)	14		
Basic		**56.3**	55.4
Diluted		**56.3**	55.4

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2019
(Expressed in Hong Kong dollars)

	2019 $000	2018 $000
Profit for the year	**618,796**	607,152
Other comprehensive (loss)/income		
Items that may be reclassified subsequently to profit and loss:		
Fair value loss on financial investments, net of tax	**–**	(1,366)
Currency translation differences	**(5,365)**	2,050
Items 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	**(2,086)**	–
Other comprehensive (loss)/income for the year, net of tax	**(7,451)**	684
Total comprehensive income for the year	**611,345**	607,836
Total comprehensive income attributable to		
Equity holders of the Company	**624,796**	615,927
Non-controlling interests	**(13,451)**	(8,091)
	611,345	607,836

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

CONSOLIDATED BALANCE SHEET

At 30 June 2019
(Expressed in Hong Kong dollars)

	Notes	**2019 $000**	2018 $000
Non-current assets			
Leasehold land and land use rights	16	**10,038**	11,315
Fixed assets	17	**2,839,714**	2,970,680
Customer acquisition costs	18	**60,288**	–
Contract assets	19	**103,196**	–
Interest in an associate	21	**3**	3
Financial asset at fair value through other comprehensive income	22	**4,560**	–
Financial assets at amortised cost	23	**156,423**	–
Held-to-maturity debt securities	23	**–**	486,599
Intangible assets	24	**2,764,958**	3,516,902
Deposits and prepayments	25	**121,568**	117,135
Deferred income tax assets	26	**4,789**	5,542
Total non-current assets		**6,065,537**	7,108,176
Current assets			
Inventories	27	**79,472**	161,465
Financial assets at amortised cost	23	**326,912**	–
Available-for-sale financial assets	22	**–**	6,646
Held-to-maturity debt securities	23	**–**	80,092
Contract assets	19	**294,867**	–
Trade receivables	25	**442,312**	364,757
Deposits and prepayments	25	**167,287**	172,877
Other receivables	25	**124,995**	43,645
Tax reserve certificate		**252,362**	252,362
Short-term bank deposits	28	**173,327**	96,155
Cash and cash equivalents	28	**1,955,987**	1,731,951
Total current assets		**3,817,521**	2,909,950
Current liabilities			
Trade payables	29	**448,469**	521,620
Other payables and accruals	29	**812,171**	852,081
Contract liabilities	30	**267,970**	–
Current income tax liabilities		**508,199**	457,389
Bank borrowings	31	**430,393**	135,789
Customer prepayments and deposits		**146,172**	247,081
Deferred income		**–**	222,996
Mobile licence fee liabilities	32	**60,041**	60,041
Total current liabilities		**2,673,415**	2,496,997

CONSOLIDATED BALANCE SHEET

At 30 June 2019
(Expressed in Hong Kong dollars)

	Notes	2019 $000	2018 $000
Non-current liabilities			
Customer prepayments and deposits		**22,650**	98,087
Asset retirement obligations		**41,911**	43,027
Bank and other borrowings	31	**1,872,516**	2,294,592
Mobile licence fee liabilities	32	**83,309**	127,991
Deferred income tax liabilities	26	**112,608**	125,708
Total non-current liabilities		**2,132,994**	2,689,405
Net assets		**5,076,649**	4,831,724
Capital and reserves			
Share capital	33	**112,453**	112,426
Reserves		**4,944,710**	4,686,655
Total equity attributable to equity holders of the Company		**5,057,163**	4,799,081
Non-controlling interests		**19,486**	32,643
Total equity		**5,076,649**	4,831,724

The financial statements on pages 58 to 140 were approved by the Board of Directors on 6 September 2019 and were signed on its behalf.

Kwok Ping-luen, Raymond
Director

Anna Yip
Director

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

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30 June 2019
(Expressed in Hong Kong dollars)

	Notes	2019 $000	2018 $000
Cash flows from operating activities			
Profit before income tax		**800,660**	786,955
Adjustments for:			
Depreciation of fixed assets	17	**654,575**	647,886
Amortisation of leasehold land and land use rights	16	**643**	672
Amortisation of intangible assets	24	**285,470**	626,065
Amortisation of customer acquisition costs	18	**54,776**	–
Loss on disposal of fixed assets	9	**23,122**	15,150
Finance income	7	**(85,190)**	(61,423)
Finance costs	8	**107,733**	120,909
Share-based payments	6	**12,468**	2,304
		1,854,257	2,138,518
Changes in working capital			
Decrease in inventories		**81,993**	20,238
Increase in contract assets, trade receivables, deposits, prepayments and other receivables		**(75,593)**	(67,662)
(Decrease)/increase in trade and other payables, accruals, contract liabilities and deferred income		**(108,149)**	283,382
(Decrease)/increase in customer prepayments and deposits		**(153,660)**	77,318
Capitalisation of customer acquisition costs		**(61,173)**	–
Cash generated from operations		**1,537,675**	2,451,794
Interest paid		**(78,700)**	(88,939)
Income tax paid		**(155,391)**	(132,214)
Net cash inflow from operating activities		**1,303,584**	2,230,641
Cash flows from investing activities			
Payment for purchase of fixed assets		**(519,448)**	(622,510)
Proceeds from disposal of fixed assets		**8,074**	1,727
Proceeds from disposal of financial assets at amortised cost (2018: held-to-maturity debt securities)		**78,404**	144,852
Payment of mobile licence fees		**(62,350)**	(62,350)
Additions of handset subsidies	24	**–**	(514,964)
(Increase)/decrease in short-term bank deposits		**(77,501)**	29,402
Interest received		**69,592**	62,637
Net cash outflow from investing activities		**(503,229)**	(961,206)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30 June 2019
(Expressed in Hong Kong dollars)

	Notes	2019 $000	2018 $000
Cash flows from financing activities			
Payment for repurchase of shares		**(53,717)**	(247,421)
Prepayment for repurchase of shares		**(4,018)**	(18,178)
Purchase of shares for share award scheme		**(8,987)**	–
Decrease in pledged bank deposits		**–**	2,385
Proceeds from bank borrowings		**66,000**	–
Repayment of bank borrowings		**(194,426)**	(139,706)
Payment for repurchase of guaranteed notes		**–**	(141,122)
Dividends paid to the Company's equity holders		**(373,964)**	(147,114)
Net cash outflow from financing activities		**(569,112)**	(691,156)
Net increase in cash and cash equivalents		**231,243**	578,279
Cash and cash equivalents at 1 July		**1,731,951**	1,146,795
Effect of foreign exchange rates changes		**(7,207)**	6,877
Cash and cash equivalents at 30 June	28	**1,955,987**	1,731,951

	2019 $000	2018 $000
In the consolidated cash flow statement, proceeds from disposal of fixed assets comprise:		
Net book amount of disposed fixed assets (note 17)	**31,196**	16,877
Loss on disposal of fixed assets	**(23,122)**	(15,150)
Proceeds from disposal of fixed assets	**8,074**	1,727

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2019
(Expressed in Hong Kong dollars)

	Attributable to equity holders of the Company										
	Share capital $000	Share premium $000	Revaluation reserve $000	Capital redemption reserve $000	Contributed surplus $000	Employee share-based compensation reserve $000	Exchange reserve $000	Retained profits $000	Total $000	Non-controlling interests $000	Total $000
At 1 July 2017	110,581	1,137,774	6,114	11,769	2,507	4,291	1,328	3,319,199	4,593,563	40,734	4,634,297
Comprehensive income											
Profit for the year	–	–	–	–	–	–	–	615,243	615,243	(8,091)	607,152
Other comprehensive income											
Fair value loss on financial investments, net of tax	–	–	(1,366)	–	–	–	–	–	(1,366)	–	(1,366)
Currency translation differences	–	–	–	–	–	–	2,050	–	2,050	–	2,050
Total comprehensive income for the year ended 30 June 2018	–	–	(1,366)	–	–	–	2,050	615,243	615,927	(8,091)	607,836
Transactions with owners											
Share-based payments (note 6)	–	–	–	–	–	2,304	–	–	2,304	–	2,304
Repurchase of shares (note 33(c))	(2,779)	–	–	2,779	(2,159)	–	–	(245,262)	(247,421)	–	(247,421)
Prepayment for repurchase of shares	–	–	–	–	–	–	–	(18,178)	(18,178)	–	(18,178)
Payment of 2017 final dividend (note 33(b))	2,814	259,254	–	–	–	–	–	(361,355)	(99,287)	–	(99,287)
Payment of 2018 interim dividend (note 15)	1,810	150,699	–	–	–	–	–	(200,336)	(47,827)	–	(47,827)
Total transactions with owners	1,845	409,953	–	2,779	(2,159)	2,304	–	(825,131)	(410,409)	–	(410,409)
At 30 June 2018	112,426	1,547,727	4,748	14,548	348	6,595	3,378	3,109,311	4,799,081	32,643	4,831,724

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2019
(Expressed in Hong Kong dollars)

	Attributable to equity holders of the Company										
	Share capital $000	Share premium $000	Revaluation reserve $000	Capital redemption reserve $000	Contributed surplus $000	Employee share-based compensation reserve $000	Exchange reserve $000	Retained profits $000	Total $000	Non-controlling interests $000	Total $000
At 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
Changes in accounting policies (note 2(b))	–	–	–	–	–	–	–	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 year	–	–	–	–	–	–	–	632,247	632,247	(13,451)	618,796
Other comprehensive loss											
Fair value loss on financial asset at fair value through other comprehensive income, net of tax	–	–	(2,086)	–	–	–	–	–	(2,086)	–	(2,086)
Currency translation differences	–	–	–	–	–	–	(5,365)	–	(5,365)	–	(5,365)
Total comprehensive income for the year ended 30 June 2019	–	–	(2,086)	–	–	–	(5,365)	632,247	624,796	(13,451)	611,345
Transactions with owners											
Share-based payments (note 6)	–	–	–	–	–	12,468	–	–	12,468	–	12,468
Lapse of share award	–	–	–	–	343	(343)	–	–	–	–	–
Repurchase of shares (note 33(c))	(901)	–	–	901	–	–	–	(53,717)	(53,717)	–	(53,717)
Prepayment for repurchase of shares	–	–	–	–	–	–	–	(4,018)	(4,018)	–	(4,018)
Purchase of shares for Share Award Scheme	–	–	–	–	(8,987)	–	–	–	(8,987)	–	(8,987)
Payment of 2018 final dividend (note 33(b))	73	7,447	–	–	–	–	–	(257,714)	(250,194)	–	(250,194)
Payment of 2019 interim dividend (note 15)	855	77,197	–	–	–	–	–	(201,822)	(123,770)	–	(123,770)
Total transactions with owners	27	84,644	–	901	(8,644)	12,125	–	(517,271)	(428,218)	–	(428,218)
At 30 June 2019	**112,453**	**1,632,371**	**2,662**	**15,449**	**(8,296)**	**18,720**	**(1,987)**	**3,285,791**	**5,057,163**	**19,486**	**5,076,649**

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

1 General information

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

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

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

These consolidated financial statements are presented in Hong Kong dollars, unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 6 September 2019.

2 Summary of significant accounting policies

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

(a) Basis of preparation

(i) Compliance with HKFRS and HKCO

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

(ii) 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 period 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

The Group had to change its accounting policies and make certain modified retrospective adjustments following the adoption of HKFRS 9 and HKFRS 15. The impact of the adoption of these standards is disclosed in note 2(b) below. The other standards did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

(Expressed in Hong Kong dollars)

2 Summary of significant accounting policies *(continued)*

(a) Basis of preparation *(continued)*

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

Certain new standards, amendments to standards and interpretations to existing standards have been published that are not mandatory for 30 June 2019 reporting periods and have not been early adopted by the Group.

Annual Improvements Project	Annual Improvements 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.

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.

2 Summary of significant accounting policies *(continued)*

(a) Basis of preparation *(continued)*

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

HKFRS 16, "Leases" (continued)

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 is not restated; (ii) the date of the initial application of HKFRS 16 is the first day of the annual reporting period in which the Group first applies the requirement of HKFRS 16, i.e. 1 July 2019 and (iii) right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted by any prepaid or accrued lease expenses).

Lease expenses in the consolidated profit and loss account are replaced by depreciation and interest expenses. Adoption of the new standard will have effects to the financial performance of the Group by increasing EBITDA and EBIT, while, when comparing to the HKAS 17, higher expenses will be incurred in the early years of lease terms, diminishing over the lease terms and will result in lower expenses in the later part of the lease terms.

As at 30 June 2019, the Group has non-cancellable operating lease commitment in respect of land and buildings and transmission sites of $1,059,286,000 of which $50,378,000 relate to short term leases which does not fall within the scope of HKFRS 16.

The Group will continue to assess the full impact of the adoption of HKFRS 16 and further update of the impact will be provided in the interim report for six months ending 31 December 2019.

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.

2 Summary of significant accounting policies *(continued)*

(b) Changes in accounting policies

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.

The adoption of HKFRS 9 and HKFRS 15 has had no impact on the Group's operating, investing and financing cash flows.

(i) 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 and impairment of financial assets.

The adoption of HKFRS 9 Financial Instruments from 1 July 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transitional provisions in HKFRS 9, comparative figures have not been restated.

Reclassification from held-to-maturity debt securities to financial assets at amortised cost

Bonds that would have previously been classified as held-to maturity are now classified at amortised cost. The Group intends to hold the assets to maturity to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding. The carrying amount of the bonds remained the same on transition to HKFRS 9 and therefore, there is no difference to be recognised in the opening retained earnings at 1 July 2018.

Available-for-sale equity instruments classified as fair value through other comprehensive income ("FVOCI")

The Group elected to present in OCI changes in the fair value of all its equity investments previously classified as available-for-sale, because these investments are held as long-term strategic investments that are not expected to be sold in the short to medium term.

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

The Group has adopted HKFRS 15 from 1 July 2018 which resulted in changes in accounting policies. 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 uncompleted contracts at 1 July 2018.

The new accounting policies are set out in note 2(k), note 2(q), note 2(u) and note 2(aa).

2 Summary of significant accounting policies *(continued)*

(b) Changes in accounting policies *(continued)*

(iii) Impact on the consolidated financial statements

The following tables show the adjustments recognised for each individual line items after the application of HKFRS 9 and HKFRS 15:

Consolidated Profit and Loss Account	For the year ended 30 June 2019 Reported under current accounting policies $000	Effect of HKFRS 15 $000	Balance without the adoption of HKFRS 15 $000
Service revenue	4,633,700	413,315	5,047,015
Handset and accessory sales	3,781,337	(340,641)	3,440,696
Revenues	8,415,037	72,674	8,487,711
Cost of inventories sold	(3,722,748)	318,308	(3,404,440)
Cost of services provided	(376,809)	–	(376,809)
Staff costs	(748,259)	–	(748,259)
Other operating expenses	(1,725,432)	(65,141)	(1,790,573)
Depreciation, amortisation and loss on disposal	(1,018,586)	(355,416)	(1,374,002)
Operating profit	823,203	(29,575)	793,628
Finance income	85,190	–	85,190
Finance costs	(107,733)	–	(107,733)
Profit before income tax	800,660	(29,575)	771,085
Income tax expense	(181,864)	4,769	(177,095)
Profit after income tax	618,796	(24,806)	593,990
Attributable to			
Equity holders of the Company	632,247	(24,618)	607,629
Non-controlling interests	(13,451)	(188)	(13,639)
	618,796	(24,806)	593,990

2 Summary of significant accounting policies *(continued)*

(b) Changes in accounting policies *(continued)*

(iii) Impact on the consolidated financial statements *(continued)*

	For the year ended 30 June 2019			
Consolidated Statement of Comprehensive Income	**Reported under current accounting policies $000**	**Effect of HKFRS 9 $000**	**Effect of HKFRS 15 $000**	**Balance without the adoption of HKFRS 9 and HKFRS 15 $000**
Profit for the year	**618,796**	**–**	**(24,806)**	**593,990**
Other comprehensive (loss)/income				
Items that may be reclassified subsequently to profit and loss:				
Fair value loss on available-for-sale financial assets, net of tax	**–**	**(2,086)**	**–**	**(2,086)**
Currency translation differences	**(5,365)**	**–**	**620**	**(4,745)**
Items 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	**(2,086)**	**2,086**	**–**	**–**
Other comprehensive (loss)/income for the year, net of tax	**(7,451)**	**–**	**620**	**(6,831)**
Total comprehensive income for the year	**611,345**	**–**	**(24,186)**	**587,159**
Total comprehensive income attributable to				
Equity holders of the Company	**624,796**	**–**	**(23,998)**	**600,798**
Non-controlling interests	**(13,451)**	**–**	**(188)**	**(13,639)**
	611,345	**–**	**(24,186)**	**587,159**

2 Summary of significant accounting policies *(continued)*

(b) Changes in accounting policies *(continued)*

(iii) Impact on the consolidated financial statements *(continued)*

Consolidated Balance Sheet	At 30 June 2019 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	**10,038**	**–**	**–**	**10,038**
Fixed assets	**2,839,714**	**–**	**–**	**2,839,714**
Customer acquisition costs	**60,288**	**–**	**(60,288)**	**–**
Contract assets	**103,196**	**–**	**(103,196)**	**–**
Interest in an associate	**3**	**–**	**–**	**3**
Financial asset at fair value through other comprehensive income	**4,560**	**(4,560)**	**–**	**–**
Financial assets at amortised cost	**156,423**	**(156,423)**	**–**	**–**
Held-to-maturity debt securities	**–**	**156,423**	**–**	**156,423**
Intangible assets	**2,764,958**	**–**	**375,804**	**3,140,762**
Deposits and prepayments	**121,568**	**–**	**–**	**121,568**
Deferred income tax assets	**4,789**	**–**	**–**	**4,789**
Total non-current assets	**6,065,537**	**(4,560)**	**212,320**	**6,273,297**
Current assets				
Inventories	**79,472**	**–**	**–**	**79,472**
Financial assets at amortised cost	**326,912**	**(326,912)**	**–**	**–**
Available-for-sale financial assets	**–**	**4,560**	**–**	**4,560**
Held-to-maturity debt securities	**–**	**326,912**	**–**	**326,912**
Contract assets	**294,867**	**–**	**(294,867)**	**–**
Trade receivables	**442,312**	**–**	**–**	**442,312**
Deposits and prepayments	**167,287**	**–**	**–**	**167,287**
Other receivables	**124,995**	**–**	**–**	**124,995**
Tax reserve certificate	**252,362**	**–**	**–**	**252,362**
Short-term bank deposits	**173,327**	**–**	**–**	**173,327**
Cash and cash equivalents	**1,955,987**	**–**	**–**	**1,955,987**
Total current assets	**3,817,521**	**4,560**	**(294,867)**	**3,527,214**

2 Summary of significant accounting policies *(continued)*

(b) Changes in accounting policies *(continued)*

(iii) Impact on the consolidated financial statements *(continued)*

	At 30 June 2019			
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**
Current liabilities				
Trade payables	448,469	–	–	448,469
Other payables and accruals	812,171	–	41,579	853,750
Contract liabilities	267,970	–	(267,970)	–
Current income tax liabilities	508,199	–	(16,773)	491,426
Bank borrowings	430,393	–	–	430,393
Customer prepayments and deposits	146,172	–	30,527	176,699
Deferred income	–	–	216,074	216,074
Mobile licence fee liabilities	60,041	–	–	60,041
Total current liabilities	2,673,415	–	3,437	2,676,852
Non-current liabilities				
Customer prepayments and deposits	22,650	–	–	22,650
Asset retirement obligations	41,911	–	–	41,911
Bank and other borrowings	1,872,516	–	–	1,872,516
Mobile licence fee liabilities	83,309	–	–	83,309
Deferred income tax liabilities	112,608	–	–	112,608
Total non-current liabilities	2,132,994	–	–	2,132,994
Net assets	5,076,649	–	(85,984)	4,990,665
Capital and reserves				
Share capital	112,453	–	–	112,453
Reserves	4,944,710	–	(85,502)	4,859,208
Total equity attributable to equity holders of the Company	5,057,163	–	(85,502)	4,971,661
Non-controlling interests	19,486	–	(482)	19,004
Total equity	5,076,649	–	(85,984)	4,990,665

2 Summary of significant accounting policies *(continued)*

(b) Changes in accounting policies *(continued)*

(iii) Impact on the consolidated financial statements *(continued)*

As explained in note 2(b)(i) and note 2(b)(ii) above, HKFRS 9 and HKFRS 15 were adopted without restating comparative information. The reclassifications and the adjustments are therefore not reflected in the balance sheet as at 30 June 2018, but are recognised in the opening balance sheet on 1 July 2018.

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 costs	–	–	54,511	54,511
Contract assets	–	–	159,520	159,520
Interest in an associate	3	–	–	3
Financial asset at fair value through other comprehensive income	–	6,646	–	6,646
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	6,646	(252,443)	6,862,379
Current assets				
Inventories	161,465	–	–	161,465
Financial assets at amortised cost	–	80,092	–	80,092
Available-for-sale 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	(6,646)	305,299	3,208,603

2 Summary of significant accounting policies *(continued)*

(b) Changes in accounting policies *(continued)*

(iii) Impact on the consolidated financial statements *(continued)*

Consolidated Balance Sheet	30 June 2018 As previously reported $000	Effect under HKFRS 9 $000	Effect under HKFRS 15 $000	1 July 2018 $000
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
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

2 Summary of significant accounting policies *(continued)*

(c) Principles of consolidation and equity accounting

(i) Subsidiaries

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

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

(ii) Associates

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

(iii) Equity method

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

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

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

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

2 Summary of significant accounting policies *(continued)*

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

(iv) Changes in ownership interests

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

When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs.

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

(d) Separate financial statements

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

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

2 Summary of significant accounting policies *(continued)*

(e) Segment reporting

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

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

(f) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

Foreign exchange gains and losses that relate to bank and other borrowings, financial assets at amortised cost, short-term bank deposits and cash and cash equivalents are presented in the consolidated profit and loss account within "finance costs". All other foreign exchange gains and losses are presented in the consolidated profit and loss account on a net basis within "other operating expenses".

Translation differences on non-monetary financial assets, such as equities classified as financial asset at fair value through other comprehensive income, are recognised in other comprehensive income.

2 Summary of significant accounting policies *(continued)*

(f) Foreign currency translation *(continued)*

(iii) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet,

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

- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange difference arising from the translation of any net investment in foreign entities are recognised in other comprehensive income. When a foreign operation is sold, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated currency translation differences are re-attributed to non-controlling interests and are not recognised in profit or loss.

(g) Intangible assets

Intangible assets are stated in the consolidated balance sheet at cost less accumulated amortisation (where the estimated useful life is other than indefinite) and impairment losses as described in note 2(l).

(i) Mobile licence fees

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

The difference between the discounted value and the total of the minimum annual fee payments represents the effective cost of financing and, accordingly, for the period prior to the asset being ready for its intended use, is capitalised as part of the intangible asset consistent with the policy for borrowing costs as set out in note 2(v). Subsequent to the date when the asset is ready for its intended use, such finance costs will be charged to the consolidated profit and loss account in the year in which they are incurred.

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

2 Summary of significant accounting policies *(continued)*

(h) Fixed assets

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

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

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

Leasehold improvements	Over the lease term
Buildings	Over the lease term
Network and testing equipment	10%–50%
Computer, billing and office telephone equipment	20%–33$^{1}/_{3}$%
Other fixed assets	20%–33$^{1}/_{3}$%

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

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

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2(l)).

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

2 Summary of significant accounting policies *(continued)*

(i) Leasehold land and land use rights

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

(j) Leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (note 36). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

(k) Customer acquisition 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.

(l) Impairment of non-financial assets

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

(m) Investments and other financial assets

(i) Classification

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

- those to be measured subsequently at 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.

2 Summary of significant accounting policies *(continued)*

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

(i) Classification *(continued)*

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

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(iii) 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. 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.

(iv) 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. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables and contract assets, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

2 Summary of significant accounting policies *(continued)*

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

(v) Accounting policies applied until 30 June 2018

The Group has applied HKFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

Until 30 June 2018, the Group classified its financial assets in the following categories:

- loans and receivables,
- held-to-maturity debt securities, and
- available-for-sale financial assets

The classification determined on the purpose for which the investments were acquired. Management determined the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluated this designation at the end of each reporting period.

(a) Subsequent measurement

Subsequent to the initial recognition, loans and receivables and held-to-maturity debt securities were subsequently carried at amortised cost using the effective interest method.

Available-for-sale financial assets were subsequently carried at fair value. Gains or losses arising from changes in the fair value for available-for-sale financial assets were recognised in other comprehensive income. When securities classified as available-for-sale were sold, the accumulative fair value adjustments recognised in other comprehensive income were reclassified to profit or loss.

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

Interest on held-to-maturity debt securities and loans and receivables calculated using the effective interest method was recognised in the consolidated profit and loss account as finance income.

(b) Impairment of financial assets

The Group assessed at the end of each reporting period whether there was objective evidence that a financial asset or a group of financial assets was impaired. A financial asset or a group of financial assets was impaired and impairment losses were incurred only if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost was considered an indicator that the assets are impaired.

2 Summary of significant accounting policies *(continued)*

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

(v) Accounting policies applied until 30 June 2018 *(continued)*

(b) Impairment of financial assets (continued)

Assets carried at amortised cost

For loans and receivables, the amount of the loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that had not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset was reduced and the amount of the loss was recognised in profit or loss. As a practical expedient, the Group could measure impairment on the basis of an instrument's fair value using an observable market price.

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

Assets classified as available-for-sale

If there was objective evidence of impairment for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – was removed from equity and recognised in profit or loss.

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

(n) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet where the Group currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The Group has also entered into arrangements that do not meet the criteria for offsetting but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or the termination of a contract.

(o) Inventories

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

2 Summary of significant accounting policies *(continued)*

(p) Trade receivables

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

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

(q) 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.

(r) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash at bank and on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(s) Share capital

Ordinary shares are classified as equity.

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

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

Shares held for share award scheme are deducted from equity.

(t) Trade and other payables

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

2 Summary of significant accounting policies *(continued)*

(u) 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.

(v) Borrowings and borrowing costs

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

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

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

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

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

(w) Current and deferred income tax

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

(i) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company and its subsidiaries and associate operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2 Summary of significant accounting policies *(continued)*

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

(ii) Deferred income tax

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

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

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

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

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(x) Provisions

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

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

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

2 Summary of significant accounting policies *(continued)*

(y) Employee benefits

(i) Employee leave entitlements

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

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

(ii) Bonus plans

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

(iii) Retirement benefits

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

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

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

(iv) Share-based payments

Share-based compensation benefits are provided to employees via share option scheme and share award scheme. Information relating to these schemes is set out in note 34. The Group operates equity-settled, share-based compensation plans under which the Group receives services from employees as consideration for equity instruments of the Group.

2 Summary of significant accounting policies *(continued)*

(y) Employee benefits *(continued)*

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

Share option scheme

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

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

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

Share award scheme

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

The grant by the Company of its own shares to employees of subsidiary undertakings in the Group is treated as capital contribution. The market value of the shares awarded at the grant date is recognised over the vesting period as an increase to investment in subsidiaries, with a corresponding credit to equity in the parent entity financial statements.

(z) Contingent assets and liabilities

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

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

2 Summary of significant accounting policies *(continued)*

(z) Contingent assets and liabilities *(continued)*

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

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

(aa) Revenue recognition

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

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

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

(i) Sales of goods

Revenue from the sales of goods is recognised when control of the products has been 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) Interest income

Interest income on financial assets at amortised cost and financial asset at FVOCI (2018: available-for-sale financial assets, held-to-maturity debt securities and loans and receivables) calculated using the effective interest method is recognised in the consolidated profit and loss account as part of "finance income". Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset.

2 Summary of significant accounting policies *(continued)*

(aa) Revenue recognition *(continued)*

(iv) Interest income *(continued)*

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

(v) Dividend income

Dividends are recognised as revenue when the right to receive payment is established.

(ab) Earning per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to equity holders of the Company
- by the weighted average number of ordinary shares outstanding during the financial year and excluding shares held for share award scheme.

(ii) 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.

(ac) Dividend distribution

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the Group, on or before the end of the reporting period but not distributed at the end of the reporting period.

(ad) Financial guarantee

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

2 Summary of significant accounting policies *(continued)*

(ae) Related parties

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

3 Critical accounting estimates and judgements

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

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

(a) Revenue recognition

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

(b) Useful lives of fixed assets

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

(c) Impairment of assets

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

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

3 Critical accounting estimates and judgements *(continued)*

(d) Current and deferred income tax

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

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

4 Financial risk management

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

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

The Group's treasury policy, approved from time to time by the board of directors, is designed to minimise the Group's exposure to financial risks. The Group's risk management policy focuses on the unpredictability of financial markets and seeks to mitigate potential adverse effects on the Group's financial performance.

4 Financial risk management *(continued)*

(a) Financial risk factors

(i) Market risk

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

Foreign exchange risk

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the functional currency of the relevant Group entity, primarily with respect to the US dollar. Any change in the exchange rates of US dollar to Hong Kong dollar will impact the Group's operating results.

Certain of the assets and liabilities of the Group are principally denominated in US dollar. The Group currently does not undertake any foreign currency hedging.

Exposure

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

	2019 USD $000	2018 USD $000
Financial assets at amortised cost	**483,335**	–
Held-to-maturity debt securities	**–**	566,691
Financial asset at fair value through other comprehensive income	**4,560**	–
Available-for-sale financial assets	**–**	6,646
Trade receivables	**51,258**	24,456
Other receivables	**18,599**	3,761
Short-term bank deposits	**173,327**	93,770
Cash and cash equivalents	**1,695,503**	1,478,153
Bank and other borrowings	**(1,787,958)**	(1,921,845)
Trade payables	**(81,459)**	(325,349)
Other payables and accruals	**(46,672)**	(23,686)

Sensitivity

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

	Impact on pre-tax profit	
	2019 $000	2018 $000
US/HK$ exchange rate – increase 1%*	**5,105**	(974)
US/HK$ exchange rate – decrease 1%*	**(5,105)**	974

* Holding all other variables constant

4 Financial risk management *(continued)*

(a) Financial risk factors *(continued)*

(i) Market risk *(continued)*

Cash flow and fair value interest rate risk

The Group's main interest rate risk arises from the holding of bank deposits and bank and other borrowings. Bank and other borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by bank deposits held at variable rates. Bank and other borrowings and financial assets at amortised cost issued at fixed rates expose the Group to fair value interest rate risk.

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

	2019 $000	**% of total borrowings**	2018 $000	% of total borrowings
Variable rate borrowings	**514,951**	**22%**	508,536	21%
Fixed rate borrowings	**1,787,958**	**78%**	1,921,845	79%
	2,302,909	**100%**	2,430,381	100%

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

Sensitivity

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

	Impact on pre-tax profit	
	2019 $000	2018 $000
Interest rates – increase by 100 basis points*	**15,923**	11,953
Interest rates – decrease by 100 basis points*	**(15,923)**	(11,953)

* Holding all other variables constant

4 Financial risk management *(continued)*

(a) Financial risk factors *(continued)*

(i) Market risk *(continued)*

Price risk

The Group's exposure to price risk arises from investment held by the Group and classified in the balance sheet as financial asset at fair value through other comprehensive income. The financial asset at fair value through other comprehensive income is stated at fair value based on the net asset value per unit of the respective fund as determined by the manager of the relevant fund. The Group manages its exposure by closely monitoring the price movements and the change in market conditions that may affect the value of the investment.

At 30 June 2019, if the fair value of the financial asset at fair value through other comprehensive income (2018: available-for-sale financial assets) had increased or decreased by 10% and all other variables were held constant, the investment revaluation reserve of the Group would increase or decrease by approximately $456,000 (2018: $665,000).

(ii) Credit risk

Credit risk arises from cash and cash equivalents, contractual cash flows of financial assets carried at amortised cost, and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables.

Risk management

The Group manages its credit risk to non-performance of its counterparties by monitoring their credit ratings and setting approved counterparty limits that are regularly reviewed. In accordance with the treasury policy, the Group invests its surplus funds by placing deposits with credit worthy banks and financial institutions or investing in financial assets at amortised cost in accordance with the mandates as approved by the Board of Directors.

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

Impairment

The Group has three types of financial assets that are subject to the expected credit loss model:

- trade receivables from the provision of mobile telecommunication services and from the provision of multiple-element arrangements;
- contract assets relating to multiple-element arrangements; and
- other financial assets at amortised cost.

While cash and cash equivalents are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

4 Financial risk management *(continued)*

(a) Financial risk factors *(continued)*

(ii) Credit risk *(continued)*

Impairment (continued)

For trade receivables and contract assets, the Group applies the HKFRS 9 simplified approach to measuring expected credit losses, which uses a lifetime expected loss provision for all trade receivables and contract assets. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

The overall impact of impairment of the contract assets on the consolidated financial statements is considered by management. Management considered the lifetime expected losses with respect to these contract assets were minimal as at 30 June 2019 and the Group made no write-offs or provision for these contract assets during the year.

Other financial assets at amortised cost include corporate listed bonds, other receivables and deposits. These financial assets are considered to be low credit risk as the counterparties have capacity to meet their contractual cash flow obligation. Therefore, applying the expected credit risk model resulted in an immaterial impact on the provision for doubtful debts for these financial assets.

(iii) Liquidity risk

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

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

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

4 Financial risk management *(continued)*

(a) Financial risk factors *(continued)*

(iii) Liquidity risk *(continued)*

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

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

Contractual maturities of financial liabilities	1 year or less $000	1 year to 2 years $000	2 years to 5 years $000	Over 5 years $000	Total contractual cash flows $000	Carrying amount $000
At 30 June 2019						
Trade payables	**448,469**	**–**	**–**	**–**	**448,469**	**448,469**
Other payables and accruals	**720,515**	**–**	**–**	**–**	**720,515**	**720,515**
Bank and other borrowings (include interest payable)	**508,876**	**199,239**	**1,810,066**	**78,170**	**2,596,351**	**2,317,816**
Mobile licence fee liabilities	**62,350**	**62,350**	**38,280**	**–**	**162,980**	**143,350**
Total	**1,740,210**	**261,589**	**1,848,346**	**78,170**	**3,928,315**	**3,630,150**
At 30 June 2018						
Trade payables	521,620	–	–	–	521,620	521,620
Other payables and accruals	754,180	–	–	–	754,180	754,180
Bank and other borrowings (include interest payable)	223,287	518,792	2,044,874	30,234	2,817,187	2,430,381
Mobile licence fee liabilities	62,350	62,350	100,630	–	225,330	188,032
Total	1,561,437	581,142	2,145,504	30,234	4,318,317	3,894,213

(b) Capital management

The Group's objectives when managing capital are to:

- safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders, and
- maintain an optimal capital structure to reduce the cost of capital.

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

4 Financial risk management *(continued)*

(b) Capital management *(continued)*

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

	2019	2018
	$000	$000
Net debt	**173,595**	602,275
Total equity	**5,076,649**	4,831,724
Net debt to equity ratio	**3%**	12%

(c) Fair value estimation

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

The following table presents the Group's assets that are measured at fair value at 30 June 2019 and 2018.

	Level 1	Level 2	Level 3	Total
	$000	$000	$000	$000
Assets				
Financial asset at fair value through other comprehensive income (note 22)				
At 30 June 2019	**–**	**4,560**	**–**	**4,560**
Assets				
Available-for-sale financial assets (note 22)				
At 30 June 2018	–	6,646	–	6,646

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

4 Financial risk management *(continued)*

(c) Fair value estimation *(continued)*

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

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

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

See note 22(d) for the valuation techniques used to value financial assets measured at fair value. There were no changes in valuation techniques during the year.

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

5 Segment reporting

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

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

5 Segment reporting *(continued)*

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

(a) Segment results

	For the year ended 30 June 2019			
	Hong Kong $000	Macau $000	Elimination $000	Consolidated $000
External revenue	7,966,110	448,927	–	8,415,037
Inter-segment revenue	331,346	5,804	(337,150)	–
Total revenue	8,297,456	454,731	(337,150)	8,415,037
Timing of revenue recognition				
At a point in time	3,765,075	346,037	(329,775)	3,781,337
Over time	4,532,381	108,694	(7,375)	4,633,700
	8,297,456	454,731	(337,150)	8,415,037
EBITDA#	1,849,629	(7,840)	–	1,841,789
Depreciation, amortisation and loss on disposal	(980,104)	(38,499)	17	(1,018,586)
Operating profit/(loss)	869,525	(46,339)	17	823,203
Finance income				85,190
Finance costs				(107,733)
Profit before income tax				800,660
Other information				
Additions to fixed assets	545,714	9,734	–	555,448
Depreciation	617,342	37,242	(9)	654,575
Amortisation of leasehold land and land use rights	643	–	–	643
Amortisation of intangible assets	285,470	–	–	285,470
Amortisation of customer acquisition costs	53,675	1,101	–	54,776
Loss on disposal of fixed assets	22,974	156	(8)	23,122
Impairment loss of trade receivables	4,043	815	–	4,858
Impairment loss of inventories	1,205	104	–	1,309

5 Segment reporting *(continued)*

(a) Segment results *(continued)*

	For the year ended 30 June 2018			
	Hong Kong $000	Macau $000	Elimination $000	Consolidated $000
External revenue	9,280,864	707,628	–	9,988,492
Inter-segment revenue	563,782	6,533	(570,315)	–
Total revenue	9,844,646	714,161	(570,315)	9,988,492
Timing of revenue recognition				
At a point in time	4,922,958	568,465	(562,189)	4,929,234
Over time	4,921,688	145,696	(8,126)	5,059,258
	9,844,646	714,161	(570,315)	9,988,492
EBITDA#	2,114,864	21,350	–	2,136,214
Depreciation, amortisation and loss on disposal	(1,241,002)	(48,799)	28	(1,289,773)
Operating profit/(loss)	873,862	(27,449)	28	846,441
Finance income				61,423
Finance costs				(120,909)
Profit before income tax				786,955
Other information				
Additions to fixed assets	543,895	19,324	–	563,219
Additions to intangible assets	506,585	8,379	–	514,964
Depreciation	609,991	37,910	(15)	647,886
Amortisation of leasehold land and land use rights	672	–	–	672
Amortisation of intangible assets	615,701	10,364	–	626,065
Loss on disposal of fixed assets	14,638	525	(13)	15,150
Impairment loss of trade receivables	9,196	1,615	–	10,811
(Reversal of impairment loss)/ impairment loss of inventories	(2,932)	477	–	(2,455)

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

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

5 Segment reporting *(continued)*

(b) Segment assets/(liabilities)

	At 30 June 2019			
	Hong Kong	**Macau**	**Unallocated**	**Consolidated**
	$000	**$000**	**$000**	**$000**
Segment assets	**8,878,622**	**259,387**	**745,049**	**9,883,058**
Segment liabilities	**(4,059,149)**	**(126,454)**	**(620,806)**	**(4,806,409)**

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

The total of non-current assets other than interest in an associate, financial asset at fair value through other comprehensive income, financial assets at amortised cost and deferred income tax assets located in Hong Kong is $5,718,899,000 (2018: $6,397,256,000), and the total of these non-current assets located in Macau is $180,863,000 (2018: $218,776,000).

Unallocated assets consist of tax reserve certificate, interest in an associate, financial asset at fair value through other comprehensive income, financial assets at amortised cost and deferred income tax assets.

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

6 Staff costs

	2019	2018
	$000	$000
Wages and salaries	**653,918**	635,062
Bonuses	**41,067**	43,420
Contributions to defined contribution plans*	**40,806**	39,547
Share-based payments	**12,468**	2,304
	748,259	720,333

* Net of forfeited contributions of $707,000 (2018: $1,504,000).

7 Finance income

	2019 $000	2018 $000
Interest income from listed debt securities	**23,157**	29,792
Interest income from bank deposits	**47,358**	29,353
Gain on disposal of listed debt securities	**–**	1,391
Gain on repurchase of guaranteed notes	**–**	12
Accretion income	**2,510**	875
Others	**12,165**	–
	85,190	61,423

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

8 Finance costs

	Notes	2019 $000	2018 $000
Interest expense on bank and other borrowings		**84,937**	88,784
Bank charges for credit card instalment		**1,466**	7,621
Accretion expenses			
Mobile licence fee liabilities	32	**17,668**	22,456
Asset retirement obligations		**1,661**	1,467
Net exchange loss on financing activities	13	**2,001**	581
		107,733	120,909

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

9 Profit before income tax

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

	Notes	**2019 $000**	2018 $000
Charging:			
Operating lease rentals for land and buildings, transmission sites and leased lines		**1,038,322**	1,062,290
Impairment loss of trade receivables	25	**4,858**	10,811
Impairment loss of inventories	27	**1,309**	–
Auditor's remuneration			
– Audit services		**2,638**	2,519
– Non-audit services		**1,244**	1,071
Net exchange loss	13	**–**	8,871
Loss on disposal of fixed assets		**23,122**	15,150
Depreciation of fixed assets, leasehold land and land use rights		**655,218**	648,558
Amortisation of handset subsidies	24	**–**	340,595
Amortisation of mobile licence fees	24	**285,470**	285,470
Amortisation of customer acquisition costs	18	**54,776**	–
Crediting:			
Net exchange gain	13	**2,035**	–
Reversal of impairment loss of inventories	27	**–**	2,455

10 Income tax expense

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

(a) Income tax expense

	2019	2018
	$000	$000
Current income tax		
Hong Kong profits tax	**192,570**	187,590
Overseas tax	**1,176**	1,374
Under-provision in prior years		
Hong Kong profits tax	**465**	1,280
Overseas tax	**–**	1
Total current income tax expense	**194,211**	190,245
Deferred income tax		
Decrease in deferred income tax assets (note 26(a))	**753**	588
Decrease in deferred income tax liabilities (note 26(b))	**(13,100)**	(11,030)
Total deferred income tax benefit	**(12,347)**	(10,442)
Income tax expense	**181,864**	179,803

10 Income tax expense *(continued)*

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

	2019 $000	2018 $000
Profit before income tax expense	**800,660**	786,955
Tax at the Hong Kong tax rate of 16.5% (2018: 16.5%)	**132,109**	129,848
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Interest income	**(8,360)**	(5,809)
Net exchange loss/(gain)	**354**	(343)
Others	**11**	209
Subtotal	**124,114**	123,905
Difference in overseas tax rates	**2,034**	1,554
Under-provision in prior years	**465**	1,281
Tax loss not recognised	**9,807**	9,599
Utilisation of previously unrecognised tax losses	**(119)**	(85)
Temporary differences not recognised	**45,563**	43,549
Income tax expense	**181,864**	179,803

(c) Tax losses

	2019 $000	2018 $000
Unused tax losses for which no deferred tax asset has been recognised	**205,532**	149,632
Potential tax benefit	**28,318**	20,506

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

11 Five highest paid individuals

Of the five highest paid individuals, three (2018: three) are directors whose emoluments are disclosed in note 39. The aggregate of the emoluments in respect of the other two (2018: two) individuals are as follows:

	2019 **$000**	2018 $000
Salaries, allowances and benefits in kind	**7,304**	7,199
Bonuses	**1,181**	1,009
Retirement scheme contributions	**413**	324
Share-based payments	**667**	3
	9,565	8,535

The emoluments of the two (2018: two) highest paid individuals are within the following bands:

	2019 **Number of Individuals**	2018 Number of Individuals
$3,500,001 – $4,000,000	**–**	1
$4,000,001 – $4,500,000	**–**	1
$4,500,001 – $5,000,000	**2**	–
	2	2

12 Employee retirement benefits

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

Contributions to the ORSO scheme by the Group and the employees are calculated as specified percentages of each employee's basic salary. Where employees leave the scheme prior to the full vesting of the employer's contributions, the amount of forfeited contributions is used to reduce the contributions payable by the Group. As at 30 June 2019, all available forfeited contributions had been utilised by the Group to reduce its contributions payable (2018: same).

The MPF scheme was established under the Hong Kong Mandatory Provident Fund Scheme Ordinance in December 2000 and the Group's employees may elect to join the MPF scheme. Both the Group and the employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of $30,000 (2018: same). Contributions to the scheme vest immediately.

13 Net exchange (gain)/loss

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

	2019 $000	2018 $000
Other operating expenses	(4,036)	8,290
Finance costs (note 8)	2,001	581
	(2,035)	8,871

14 Earnings per share

(a) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to equity holders of the Company
- by the weighted average number of ordinary shares outstanding during the financial year and excluding shares held for Share Award Scheme (note 34).

	2019 Cents	2018 Cents
Total basic earnings per share attributable to the equity holders of the Company	56.3	55.4

(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.

	2019 Cents	2018 Cents
Total diluted earnings per share attributable to the equity holders of the Company	56.3	55.4

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

	2019 $000	2018 $000
Profit attributable to the equity holders of the Company used in calculating basic earnings per share and diluted earnings per share	632,247	615,243

14 Earnings per share *(continued)*

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

	2019 Number	2018 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share (less shares held for Share Award Scheme)	**1,122,123,600**	1,110,194,100
Adjustments for calculation of diluted earnings per share:		
Effect of Awarded Shares	**559,683**	–
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**1,122,683,283**	1,110,194,100

15 Dividends

	2019 $000	2018 $000
Interim dividend, paid, of 18 cents (2018: 18 cents) per fully paid share	**201,822**	200,336
Final dividend, proposed, of 21 cents (2018: 23 cents) per fully paid share	**235,881**	257,903
	437,703	458,239

For the dividends attributable to the years ended 30 June 2019 and 2018, scrip dividend elections were offered to shareholders. Shares issued during the year on the shareholders' election to receive shares are set out in note 33.

At a meeting held on 6 September 2019, the directors proposed a final dividend of 21 cents per fully paid share. This proposed dividend is not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained profits for the year ending 30 June 2020.

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

16 Leasehold land and land use rights

	2019 $000	2018 $000
At 1 July	**11,315**	11,383
Amortisation of leasehold land and land use rights	**(643)**	(672)
Exchange differences	**(634)**	604
At 30 June	**10,038**	11,315

17 Fixed assets

	Leasehold improvements $000	Buildings $000	Network and testing equipment $000	Computer, billing and office telephone equipment $000	Other fixed assets $000	Network under construction $000	Total $000
At 1 July 2017							
Cost	250,245	156,648	7,264,375	1,025,126	124,884	317,125	9,138,403
Accumulated depreciation	(214,246)	(22,136)	(4,839,910)	(899,405)	(90,981)	–	(6,066,678)
Net book amount	35,999	134,512	2,424,465	125,721	33,903	317,125	3,071,725
Year ended 30 June 2018							
Opening net book amount	35,999	134,512	2,424,465	125,721	33,903	317,125	3,071,725
Exchange differences	201	263	–	7	28	–	499
Additions	11,984	–	6,588	79,530	8,979	456,138	563,219
Reclassifications	–	–	495,843	–	–	(495,843)	–
Disposals	–	–	(14,843)	(3)	(96)	(1,935)	(16,877)
Depreciation	(16,758)	(4,360)	(540,350)	(79,817)	(6,601)	–	(647,886)
Closing net book amount	31,426	130,415	2,371,703	125,438	36,213	275,485	2,970,680
At 30 June 2018							
Cost	260,442	157,035	7,516,246	1,103,797	131,284	275,485	9,444,289
Accumulated depreciation	(229,016)	(26,620)	(5,144,543)	(978,359)	(95,071)	–	(6,473,609)
Net book amount	31,426	130,415	2,371,703	125,438	36,213	275,485	2,970,680
Year ended 30 June 2019							
Opening net book amount	**31,426**	**130,415**	**2,371,703**	**125,438**	**36,213**	**275,485**	**2,970,680**
Exchange differences	**(209)**	**(276)**	**–**	**(132)**	**(26)**	**–**	**(643)**
Additions	**23,360**	**–**	**11,158**	**94,551**	**8,712**	**417,667**	**555,448**
Reclassifications	**–**	**–**	**523,829**	**–**	**–**	**(523,829)**	**–**
Disposals	**–**	**–**	**(29,270)**	**(71)**	**(69)**	**(1,786)**	**(31,196)**
Depreciation	**(15,331)**	**(4,348)**	**(558,886)**	**(69,357)**	**(6,653)**	**–**	**(654,575)**
Closing net book amount	**39,246**	**125,791**	**2,318,534**	**150,429**	**38,177**	**167,537**	**2,839,714**
At 30 June 2019							
Cost	**279,807**	**156,597**	**7,842,340**	**1,191,218**	**135,455**	**167,537**	**9,772,954**
Accumulated depreciation	**(240,561)**	**(30,806)**	**(5,523,806)**	**(1,040,789)**	**(97,278)**	**–**	**(6,933,240)**
Net book amount	**39,246**	**125,791**	**2,318,534**	**150,429**	**38,177**	**167,537**	**2,839,714**

At 30 June 2019, buildings with a carrying amount of $75,182,000 (2018: $77,620,000) were pledged as security for bank borrowings of the Group (note 31).

18 Customer acquisition costs

	$000
At 1 July 2017 and 30 June 2018	
Cost	–
Accumulated amortisation	–
Net book amount	–
Year ended 30 June 2019	
Opening net book amount	–
Changes in accounting policies (note 2(b))	**54,511**
At 1 July 2018	**54,511**
Additions	**61,173**
Amortisation (note 9)	**(54,776)**
Exchange differences	**(620)**
Closing net book amount	**60,288**
At 30 June 2019	
Cost	**114,882**
Accumulated amortisation	**(54,594)**
Net book amount	**60,288**

19 Contract assets

	Current		**Non-current**		**Total**	
	30 June 2019 $000	1 July 2018 $000	**30 June 2019 $000**	1 July 2018 $000	**30 June 2019 $000**	1 July 2018 $000
Contract assets	**294,867**	305,299	**103,196**	159,520	**398,063**	464,819

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

(Expressed in Hong Kong dollars)

20 Subsidiaries

Particulars of the principal subsidiaries at 30 June 2019 are as follows:

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Group equity interest 2019	Group equity interest 2018
SmarTone (BVI) Limited*	The British Virgin Islands ("BVI")	Investment holding and group financing in BVI	1,000 ordinary shares of US$1 each US$1,000	**100%**	100%
SmarTone Mobile Communications Limited	Hong Kong	Provision of mobile services and sales of handsets and accessories in Hong Kong	100,000,000 ordinary shares of $1 each $100,000,000	**100%**	100%
SmarTone Communications Limited	Hong Kong	Provision of wireless fixed services in Hong Kong	2 ordinary shares of $1 each $2	**100%**	100%
SmarTone Finance Limited	BVI	Issuance of guaranteed notes in Hong Kong	1 ordinary share of US$1 each US$1	**100%**	100%
SmarTone-Comunicações Móveis, S.A.	Macau	Provision of mobile services and sales of handsets and accessories in Macau	100,000 shares of MOP100 each MOP10,000,000	**72%**	72%
廣州數碼通客戶服務有限公司	The People's Republic of China	Provision of customer support services and telemarketing services in Mainland China	Registered capital of $27,400,000	**100%**	100%

* Subsidiary held directly by the Company.

All of the above subsidiaries are limited liability companies.

21 Interest in an associate

	2019 **$000**	2018 $000
Share of net assets	**3**	3

During the year ended 30 June 2019, there is no movement of share of net assets of interest in an associate (2018: same).

Particulars of the associate at 30 June 2019 are as follows:

Name	**Place of incorporation**	**Principal activities and place of operation**	**Particulars of issued shares held**	**Interest held**	
				2019	2018
New Top Finance Limited	BVI	Investment holding in BVI	375 ordinary shares of US$1 each	**37.5%**	37.5%

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

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

22 Financial asset at fair value through other comprehensive income

(a) Classification of financial asset at fair value through other comprehensive income

Financial asset at fair value through other comprehensive income ("FVOCI") comprise:

- Equity securities which are not held for trading, and which the Group has irrevocably elected at initial recognition to recognise in this category. These are strategic investments and the Group considers this classification to be more relevant.

22 Financial asset at fair value through other comprehensive income *(continued)*

(b) Equity investment at fair value through other comprehensive income

	2019	2018*
	$000	$000
Non-current asset		
Unlisted security	**4,560**	–

* This investment was classified as available-for-sale in 2018, see (e) below. This investment was also held in the previous period.

On disposal of this equity investment, any related balance within the FVOCI reserve is reclassified to retained earnings.

In the prior financial year, the Group had designated equity investment as available-for-sale where management intended to hold it for the medium to long-term.

Note 2(b) explains the change of accounting policy and the reclassification of certain equity investments from available-for-sale to at fair value through other comprehensive income. Note 2(m) sets out the remaining accounting policies.

(c) Amounts recognised in other comprehensive income

During the year, the following loss was recognised in other comprehensive income.

	2019	2018
	$000	$000
Loss recognised in other comprehensive income; 2018 relating to available-for-sale financial assets, see (e) below	**2,086**	1,366

22 Financial asset at fair value through other comprehensive income *(continued)*

(d) Fair value and risk exposure

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

The financial asset at FVOCI is stated at fair value based on the net asset value per unit of the respective fund as determined by the manager of the relevant fund.

Information about the methods and assumptions used in determining fair value is provided in note 4(c).

For an analysis of the sensitivity of the asset to price risk refer to note 4(a)(i).

(e) Financial asset previously classified as available-for-sale financial assets

	2019	2018
	$000	$000
Current asset		
Unlisted security	**–**	6,646

Classification of financial assets as available-for-sale

Investments were designated as available-for-sale financial assets if they did not have fixed maturities and fixed or determinable payments, and management intended to hold them for the medium to long-term. Financial assets that were not classified into any of the other categories (fair value through profit or loss, loans and receivables or held-to-maturity investments) were also included in the available-for-sale category.

Impairment indicators for available-for sale financial assets

A security was considered to be impaired if there had been a significant or prolonged decline in the fair value below its cost. See note 2(m) for further details about the Group's previous impairment policies for available-for-sale financial assets.

23 Financial assets at amortised cost

Financial assets at amortised cost include the following debt investments:

	2019			2018		
	Current	**Non-current**	**Total**	Current	Non-current	Total
	$000	**$000**	**$000**	$000	$000	$000
Listed bonds (i)	**326,912**	**156,423**	**483,335**	–	–	–

See note 2(b) for the impact of the change in accounting policy following the adopting of HKFRS 9 on the classification of financial assets and note 2(m) for the remaining relevant accounting policies.

23 Financial assets at amortised cost *(continued)*

The fair values of the listed bonds are based on quoted market prices.

	2019 **$000**	2018 $000
Fair values of listed bonds	**480,820**	557,831

The financial assets at amortised cost are denominated in US dollars. There is no exposure to price risk as the investments will be held to maturity.

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

	2019 **$000**	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.

24 Intangible assets

	Handset subsidies $000	Mobile licence fees $000	Total $000
At 1 July 2017			
Cost	1,101,738	4,103,521	5,205,259
Accumulated amortisation	(806,237)	(767,623)	(1,573,860)
Net book amount	295,501	3,335,898	3,631,399
Year ended 30 June 2018			
Opening net book amount	295,501	3,335,898	3,631,399
Additions	514,964	–	514,964
Amortisation	(340,595)	(285,470)	(626,065)
Disposal	(3,396)	–	(3,396)
Closing net book amount	466,474	3,050,428	3,516,902
At 30 June 2018			
Cost	1,609,148	4,103,521	5,712,669
Accumulated amortisation	(1,142,674)	(1,053,093)	(2,195,767)
Net book amount	466,474	3,050,428	3,516,902
Year ended 30 June 2019			
Opening net book amount at 30 June 2018, as originally stated	**466,474**	**3,050,428**	**3,516,902**
Changes in accounting policies (note 2(b))	**(466,474)**	**–**	**(466,474)**
Restated opening net book amount at 1 July 2018	**–**	**3,050,428**	**3,050,428**
Amortisation	**–**	**(285,470)**	**(285,470)**
Closing net book amount	**–**	**2,764,958**	**2,764,958**
At 30 June 2019			
Cost	**–**	**4,103,521**	**4,103,521**
Accumulated amortisation	**–**	**(1,338,563)**	**(1,338,563)**
Net book amount	**–**	**2,764,958**	**2,764,958**

24 Intangible assets *(continued)*

In assessing whether intangible assets have suffered any impairment, the carrying value of the intangible assets is compared with its recoverable amount, which is the higher of the asset's fair value less costs to dispose and value in use. The recoverable amounts are determined by utilising cash flow projections based on the latest approved budgets for 5 years discounted to present value at a discount rate of 7.3% (2018: 8.1%). The Group prepared the budgets reflecting current and prior year performances, market development expectations and where available and relevant, observable market data. There are a number of assumptions and estimates involved for the preparation of the budget and cash flow projections. Key assumptions include the expected growth in revenue, gross margin, operating costs, future capital expenditures, dividend payout ratio and growth rates. A reasonably possible change in a key assumption would not cause the recoverable amount to fall below the carrying value of the intangible assets. The results of the tests undertaken as at 30 June 2019 and 2018 indicated no impairment charge was necessary.

25 Trade and other receivables

	2019			2018		
	Current	**Non-current**	**Total**	Current	Non-current	Total
	$000	**$000**	**$000**	$000	$000	$000
Trade receivables	**449,491**	**–**	**449,491**	372,791	–	372,791
Loss allowance	**(7,179)**	**–**	**(7,179)**	(8,034)	–	(8,034)
	442,312	**–**	**442,312**	364,757	–	364,757
Other receivables	**124,995**	**–**	**124,995**	43,645	–	43,645
	567,307	**–**	**567,307**	408,402	–	408,402
Deposits	**71,261**	**77,907**	**149,168**	77,950	72,220	150,170
Prepayments	**96,026**	**43,661**	**139,687**	94,927	44,915	139,842
Total trade and other receivables	**734,594**	**121,568**	**856,162**	581,279	117,135	698,414

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

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

25 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:

	2019	2018
	$000	$000
Current to 30 days	**381,416**	276,802
31 – 60 days	**43,166**	45,066
61 – 90 days	**5,524**	4,705
Over 90 days	**12,206**	38,184
	442,312	364,757

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

Due to the short-term nature of the receivables, their carrying amounts are considered to be the same as their fair values.

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. This resulted in a loss of $4,858,000 for the impairment of its trade receivables during the year ended 30 June 2019.

As at 30 June 2019, trade receivables of $200,379,000 (2018: $135,371,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. An ageing analysis of these trade receivables is as follows:

	2019	2018
	$000	$000
Past due 1 – 30 days	**139,519**	64,261
Past due 31 – 60 days	**43,172**	30,639
Past due over 60 days	**17,688**	40,471
	200,379	135,371

25 Trade and other receivables *(continued)*

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

	2019	2018
	$000	$000
At 1 July	**8,034**	12,852
Impairment loss recognised in the consolidated profit and loss account (note 9)	**4,858**	10,811
Amounts written off during the year	**(5,713)**	(15,629)
At 30 June	**7,179**	8,034

At 30 June 2019, trade receivables of $7,179,000 (2018: $8,034,000) were impaired and fully provided. The individually impaired receivables mainly relate to independent customers that were in financial difficulties. The ageing of these receivables is as follows:

	2019	2018
	$000	$000
Past due 31 – 60 days	**876**	931
Past due 61 – 90 days	**1,376**	1,171
Past due over 90 days	**4,927**	5,932
	7,179	8,034

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

26 Deferred income tax

Deferred income tax for the Group's temporary differences arising from operations in Hong Kong and overseas is calculated at 16.5% (2018: 16.5%) and the appropriate current tax rates ruling in the relevant countries respectively.

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

(a) Deferred income tax assets

	Decelerated depreciation allowance $000
At 1 July 2017	(6,130)
Recognised in the consolidated profit and loss account (note 10(a))	588
At 30 June 2018	(5,542)
At 1 July 2018	**(5,542)**
Recognised in the consolidated profit and loss account (note 10(a))	**753**
At 30 June 2019	**(4,789)**

(b) Deferred income tax liabilities

	Mobile licence fee assets $000	Accelerated depreciation allowance $000	Total $000
At 1 July 2017	(21,368)	158,106	136,738
Recognised in the consolidated profit and loss account (note 10(a))	2,479	(13,509)	(11,030)
At 30 June 2018	(18,889)	144,597	125,708
At 1 July 2018	**(18,889)**	**144,597**	**125,708**
Recognised in the consolidated profit and loss account (note 10(a))	**3,268**	**(16,368)**	**(13,100)**
At 30 June 2019	**(15,621)**	**128,229**	**112,608**

26 Deferred income tax *(continued)*

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group has not recognised deferred income tax assets of $28,318,000 (2018: $20,506,000) in respect of tax losses of $205,532,000 (2018: $149,632,000). Under the current tax legislation, unrecognised tax losses of $124,319,000 (2018: $92,966,000) related to a subsidiary operating in Macau are subject to an expiry period of three years from the year in which the tax loss arises. The remaining tax losses do not expire under current tax legislation.

27 Inventories

	2019 **$000**	2018 $000
Handsets and accessories, at cost	**93,079**	173,763
Less: provision for slow-moving and obsolete inventories	**(13,607)**	(12,298)
	79,472	161,465

The Group recognised an impairment provision of $1,309,000 (2018: reversal of impairment provision of $2,455,000) for slow-moving and obsolete inventories during the year ended 30 June 2019. The amount has been included in "cost of inventories sold" in the consolidated profit and loss account.

28 Short-term bank deposits and cash and cash equivalents

	2019 **$000**	2018 $000
Cash at bank and in hand	**51,766**	259,010
Short-term bank deposits with original maturities of 3 months or less	**1,904,221**	1,472,941
Cash and cash equivalents per consolidated cash flow statement	**1,955,987**	1,731,951
Short-term bank deposits with original maturities more than 3 months	**173,327**	96,155
	2,129,314	1,828,106
Maximum exposure to credit risk	**2,125,794**	1,822,345

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

28 Short-term bank deposits and cash and cash equivalents *(continued)*

Short-term bank deposits and cash and cash equivalents are denominated in the following currencies:

	2019 $000	2018 $000
Hong Kong dollars	**248,724**	231,149
US dollars	**1,868,830**	1,571,923
Renminbi	**1,261**	3,433
Others	**10,499**	21,601
	2,129,314	1,828,106

29 Trade and other payables

	2019 $000	2018 $000
Current liabilities		
Trade payables (a)	**448,469**	521,620
Other payables and accruals (b)	**812,171**	852,081
	1,260,640	1,373,701

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

	2019 $000	2018 $000
Current to 30 days	**151,275**	377,911
31 – 60 days	**86,820**	42,004
61 – 90 days	**45,841**	12,016
Over 90 days	**164,533**	89,689
	448,469	521,620

At 30 June 2019, the carrying amount of the Group's trade payables are mainly denominated in HK dollars which accounted for 82%.

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

29 Trade and other payables *(continued)*

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

	2019	2018
	$000	$000
Accrued expenses	**485,917**	527,990
Payables for fixed assets	**253,348**	253,440
Receipt in advance	**72,906**	70,651
	812,171	852,081

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

30 Contract liabilities

	30 June 2019	1 July 2018*
	$000	$000
Contract liabilities		
– Mobile telecommunications service contracts	**267,970**	262,432

* Change in accounting policies (note 2(b))

Revenue in relation to mobile telecommunications service contracts, which was included in the contract liabilities balance at the beginning of the year amounting to $262 million, was recognised during the year ended 30 June 2019.

No revenue is recognised from performance obligations satisfied in previous periods during the year ended 30 June 2019.

(i) Unsatisfied long-term fixed price contracts

	30 June 2019
	$000
Aggregate amount of the transaction price allocated to long-term contracts that are partially or fully satisfied as at 30 June 2019**	**2,184,190**

** As permitted under the transitional provisions in HKFRS 15, the transaction price allocated to (partially) unsatisfied performance obligations as at 30 June 2018 is not disclosed.

Management expects that 69% of the transaction price allocated to the unsatisfied contracts as of 30 June 2019 will be recognised as revenue during the next reporting period. The remaining 31% will be recognised as revenue after the year ending 30 June 2020.

31 Bank and other borrowings

	2019 Current $000	2019 Non-current $000	2019 Total $000	2018 Current $000	2018 Non-current $000	2018 Total $000
Secured bank borrowings	–	66,000	66,000	5,976	54,209	60,185
Unsecured bank borrowings	430,393	396,213	826,606	129,813	827,528	957,341
Guaranteed notes (a)	–	1,410,303	1,410,303	–	1,412,855	1,412,855
Total bank and other borrowings	430,393	1,872,516	2,302,909	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 2023, which are listed on The Stock Exchange of Hong Kong Limited. The notes are irrevocably and unconditionally guaranteed by the Company and will rank pari passu with all other outstanding unsecured and unsubordinated obligations of the Company.

During the year ended 30 June 2019, the Group has not redeemed any guaranteed notes (2018: a gain of $12,000 upon redemption of US$18,185,000 guaranteed notes).

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

	2019 $000	2018 $000
Between 1 and 2 years	131,970	436,756
Between 2 and 5 years	1,676,746	1,829,239
Over 5 years	63,800	28,597
	1,872,516	2,294,592

31 Bank and other borrowings *(continued)*

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

	Level 1 $000	**Level 2 $000**	**Level 3 $000**	**Total $000**
At 30 June 2019				
Secured bank borrowings	**–**	**66,000**	**–**	**66,000**
Unsecured bank borrowings	**–**	**387,678**	**–**	**387,678**
Guaranteed notes	**1,455,781**	**–**	**–**	**1,455,781**
Total	**1,455,781**	**453,678**	**–**	**1,909,459**

	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 30 June 2019, 78% (2018: 79%) of the Group's bank and other borrowings are denominated in US dollars and 22% (2018: 21%) are denominated in Hong Kong dollars.

At 30 June 2019, secured bank borrowings are secured by certain buildings of the Group (note 17) (2018: same).

32 Mobile licence fee liabilities

	2019 $000	2018 $000
At 1 July	**188,032**	227,926
Accretion expenses included in consolidated profit and loss account (note 8)	**17,668**	22,456
Payment	**(62,350)**	(62,350)
At 30 June	**143,350**	188,032
Less: mobile licence fee liabilities included under current liabilities	**(60,041)**	(60,041)
Non-current portion	**83,309**	127,991

Analysis of the present value of mobile licence fee liabilities:

	2019 $000	2018 $000
Minimum annual fees payable		
Within 1 year	**62,350**	62,350
After 1 year but within 5 years	**100,630**	162,980
	162,980	225,330
Less: future finance charges	**(19,630)**	(37,298)
Present value of mobile licence fee liabilities	**143,350**	188,032
Comprising:		
Within 1 year	**60,041**	60,041
After 1 year but within 5 years	**83,309**	127,991
	143,350	188,032

33 Share capital

	Notes	Shares of $0.1 each	$000
Authorised			
At 30 June 2018 and 30 June 2019		**2,000,000,000**	**200,000**
Issued and fully paid			
At 1 July 2017		1,105,812,453	110,581
Issue of shares in lieu of cash dividends	(b)	46,242,824	4,624
Repurchase of shares	(c)	(27,786,000)	(2,779)
At 30 June 2018		**1,124,269,277**	**112,426**
Issue of shares in lieu of cash dividends	(b)	**9,278,753**	**928**
Repurchase of shares	(c)	**(9,008,000)**	**(901)**
At 30 June 2019		**1,124,540,030**	**112,453**

(a) During the years ended 30 June 2019 and 2018, no share options were exercised.

(b) On 5 September 2018, the board of directors declared a final dividend of 23 cents (2018: 33 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 (2018: 28,143,051) shares were issued at $10.252 (2018: $9.312) per share in respect of the final dividend.

On 30 January 2019, the board of directors declared an interim dividend of 18 cents (2018: 18 cents) per fully paid share for the year ended 30 June 2019. The shareholders were provided with an option to receive the interim dividend in form of scrip dividend. On 27 March 2019, 8,545,226 (2018: 18,099,773) shares were issued at $9.134 (2018: $8.426) per share in respect of the interim dividend.

33 Share capital *(continued)*

(c) During the year ended 30 June 2019, the Company repurchased and cancelled 6,800,000 shares on the HKSE. Of these repurchased shares together with 2,208,000 repurchased in June 2018, 9,008,000 shares were cancelled prior to 30 June 2019. The amount paid to acquire the 6,800,000 cancelled shares of $53,717,000 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.

Month of repurchase	**Number of shares repurchased and cancelled**	**Price per share Highest**	**Lowest**	**Aggregate price paid $000**
July 2018	**744,000**	**$8.00**	**$7.93**	**5,938**
September 2018	**819,500**	**$8.14**	**$7.83**	**6,506**
April 2019	**585,000**	**$8.20**	**$8.16**	**4,785**
May 2019	**3,961,500**	**$8.15**	**$7.65**	**31,287**
June 2019	**690,000**	**$7.66**	**$7.37**	**5,201**
	6,800,000			**53,717**

During the year ended 30 June 2018, the Company repurchased and cancelled 27,786,000 shares on the HKSE. The total amount paid to acquire these cancelled shares of $247,421,000 was deducted from equity attributable to equity holders.

Month of repurchase	Number of shares repurchased and cancelled	Price per share Highest	Lowest	Aggregate price paid $000
July 2017	392,000	$10.10	$10.08	3,959
August 2017	3,649,500	$9.73	$9.55	35,086
September 2017	6,754,500	$9.67	$9.20	63,379
November 2017	1,978,500	$9.20	$9.09	18,112
February 2018	8,205,500	$9.06	$8.24	70,452
March 2018	1,604,000	$8.68	$8.33	13,700
April 2018	2,816,500	$8.27	$8.14	23,097
May 2018	2,385,500	$8.30	$8.20	19,636
	27,786,000			247,421

(Expressed in Hong Kong dollars)

34 Share option scheme and share award scheme

(a) Share option scheme

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

(i) Movements in share options

	Average exercise price per share	Number of share options
At 30 June 2018 and 30 June 2019	**$14.28**	**3,000,000**

At 30 June 2019, 2,000,000 (2018: 1,000,000) share options were exercisable with average exercise price of $14.28 (2018: $14.28) per share.

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

Date of grant	Exercise period	Exercise price per share	**2019 Number of share options**	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 years ended 30 June 2019 and 2018.

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

(b) Share award scheme

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

(i) Details of share award granted during the year ended 30 June 2019

Date of grant	Number of awarded shares granted	Average fair value per share	Vesting period
29 June 2018	1,871,800	$8.10	29 June 2019 to 29 June 2021
31 January 2019	1,830,800	$9.31	31 January 2020 to 31 January 2022

(ii) Movements in share award

	2019	2018
Number of awarded shares		
Outstanding at 1 July	**1,871,800**	–
Granted	**1,830,800**	1,871,800
Lapsed	**(157,200)**	–
Outstanding at 30 June	**3,545,400**	1,871,800

(iii) Shares held for share award scheme

	Number of shares	$000
Opening balance 1 July 2018	–	–
Acquisition of shares by the Trust	(1,092,000)	(8,987)
Shares received in form of scrip dividend	(20,579)	–
Balance 30 June 2019	(1,112,579)	(8,987)

35 A reconciliation of liabilities arising from financing activities

	Bank borrowings $000	Guaranteed notes $000	Total $000
At 1 July 2017	1,147,923	1,542,762	2,690,685
Repayment of bank borrowings	(139,706)	–	(139,706)
Payment for repurchase of guaranteed notes	–	(141,122)	(141,122)
Finance costs	9,309	11,227	20,536
Finance income	–	(12)	(12)
At 30 June 2018	**1,017,526**	**1,412,855**	**2,430,381**
Proceeds from bank borrowings	**66,000**	**–**	**66,000**
Repayment of bank borrowings	**(194,426)**	**–**	**(194,426)**
Finance costs	**3,506**	**(2,552)**	**954**
At 30 June 2019	**892,606**	**1,410,303**	**2,302,909**

36 Commitments and contingent liabilities

(a) Capital commitments

	2019 $000	2018 $000
Fixed assets		
Contracted for	**62,123**	24,899

36 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 30 June 2019, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2019 **\$000**	2018 \$000
Land and buildings and transmission sites		
No later than 1 year	**621,602**	583,863
Later than 1 year and no later than 5 years	**433,913**	454,132
Later than 5 years	**3,771**	1,521
	1,059,286	1,039,516
Leased lines		
No later than 1 year	**216,232**	236,479
Later than 1 year and no later than 5 years	**515,279**	618,703
Later than 5 years	**129,030**	197,031
	860,541	1,052,213

(c) Performance bonds

	2019 **\$000**	2018 \$000
Hong Kong	**400,000**	–
Macau	**3,883**	3,883
	403,883	3,883

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

36 Commitments and contingent liabilities *(continued)*

(d) During the year ended 30 June 2019, a bank issued a standby letter of credit of $1,080,000,000 to a subsidiary of the Company in favour 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.

A bank also issued two standby letters of credit with amount of $580,000,000 and $760,000,000 respectively to a subsidiary of the Company in favour of OFCA, being the final amount of spectrum utilisation fees determined during the auction.

(e) At 30 June 2019, 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 $1,137,042,000) and $600,000,000, of which US$49,052,000 (approximately $383,341,000) and $450,000,000 of the banking facilities were utilised by the subsidiary.

37 Related party transactions

The Group is controlled by Cellular 8 Holdings Limited, which owns 67.17% of the Company's shares as at 30 June 2019. The remaining 32.83% of the shares are widely held, of which 3.80% is held by another subsidiary of SHKP. The ultimate holding company of the Group is SHKP, a company incorporated in Hong Kong.

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

	2019 **$000**	2018 $000
Operating lease rentals for land and buildings and transmission sites (i)	**128,834**	127,868
Insurance expense (ii)	**4,072**	4,562

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

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

For the year ended 30 June 2019, rental and licence fees paid and payable to subsidiaries and associated companies of SHKP totalled $128,834,000 (2018: $127,868,000).

(ii) Insurance services

Sun Hung Kai Properties Insurance Limited, a wholly owned subsidiary of SHKP, provides general insurance services to the Group. For the year ended 30 June 2019, insurance premiums paid and payable were $4,072,000 (2018: $4,562,000).

37 Related party transactions *(continued)*

(b) At 30 June 2019, 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:

	2019	2018
	$000	$000
Salaries, bonuses and other short-term employee benefits	**32,703**	37,238
Share-based payments	**3,385**	2,270
	36,088	39,508

(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:

	2019	2018
	$000	$000
Deposits and prepayments (note 25)	**25,282**	24,983
Other payables and accruals (note 29)	**4,061**	4,610

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

38 Balance sheet and reserve movement of the Company

	2019 $000	2018 $000
Non-current asset		
Investments in subsidiaries	**8,411,067**	6,899,044
Current assets		
Prepayments	**425**	206
Amounts due from subsidiaries	**39,575**	44,256
Tax recoverable	**55**	177
Cash and cash equivalents	**409**	252
Total assets	**40,464**	44,891
Current liabilities		
Amounts due to subsidiaries	**4,444,283**	4,007,418
Other payables and accruals	**3,657**	3,154
Total liabilities	**4,447,940**	4,010,572
Net assets	**4,003,591**	2,933,363
Capital and reserves		
Share capital	**112,453**	112,426
Reserves (Note (a))	**3,891,138**	2,820,937
Total equity attributable to equity holders of the Company	**4,003,591**	2,933,363

The balance sheet of the Company was approved by the Board of Directors on 6 September 2019 and was signed on its behalf.

Kwok Ping-luen, Raymond
Director

Anna Yip
Director

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

Note (a) Reserve movement of the Company

	Company					
	Share premium $000	Capital redemption reserve $000	Contributed surplus $000	Employee share-based compensation reserve $000	Retained profits $000	Total $000
1 July 2017	1,123,978	11,769	741,696	4,290	1,353,349	3,235,082
Comprehensive income						
Loss for the year	–	–	–	–	(1,891)	(1,891)
Transactions with owners						
Share-based payments	–	–	–	2,304	–	2,304
Repurchase of shares (note 33 (c))	–	2,779	(2,159)	–	(245,262)	(244,642)
Prepayment for repurchase of shares	–	–	–	–	(18,178)	(18,178)
Payment of 2017 final dividend (note 33(b))	259,254	–	–	–	(361,355)	(102,101)
Payment of 2018 interim dividend (note 33(b))	150,699	–	–	–	(200,336)	(49,637)
At 30 June 2018 and 1 July 2018	**1,533,931**	**14,548**	**739,537**	**6,594**	**526,327**	**2,820,937**
Comprehensive income						
Profit for the year	**–**	**–**	**–**	**–**	**1,498,446**	**1,498,446**
Transactions with owners						
Share-based payments	**–**	**–**	**–**	**12,468**	**–**	**12,468**
Lapse of share award	**–**	**–**	**343**	**(343)**	**–**	**–**
Repurchase of shares (note 33(c))	**–**	**901**	**–**	**–**	**(53,717)**	**(52,816)**
Prepayment for repurchase of shares	**–**	**–**	**–**	**–**	**(4,018)**	**(4,018)**
Purchase of shares for Share Award Scheme	**–**	**–**	**(8,987)**	**–**	**–**	**(8,987)**
Payment of 2018 final dividend (note 33(b))	**7,447**	**–**	**–**	**–**	**(257,714)**	**(250,267)**
Payment of 2019 interim dividend (note 33(b))	**77,197**	**–**	**–**	**–**	**(201,822)**	**(124,625)**
At 30 June 2019	**1,618,575**	**15,449**	**730,893**	**18,719**	**1,507,502**	**3,891,138**

39 Benefits and interests of directors

(a) Directors' and chief executive's emoluments

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

	2019							2018
	Fees $000	Salaries and allowances $000	Bonuses $000	Retirement scheme contributions $000	Estimated money value of other benefits $000	Share-based payments $000	Total $000	Total $000
Executive Directors								
Ms. Anna Yip	144	7,026	1,105	351	89	1,704	10,419	15,685
Mr. Chan Kai-lung, Patrick	144	5,600	917	560	78	507	7,806	7,349
Mr. Chau Kam-kun, Stephen	144	5,860	1,103	586	98	507	8,298	7,939
Non-Executive Directors								
Mr. Kwok Ping-luen, Raymond	180	–	–	–	–	–	180	180
Mr. Cheung Wing-yui	162	–	–	–	–	–	162	162
Mr. Fung Yuk-lun, Allen	162	–	–	–	–	–	162	162
Mr. David Norman Prince	144	–	–	–	–	–	144	144
Mr. Siu Hon-wah, Thomas	144	–	–	–	–	–	144	144
Mr. John Anthony Miller	144	–	–	–	–	–	144	144
Dr. Li Ka-cheung, Eric, *JP**	288	–	–	–	–	–	288	288
Mr. Ng Leung-sing, *JP**	288	–	–	–	–	–	288	288
Mr. Gan Fock-kin, Eric*	288	–	–	–	–	–	288	288
Mrs. Ip Yeung See-ming, Christine*	144	–	–	–	–	–	144	144
Mr. Lam Kwok-fung, Kenny*	144	–	–	–	–	–	144	144
Mr. Yang Xiang-dong* (1)	–	–	–	–	–	–	–	48
	2,520	18,486	3,125	1,497	265	2,718	28,611	33,109
2018	2,568	18,145	8,405	1,470	254	2,267		

* Independent Non-Executive Director

(1) Retired on 2 November 2017

39 Benefits and interests of directors *(continued)*

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

During the years ended 30 June 2019 and 2018, no director:

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

In addition to the above emoluments, directors were granted share options and share awards under the Company's share option and share award schemes. The details of these benefits in kind are disclosed under the section "Share option scheme" and "Share award scheme" in the Report of the Directors and note 34.

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

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

40 Ultimate holding company

The directors consider the ultimate holding company at 30 June 2019 to be Sun Hung Kai Properties Limited, a company incorporated in Hong Kong with its shares listed on the main board of HKSE.