SmarTone Telecommunications Holdings Limited

Stock Code : 0315

INTERIM REPORT 2019/20

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).

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BUSINESS HIGHLIGHTS

Blazing the trail for 5G development in Hong Kong

SmarTone's powerful network leads the way to 5G future by integrating technology with humanity to unleash limitless possibilities. 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

Collaboration with start-ups to put forth the SmarTone ***5G Innovation Hub*** with a new wave of 5G live demo.

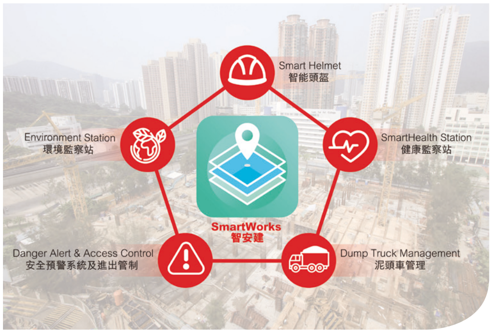
"SmarTone 5G X Fun Roadshow" offered an exciting first-hand 5G experience.

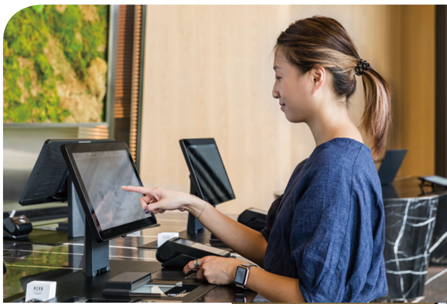
Won the ***"Best Mobile Network Operator"*** awards at the CAHK STAR Awards 2019, fully affirm the industry's recognition of SmarTone's commitment in pursuit of a high-quality network and customer experience.

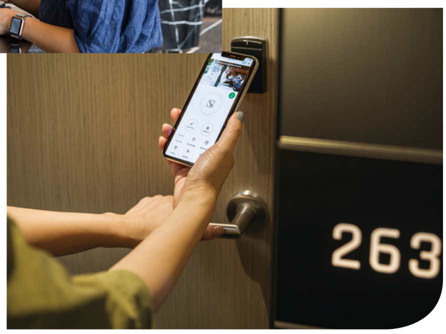
2019 CAHK
CAHK STAR Award
通訊業聯會非凡年獎

2. Empowering Innovation

SmartWorks & ***SmartHotel Solution*** injected the latest technology to enhance construction safety and customers hospitality experiences.







The third cross-industry ***SmarTone Hackathon*** themed "5G & Smart City" attracted creative talents from around the world to realise their full potential in 5G technology idea.

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 industry.

With the exceptional team performance in customer services, we snapped up 22 accolades at the ***2019 Service & Courtesy Award***.

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"*** forges partnerships with major brands to elevate its brand and loyalty amongst millennials and continues to win awards for its digital only business model.

Birdie™

Award-winning website to offer a customer-centric experience.

Chatbot continues to improve customer experience and enhance efficiency.

CHAIRMAN'S STATEMENT

(Financial figures are expressed in Hong Kong dollars)

Business review

During the period under review, the business environment for mobile continued to be competitive and challenging. Under HKFRS 16, Group net profit was 20% lower at $265 million *(Pre-HKFRS 16: $271 million)*. This decline was primarily due to lower profitability in the handset business, a substantial decline in inbound roaming due to the significant fall in visitors, and higher depreciation resulting from investments in mobile infrastructure and IT systems in the prior period. Full year depreciation for FY20 is, however, expected to be similar to last year's.

The Company saw a 3% increase in service revenue to $2,412 million, reflecting an increase in customer numbers, a lower average churn rate offset by a small decline in ARPU ($225 vs $227 last year). Group EBITDA was 36% higher at $1,274 million, as rental costs were capitalised and depreciated rather than recognised as OPEX. Under the pre-HKFRS 16 accounting standard, Group EBITDA would have been $870 million, down 7%.

Customer segmentation remained a core focus for the Company, with particular emphasis on high-end segments, millennials, and enterprises. In addition, the Company expanded alternative sales channels such as online and flexible mobile salesforce to meet the needs of customers' changing shopping behaviour. Customer numbers grew 7% to 2.64 million, and churn rate improved further to 0.8% from 1.0% in the same period last year.

In recognition of SmarTone's commitment to delivering superior customer experience, the Company was awarded "Best Mobile Network Operator" from the Communications Association of Hong Kong. In addition, SmarTone won 22 accolades, the highest in the industry, at the HKRMA 2019 Service & Courtesy Award.

SmarTone's increased focus and investment in the Enterprise Solutions business resulted in an increase in customers and strong revenue growth. The Company's portfolio of solutions for selected industries, including construction, hospitality and facility management, enables its clients to improve performance and enhance efficiency. SmarTone's Smart Construction solution received the 1st Prize in the Construction Innovation Award 2019 presented by the Construction Industry Council. The solution helps companies improve safety and management efficiency at construction sites.

As the 5G era approaches, SmarTone is well-positioned to be a leader in this new technology. In the recent 5G spectrum auctions, the Company successfully acquired a strong portfolio of spectrums. On a per subscriber basis, the Company acquired the most spectrum amongst all operators in the critical 3.5GHz band. SmarTone targets to launch 5G service by mid-2020, offering a richer customer experience and enabling new applications for enterprise and Smart City initiatives. In selected markets such as Korea, operators have been able to charge a premium because of the enhanced customer experience. The Company will make reference to overseas successful launch experience to optimise its go-to-market strategy.

Dividend

In line with the Company's dividend policy, the Board declared an interim dividend of 14.5 cents per share. Shareholders have the option to receive new and fully paid shares in lieu of cash under a scrip dividend scheme.

(Financial figures are expressed in Hong Kong dollars)

Outlook

The mobile industry remains intensely competitive in the near term. At the same time, the recent social events and the outbreak of coronavirus have put additional pressure on the Hong Kong economy, and on consumers and enterprises alike. Some aspects of SmarTone's businesses will be adversely impacted. Inbound and outbound roaming, in particular, will be significantly affected due to reduced travel. In face of these headwinds, the Company will focus on serving our customers better and identifying new services and revenue streams. The Company will also maintain vigilant control on investments and costs, with productivity measures to alleviate short-term negative impact and enhance long-term profitability.

SmarTone will focus on the core local business by delivering outstanding network performance and superior customer experience. The launch of 5G later this year will be a key priority for the Company. 5G will present opportunities for consumer upgrade, with material enhancement in user experience. It will also drive new potential for the Enterprise segment, not least from additional Smart City initiatives.

The Company aims to create a network that has strong coverage but also operates cost effectively. Initial estimates of Group CAPEX, including 5G, over the next five years will not be materially higher than what the Company incurred over the last five years. Because of the greater throughput and higher spectrum efficiency, 5G will, in the long run, be cheaper to serve customers' growing data needs.

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, 18 February 2020

MANAGEMENT DISCUSSION AND ANALYSIS

(Financial figures are expressed in Hong Kong dollars)

Review of financial results

During the period under review, the Group profit attributable to shareholders was 20% lower at $265 million (first half of 2018/19: $332 million). The decline was primarily due to lower profitability in the handset business, a substantial decline in inbound roaming due to the significant fall in visitors, and higher depreciation resulting from investments in mobile infrastructure and IT systems in the prior period.

Under the pre-HKFRS 16 accounting standard, Group EBITDA was $870 million, down 7%. Group profit attributable to shareholders declined 18% to $271 million.

Group service revenue increased by 3% to $2,412 million (first half of 2018/19: $2,345 million) mainly due to the growth in Enterprise Solutions services. Mobile postpaid ARPU fell 1% to $225 (first half of 2018/19: $227). Compared with the second half of 2018/19, Group service revenue increased by $123 million or 5% mainly due to additional revenue from Enterprise Solutions.

Group's handset and accessory sales fell by $997 million or 35% to $1,845 million when compared with $2,842 million for same period last year mainly due to weakness in the handset trading business. Compared with the second half of 2018/19, Group's handset and accessories sales increased by $905 million or 96% due to significant increase in sales volume coincide with the timing of new phones launched in the market.

As a result, Group total revenue decreased by 18% to $4,257 million (first half of 2018/19: $5,187 million) mainly due to lower handset revenue. Compared with the second half of 2018/19, Group total revenue increased by $1,028 million or 32% mainly due to higher handset revenue.

Roaming revenue, which made up of 15% of Group's service revenue (first half of 2018/19: 16%) decreased by 4% due to the sharp decline in visitors as a result of social event during the period.

Hong Kong customer number grew 7% year-on-year to 2.64 million and 4% half-on-half through growth in different segments. Postpaid churn rate improved to an industry low of 0.8% compared to 1.0% during the same period last year.

Cost of inventories sold fell by $959 million or 34% to $1,854 million (first half of 2018/19: $2,813 million), in line with the corresponding decrease in handset and accessory sales.

Staff costs rose by $18 million or 5% to $382 million (first half of 2018/19: $364 million) amid annual salary increment and increase in share-based payments due to the grant of share awards to over 300 management staff in January 2019.

With the adoption of HKFRS 16 during the period under review, a right-of-use asset (the right to use the leased item) and a lease liability (to pay rentals) are recognised at the date of which the leased asset is available for use by the Group. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Under HKFRS 16, cost of services provided and other operating expenses fell by $323 million or 30% to $748 million (first half of 2018/19: $1,071 million) as majority of the Group's lease expenses are now recognised in right-of-use assets depreciation and finance costs.

Cost of services provided and other operating expenses (pre-HKFRS 16) increased $46 million or 4%. Cost of services provided rose to support the corresponding increase in Enterprise Solutions revenue. Other operating expenses increased 1%.

Under HKFRS 16, depreciation and loss on disposal rose by $412 million or 125% to $742 million (first half of 2018/19: $330 million) mainly amid the recognition of right-of-use assets depreciation. Depreciation and loss on disposal increased by $19 million (pre-HKFRS 16) or 6% mainly due to commencement of depreciation for CAPEX during the previous financial year.

Amortisation of customer acquisition costs rose by $3 million to $30 million (first half of 2018/19: $27 million).

Spectrum utilisation fee amortisation remained stable at $143 million.

Finance income rose by $4 million or 11% to $40 million (first half of 2018/19: $36 million) mainly due to higher deposit interest income.

Finance costs increased by $7 million or 14% to $62 million (first half of 2018/19: $55 million) mainly amid the recognition of accretion expenses on lease liabilities under HKFRS 16. Based on the previous accounting standard, finance costs fell by $10 million or 18% mainly due to lower accretion expenses on mobile licence fee liabilities.

Income tax expense amounted to $78 million (first half 2018/19: $94 million), reflecting an effective tax rate of 23.1% (first half of 2018/19: 22.4%). In light of the uncertainty of the tax deductibility of the spectrum utilisation fees, these payments have been treated as non-deductible on cash or amortisation basis. As a result, Group effective tax rate is higher than 16.5%. The Group will continue to vigorously defend its position and pursue tax deduction of the spectrum utilisation fees from the Inland Revenue Department.

Under HKFRS 16, Group EBITDA increased by $335 million or 36% to $1,274 million (first half of 2018/19: $939 million). Group operating profit was $359 million, representing an 18% decrease as compared with same period last year. Group profit attributable to shareholders fell by $67 million or 20% to $265 million (first half of 2018/19: $332 million).

Compared with the second half of 2018/19, Group EBITDA increased by 41% (second half of 2018/19: $902 million), while Group operating profit fell by 7%. Group profit attributable to equity holders of the Company fell by 11% (second half of 2018/19: $300 million). Excluding a one-off cost adjustment in second half of 2018/19, Group profit attributable to equity holders of the Company increased by $17 million or 7% mainly amid the increase in service revenue.

Capital structure, liquidity and financial resources

The Group maintained a strong balance sheet for the period under review. During the period, the Group was financed by share capital, internally generated funds and bank and other borrowings. As at 31 December 2019, the Group recorded share capital of $112 million, total equity of $5,089 million and total borrowings of $2,234 million.

The Group's cash resources remained robust with cash and bank balances of $1,895 million as at 31 December 2019 (30 June 2019: $2,129 million).

As at 31 December 2019, the Group had bank and other borrowings of $2,234 million (30 June 2019: $2,303 million) of which 77% were denominated in United States dollars and were arranged on a fixed rate basis. The Group was in a net cash position with net cash, including financial assets at amortised costs, amounted to $94 million as at 31 December 2019 (30 June 2019: $310 million).

The Group had net cash generated from operating activities and interest received of $827 million and $54 million respectively during the period ended 31 December 2019. The Group's major outflows of funds during the period were payments for leases, payments for purchase of fixed assets, payment for dividends, 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 $74 million as at 31 December 2019 (30 June 2019: $75 million).

Interest rate exposure

The Group is exposed to interest rate changes that affect bank borrowings denominated in Hong Kong dollars which accounted for 23% of the Group's total borrowings at 31 December 2019. The remaining 77% of the Group's borrowings are fixed rates borrowings. Hence, the Group is well protected from any potential increase in interest rates in the future. The Group does not currently undertake any interest rate hedging.

Functional currency and foreign exchange exposure

The functional currency of the Company is the Hong Kong dollar. The Group is exposed to other currency movements, principally in terms of certain trade receivables, bank deposits, financial asset at fair value through other comprehensive income, financial assets at amortised cost, trade payables and bank and other borrowings denominated in United States dollars. The Group does not currently undertake any foreign exchange hedging.

Contingent liabilities

Performance bonds

Certain banks, on the Group's behalf, had issued performance bonds to the telecommunications authorities of Hong Kong and Macau in respect of obligations under mobile licences issued by those authorities. The total amount outstanding as at 31 December 2019 under these performance bonds was $472 million (30 June 2019: $404 million).

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.

During the period under review, a bank issued a standby letter of credit of $480 million to a subsidiary of the Company in favour of the OFCA for submission of a deposit to participate in the auction for spectrums, of which $200 million was cancelled during the period. A bank also issued a letter of credit of $284 million to a subsidiary of the Company in favour of the OFCA in relation to the assignment of new spectrum the Group acquired, of which $68 million was utilised and included in the outstanding amount of the performance bonds reported above.

Employees, share award scheme and share option scheme

The Group had 1,932 full-time employees as at 31 December 2019 (30 June 2019: 1,893), with the majority of them based in Hong Kong. Total staff costs were $382 million for the period ended 31 December 2019 (first half of 2018/19: $364 million).

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

A share award scheme was adopted by the Group as an incentive arrangement to recognise the contributions by certain employees and to attract and retain suitable personnel for the development of the Group. During the period under review, 522,390 shares were vested and 69,890 shares were lapsed. 2,953,120 shares (30 June 2019: 3,545,400) were outstanding as at 31 December 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 period under review, no share options were granted, cancelled or lapsed. 3,000,000 (30 June 2019: 3,000,000) share options were outstanding as at 31 December 2019.

DIRECTORS' PROFILE

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

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

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

In civic activities, Mr. Kwok is a 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.

For the financial year ended 30 June 2019, Mr. Kwok received a fee of HK$180,000. Except the above fee, Mr. Kwok did not receive any other emoluments during the said financial year.

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

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

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

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

Mr. Cheung was awarded the Bronze Bauhinia Star (BBS) in 2013.

Mr. Cheung was awarded an honorary degree of Doctor of Business Administration from The Open University of Hong Kong in 2016.

For the financial year ended 30 June 2019, Mr. Cheung received a fee of HK$162,000. Except the above fee, Mr. Cheung did not receive any other emoluments during the said financial year.

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

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

Mr. Fung is an executive director and a member of the Executive Committee of Sun Hung Kai Properties Limited ("SHKP"), as well as the chief executive officer of the SHKP group's non-property related portfolio investments. He is also a 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 a board member of the Hong Kong Tourism Board.

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

For the financial year ended 30 June 2019, Mr. Fung received a fee of HK$162,000. Except the above fee, Mr. Fung did not receive any other emoluments during the said financial year.

DIRECTORS' PROFILE

Anna YIP *Executive Director & Chief Executive Officer*

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

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

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

Ms. Yip is currently an independent non-executive director of Bupa (Asia) Limited. She is also a member of the Advisory Board of MBA Programs and an advisor to the Alumni Entrepreneurs Association of The Chinese University of Hong Kong. She is an appointed lay member by the HKSAR Government at the Joint Committee on Student Finance and an ex-council member of The Open University of Hong Kong.

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

For the financial year ended 30 June 2019, Ms. Yip received salaries (including allowances, retirement scheme contributions and estimated money value of other benefits), bonus, share-based payment and director's fee of HK$7,466,000, HK$1,105,000, HK$1,704,000 and HK$144,000 respectively.

CHAN Kai-lung, Patrick *Executive Director*

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

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

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

For the financial year ended 30 June 2019, Mr. Chan received salaries (including allowances, retirement scheme contributions and estimated money value of other benefits), bonus, share-based payment and director's fee of HK$6,238,000, HK$917,000, HK$507,000 and HK$144,000 respectively.

DIRECTORS' PROFILE

CHAU Kam-kun, Stephen *Executive Director*

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

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

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

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

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

For the financial year ended 30 June 2019, Mr. Chau received salaries (including allowances, retirement scheme contributions and estimated money value of other benefits), bonus, share-based payment and director's fee of HK$6,544,000, HK$1,103,000, HK$507,000 and HK$144,000 respectively.

DIRECTORS' PROFILE

David Norman PRINCE *Non-Executive Director*

Mr. David Prince was appointed Director of the Company in July 2005. Mr. Prince has over 20 years' experience of operating at board level in an international environment. Mr. Prince is a member of the Chartered Institute of Management Accountants (UK) and the Chartered Institute of Purchasing and Supply (UK). He is a non-executive director of SUNeVision Holdings Ltd. He is also a director of Wilson Group Limited and a consultant of Sun Hung Kai Real Estate Agency Limited, both are wholly-owned subsidiaries of Sun Hung Kai Properties Limited.

Mr. Prince is currently a non-executive director and 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.

For the financial year ended 30 June 2019, Mr. Prince received a fee of HK$144,000. Except the above fee, Mr. Prince did not receive any other emoluments during the said financial year.

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

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

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

For the financial year ended 30 June 2019, Mr. Siu received a fee of HK$144,000. Except the above fee, Mr. Siu did not receive any other emoluments during the said financial year.

John Anthony MILLER *Non-Executive Director*

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

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

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

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

For the financial year ended 30 June 2019, Mr. Miller received a fee of HK$144,000. Except the above fee, Mr. Miller did not receive any other emoluments during the said financial year.

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

Dr. Eric Li, GBS, OBE, JP, LLD, DSocSc., HonDSocSc (EdUHK), B.A., FCPA (Practising), FCA, FCPA (Aust.), was appointed Director of the Company in October 1996. Dr. Li was the senior partner of Li, Tang, Chen & Co., Certified Public Accountants ("LTC"). Following the merger of LTC with SHINEWING (HK) CPA Limited ("SWHK"), Dr. Li has become honorary chairman of SWHK with effect from 1 January 2020.

Dr. Li is an independent non-executive director of Sun Hung Kai Properties Limited, Transport International Holdings Limited, Wong's International Holdings Limited, Hang Seng Bank Limited and China Resources Beer (Holdings) Company Limited.

Dr. Li was an independent non-executive director of RoadShow Holdings Limited (now known as Bison Finance Group Limited).

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

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

For the financial year ended 30 June 2019, Dr. Li received a fee of HK$288,000 including the fee for acting as the chairman of the Audit Committee of the Company. Except the above fee, Dr. Li did not receive any other emoluments during the said financial year.

DIRECTORS' PROFILE

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

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

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

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

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

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

For the financial year ended 30 June 2019, Mr. Ng received a fee of HK$288,000 including the fee for acting as member of the Audit Committee of the Company. Except the above fee, Mr. Ng did not receive any other emoluments during the said financial year.

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

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

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

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

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

For the financial year ended 30 June 2019, Mr. Gan received a fee of HK$288,000 including the fee for acting as member of the Audit Committee of the Company. Except the above fee, Mr. Gan did not receive any other emoluments during the said financial year.

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

Mrs. Christine Ip was appointed Director of the Company in November 2012. Mrs. Ip joined United Overseas Bank Limited ("UOB") in 2011. She is a Managing Director responsible for developing the Bank's Greater China strategy. Mrs. Ip was appointed CEO of UOB Hong Kong in 2012 and CEO Greater China in 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 was appointed as member of the following committees by various HKSAR government departments:

- Museum Advisory Committee since October 2016
- Travel Industry Compensation Fund Management Board since October 2017
- Environment and Conservation Fund Investment Committee since October 2018
- Council of The Hong Kong Academy for Performing Arts since January 2020

For the financial year ended 30 June 2019, Mrs. Ip received a fee of HK$144,000. Except the above fee, Mrs. Ip did not receive any other emoluments during the said financial year.

DIRECTORS' PROFILE

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

Mr. Kenny Lam 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.

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.

For the financial year ended 30 June 2019, Mr. Lam received a fee of HK$144,000. Except the above fee, Mr. Lam did not receive any other emoluments during the said financial year.

Notes:

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

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

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

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

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

The Directors' interests in shares of the Company or any of its associated corporations, if any, within the meaning of Part XV of the Securities and Futures Ordinance as at 31 December 2019 are disclosed in "Directors' and chief executive's interests" section on pages 60 to 63 of this Interim Report.

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 and Happy Family Friday.

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.

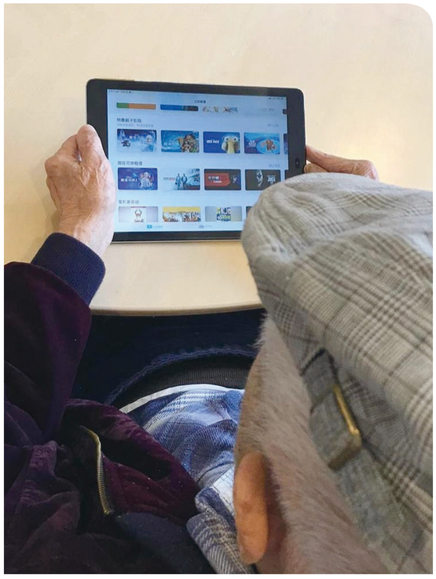
1. Caring for the Community

"Be a SmarTizen" digital intelligence programme to aspire every citizen in Hong Kong to be a smart netizen.

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
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Save the Children
救助兒童會

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

羅兵咸永道

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

Introduction

We have reviewed the interim financial information set out on pages 27 to 58, which comprises the condensed consolidated balance sheet of SmarTone Telecommunications Holdings Limited (the "Company") and its subsidiaries (together, the "Group") as at 31 December 2019 and the condensed consolidated profit and loss account, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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

Conclusion

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 18 February 2020

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 31 December 2019
(Expressed in Hong Kong dollars)

	Notes	Unaudited six months ended 31 December **2019** **$000**	2018 $000
Service revenue and other related service		**2,411,972**	2,344,586
Handset and accessory sales		**1,844,634**	2,841,975
Revenues	5	**4,256,606**	5,186,561
Cost of inventories sold		**(1,853,515)**	(2,812,795)
Cost of services provided		**(224,947)**	(190,700)
Staff costs		**(381,561)**	(363,755)
Other operating expenses		**(522,730)**	(880,005)
Depreciation, amortisation and loss on disposal	8	**(915,026)**	(500,344)
Operating profit		**358,827**	438,962
Finance income	6	**39,780**	35,808
Finance costs	7	**(61,950)**	(54,548)
Profit before income tax	8	**336,657**	420,222
Income tax expense	9	**(77,823)**	(94,030)
Profit after income tax		**258,834**	326,192
Attributable to			
Equity holders of the Company		**265,467**	332,410
Non-controlling interests		**(6,633)**	(6,218)
		258,834	326,192
Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in cents per share)	11		
Basic		**23.7**	29.7
Diluted		**23.7**	29.7

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 December 2019
(Expressed in Hong Kong dollars)

	Unaudited six months ended 31 December	
	2019	2018
	$000	$000
Profit for the period	**258,834**	326,192
Other comprehensive loss		
Item that may be reclassified subsequently to profit and loss:		
Currency translation differences	**(1,730)**	(5,326)
Item that will not be reclassified subsequently to profit and loss:		
Fair value gain/(loss) on financial asset at fair value through other comprehensive income	**233**	(939)
Other comprehensive loss for the period	**(1,497)**	(6,265)
Total comprehensive income for the period	**257,337**	319,927
Total comprehensive income attributable to		
Equity holders of the Company	**263,970**	326,145
Non-controlling interests	**(6,633)**	(6,218)
	257,337	319,927

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

CONDENSED CONSOLIDATED BALANCE SHEET

As at 31 December 2019 and 30 June 2019
(Expressed in Hong Kong dollars)

	Notes	**Unaudited 31 December 2019 $000**	Audited 30 June 2019 $000
Non-current assets			
Leasehold land and land use rights		**–**	10,038
Fixed assets	13	**2,631,498**	2,839,714
Customer acquisition costs		**76,156**	60,288
Contract assets		**133,845**	103,196
Right-of-use assets		**1,013,863**	–
Interest in an associate		**3**	3
Financial asset at fair value through other comprehensive income		**4,793**	4,560
Financial assets at amortised cost		**–**	156,423
Intangible assets	14	**2,755,256**	2,764,958
Deposits and prepayments	15	**112,473**	121,568
Deferred income tax assets		**4,540**	4,789
Total non-current assets		**6,732,427**	6,065,537
Current assets			
Inventories		**177,190**	79,472
Financial assets at amortised cost		**433,544**	326,912
Contract assets		**282,222**	294,867
Trade receivables	15	**589,693**	442,312
Deposits and prepayments	15	**181,821**	167,287
Other receivables	15	**47,123**	124,995
Tax reserve certificate		**252,362**	252,362
Short-term bank deposits		**–**	173,327
Cash and cash equivalents		**1,894,547**	1,955,987
Total current assets		**3,858,502**	3,817,521
Current liabilities			
Trade payables	16	**327,475**	448,469
Other payables and accruals		**576,512**	812,171
Contract liabilities		**292,796**	267,970
Lease liabilities		**617,795**	–
Current income tax liabilities		**581,151**	508,199
Bank borrowings	17	**430,783**	430,393
Customer prepayments and deposits		**89,546**	146,172
Mobile licence fee liabilities		**44,076**	60,041
Total current liabilities		**2,960,134**	2,673,415

CONDENSED CONSOLIDATED BALANCE SHEET

As at 31 December 2019 and 30 June 2019
(Expressed in Hong Kong dollars)

	Notes	**Unaudited 31 December 2019 $000**	Audited 30 June 2019 $000
Non-current liabilities			
Customer prepayments and deposits		**15,728**	22,650
Asset retirement obligations		**42,795**	41,911
Lease liabilities		**395,969**	–
Bank and other borrowings	17	**1,803,132**	1,872,516
Mobile licence fee liabilities		**168,223**	83,309
Deferred income tax liabilities		**116,037**	112,608
Total non-current liabilities		**2,541,884**	2,132,994
Net assets		**5,088,911**	5,076,649
Capital and reserves			
Share capital	18	**112,167**	112,453
Reserves		**4,963,891**	4,944,710
Total equity attributable to equity holders of the Company		**5,076,058**	5,057,163
Non-controlling interests		**12,853**	19,486
Total equity		**5,088,911**	5,076,649

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 31 December 2019
(Expressed in Hong Kong dollars)

	Unaudited six months ended 31 December	
	2019	2018
	$000	$000
Cash flows from operating activities	**827,840**	348,948
Income tax paid	**(1,190)**	(154,780)
Net cash inflow from operating activities	**826,650**	194,168
Cash flows from investing activities		
Payment for purchase of fixed assets	**(374,043)**	(307,756)
Payment for mobile licence fees	**(71,219)**	(62,350)
Decrease in short-term deposits	**173,304**	93,441
Proceeds from disposal of financial assets at amortised cost	**47,001**	15,690
Other investing activities	**54,474**	42,566
Net cash outflow from investing activities	**(170,483)**	(218,409)
Cash flows from financing activities		
Payment for repurchase of shares	**(21,522)**	(12,444)
Purchase of shares for share award scheme	**–**	(4,677)
Proceeds from bank borrowings	**–**	66,000
Repayment of bank borrowings	**(67,043)**	(127,303)
Principal elements of lease payments	**(400,993)**	–
Dividends paid to the Company's equity holders	**(229,894)**	(250,194)
Net cash outflow from financing activities	**(719,452)**	(328,618)
Net decrease in cash and cash equivalents	**(63,285)**	(352,859)
Effect of foreign exchange rate change	**1,845**	(2,382)
Cash and cash equivalents at 1 July	**1,955,987**	1,731,951
Cash and cash equivalents at 31 December	**1,894,547**	1,376,710

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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2019
(Expressed in Hong Kong dollars)

	Unaudited										
	Attributable to equity holders of the Company										
	Share capital $000	Share premium $000	Revaluation reserve $000	Capital redemption reserve $000	Contributed surplus $000	Employee share-based compensation reserve $000	Exchange reserve $000	Retained profits $000	Total $000	Non-controlling interests $000	Total $000
At 30 June 2018 as originally reported	112,426	1,547,727	4,748	14,548	348	6,595	3,378	3,109,311	4,799,081	32,643	4,831,724
Changes in accounting policies	–	–	–	–	–	–	–	61,504	61,504	294	61,798
Restated total equity at 1 July 2018	112,426	1,547,727	4,748	14,548	348	6,595	3,378	3,170,815	4,860,585	32,937	4,893,522
Comprehensive income											
Profit for the period	–	–	–	–	–	–	–	332,410	332,410	(6,218)	326,192
Other comprehensive loss											
Fair value loss on financial asset at fair value through other comprehensive income	–	–	(939)	–	–	–	–	–	(939)	–	(939)
Currency translation differences	–	–	–	–	–	–	(5,326)	–	(5,326)	–	(5,326)
Total comprehensive income for the period ended 31 December 2018	–	–	(939)	–	–	–	(5,326)	332,410	326,145	(6,218)	319,927
Transactions with owners											
Share-based payments	–	–	–	–	–	4,544	–	–	4,544	–	4,544
Lapse of share award	–	–	–	–	41	(41)	–	–	–	–	–
Repurchase of shares	(377)	–	–	377	–	–	–	(12,444)	(12,444)	–	(12,444)
Purchase of shares for share award scheme	–	–	–	–	(4,677)	–	–	–	(4,677)	–	(4,677)
Payment of 2018 final dividend	73	7,447	–	–	–	–	–	(257,714)	(250,194)	–	(250,194)
Total transactions with owners	(304)	7,447	–	377	(4,636)	4,503	–	(270,158)	(262,771)	–	(262,771)
At 31 December 2018	112,122	1,555,174	3,809	14,925	(4,288)	11,098	(1,948)	3,233,067	4,923,959	26,719	4,950,678

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2019
(Expressed in Hong Kong dollars)

	Unaudited										
	Attributable to equity holders of the Company										
	Share capital $000	Share premium $000	Revaluation reserve $000	Capital redemption reserve $000	Contributed surplus $000	Employee share-based compensation reserve $000	Exchange reserve $000	Retained profits $000	Total $000	Non-controlling interests $000	Total $000
At 1 July 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
Comprehensive income											
Profit for the period	–	–	–	–	–	–	–	265,467	265,467	(6,633)	258,834
Other comprehensive loss											
Fair value gain on financial asset at fair value through other comprehensive income	–	–	233	–	–	–	–	–	233	–	233
Currency translation differences	–	–	–	–	–	–	(1,730)	–	(1,730)	–	(1,730)
Total comprehensive income for the period ended 31 December 2019	–	–	233	–	–	–	(1,730)	265,467	263,970	(6,633)	257,337
Transactions with owners											
Share-based payments	–	–	–	–	–	6,341	–	–	6,341	–	6,341
Lapse of share award	–	–	–	–	250	(250)	–	–	–	–	–
Vesting of share award	–	–	–	–	4,320	(3,874)	–	(446)	–	–	–
Repurchase of shares (note 18(a))	(369)	–	–	369	–	–	–	(21,522)	(21,522)	–	(21,522)
Payment of 2019 final dividend (note 18(b))	83	5,401	–	–	–	–	–	(235,378)	(229,894)	–	(229,894)
Total transactions with owners	(286)	5,401	–	369	4,570	2,217	–	(257,346)	(245,075)	–	(245,075)
At 31 December 2019	112,167	1,637,772	2,895	15,818	(3,726)	20,937	(3,717)	3,293,912	5,076,058	12,853	5,088,911

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1 General information

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

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

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

These unaudited condensed consolidated interim financial statements ("Interim Financial Statements") are presented in Hong Kong dollars, unless otherwise stated. These Interim Financial Statements have been approved for issue by the board of directors on 18 February 2020.

2 Basis of preparation

These Interim Financial Statements for the six months ended 31 December 2019 have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim Financial Reporting". These Interim Financial Statements should be read in conjunction with the annual financial statements for the year ended 30 June 2019, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"). These Interim 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, and on a going concern basis.

The accounting policies applied are consistent with those of the annual financial statements for the year ended 30 June 2019, as described in those annual financial statements except for the adoption of the new standards, amendments to standards and interpretations to existing standards as set out below.

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

The Group has applied the following new standards, amendments to standards and interpretations to existing standards for the first time for their annual reporting commencing 1 July 2019.

Annual Improvements Project	Annual Improvements 2015–2017 Cycle
HKAS 19 (Amendments)	Plan Amendment, Curtailment or Settlement
HKAS 28 (Amendments)	Long-term Interests in Associates and Joint Ventures
HKFRS 9 (Amendments)	Prepayment Features with Negative Compensation
HKFRS 16	Leases
HK (IFRIC) 23	Uncertainty over Income Tax Treatments

The Group had to change its accounting policies following the adoption of HKFRS 16. The impact of the adoption of this standard is disclosed in note 3 below. The other amendments to standards and interpretation did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

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

(Expressed in Hong Kong dollars)

2 Basis of preparation *(continued)*

(b) New standards and amendments to standards not yet adopted

The following new standards and amendments to standards have been issued but are not yet effective for the financial year beginning 1 July 2019 and have not been early adopted.

HKAS 1 and HKAS 8 (Amendments)	Definition of Material[1]
HKFRS 3 (Amendments)	Definition of a Business[1]
HKFRS 9, HKAS 39 and HKFRS 7 (Amendments)	Revised Conceptual Framework for IBOR Reform and its Effects on Financial Reporting – Phase 1[1]
HKFRS 17	Insurance Contracts[2]

1 Effective for annual periods beginning on or after 1 January 2020.
2 Effective for annual periods beginning on or after 1 January 2021.

3 Changes in accounting policies

This note explains the impact of the adoption of HKFRS 16 Leases on the Group's Interim Financial Statements and discloses the new accounting policies that have been applied from 1 July 2019.

(a) HKFRS 16, "Leases"

The Group has adopted HKFRS 16 from 1 July 2019 which resulted in changes in accounting policies. In accordance with the transition provisions in HKFRS 16, the Group has adopted the modified retrospective approach for transition to the new lease standard. Under this transition 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 equal to the lease liability on adoption (adjusted by any prepaid or accrued lease expenses).

Accounting policies

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Such determination is made on an evaluation of the substance of the arrangement, regardless of whether the arrangements take the legal form of a lease.

The Group leases various offices, warehouses, retail stores, transmission sites and leased lines. Rental contracts are typically made for fixed periods of one to fifteen years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

Before the adoption of HKFRS 16, leases in which a significant portion of the risks and rewards of ownership are retained by the lessor were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to the condensed consolidated profit and loss account on a straight-line basis over the period of the lease. Commitments under operating leases for future periods were not recognised by the Group as liabilities.

3 Changes in accounting policies *(continued)*

(a) HKFRS 16, "Leases" *(continued)*

Accounting policies *(continued)*

From 1 July 2019, leases are recognised as right-of-use assets and the corresponding lease liabilities at the dates at which the leased assets are available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the condensed consolidated profit and loss account over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use assets are depreciated over the shorter of the assets' useful lives and the lease terms on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate; and
- payments of penalties for terminating the lease, if the lease term reflects the Group, as a lessee, exercising an option to terminate the lease.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the Group's incremental borrowing rate is used, being the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date, less any lease incentive received;
- any initial direct costs; and
- restoration costs.

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease; and
- payments associated with short-term leases for all classes of underlying assets are recognised on a straight-line basis over the lease terms as expenses in the condensed consolidated profit and loss account. Short-term leases are leases with a lease term of 12 months or less.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17 *Leases* and HK (IFRIC) 4 *Determining whether an Arrangement contains a Lease*.

3 Changes in accounting policies *(continued)*

(b) Impact on the Interim Financial Statements

The following tables show the adjustments recognised for each individual line items after the application of HKFRS 16:

Condensed Consolidated Profit and Loss Account	Unaudited six months ended 31 December 2019 Reported under current accounting policies $000	Effect of HKFRS 16 $000	Balance without the adoption of HKFRS 16 $000
Service revenue and other related service	**2,411,972**	**(35,152)**	**2,376,820**
Handset and accessory sales	**1,844,634**	**–**	**1,844,634**
Revenues	**4,256,606**	**(35,152)**	**4,221,454**
Cost of inventories sold	**(1,853,515)**	**–**	**(1,853,515)**
Cost of services provided	**(224,947)**	**–**	**(224,947)**
Staff costs	**(381,561)**	**–**	**(381,561)**
Other operating expenses	**(522,730)**	**(368,769)**	**(891,499)**
Depreciation, amortisation and loss on disposal	**(915,026)**	**393,535**	**(521,491)**
Operating profit	**358,827**	**(10,386)**	**348,441**
Finance income	**39,780**	**–**	**39,780**
Finance costs	**(61,950)**	**17,456**	**(44,494)**
Profit before income tax	**336,657**	**7,070**	**343,727**
Income tax expense	**(77,823)**	**(1,140)**	**(78,963)**
Profit after income tax	**258,834**	**5,930**	**264,764**
Attributable to			
Equity holders of the Company	**265,467**	**5,885**	**271,352**
Non-controlling interests	**(6,633)**	**45**	**(6,588)**
	258,834	**5,930**	**264,764**

3 Changes in accounting policies *(continued)*

(b) Impact on the Interim Financial Statements *(continued)*

Condensed Consolidated Balance Sheet	Unaudited 31 December 2019 Reported under current accounting policies $000	Effect of HKFRS 16 $000	Balance without the adoption of HKFRS 16 $000
Non-current assets			
Leasehold land and land use rights	–	9,543	9,543
Fixed assets	2,631,498	11,549	2,643,047
Customer acquisition costs	76,156	–	76,156
Contract assets	133,845	–	133,845
Right-of-use assets	1,013,863	(1,013,863)	–
Interest in an associate	3	–	3
Financial asset at fair value through other comprehensive income	4,793	–	4,793
Intangible assets	2,755,256	–	2,755,256
Deposits and prepayments	112,473	11,695	124,168
Deferred income tax assets	4,540	–	4,540
Total non-current assets	6,732,427	(981,076)	5,751,351
Current assets			
Inventories	177,190	–	177,190
Financial assets at amortised cost	433,544	–	433,544
Contract assets	282,222	–	282,222
Trade receivables	589,693	–	589,693
Deposits and prepayments	181,821	6,624	188,445
Other receivables	47,123	–	47,123
Tax reserve certificate	252,362	–	252,362
Cash and cash equivalents	1,894,547	–	1,894,547
Total current assets	3,858,502	6,624	3,865,126
Current liabilities			
Trade payables	327,475	–	327,475
Other payables and accruals	576,512	32,242	608,754
Contract liabilities	292,796	–	292,796
Lease liabilities	617,795	(617,795)	–
Current income tax liabilities	581,151	1,140	582,291
Bank borrowings	430,783	–	430,783
Customer prepayments and deposits	89,546	–	89,546
Mobile licence fee liabilities	44,076	–	44,076
Total current liabilities	2,960,134	(584,413)	2,375,721

3 Changes in accounting policies *(continued)*

(b) Impact on the Interim Financial Statements *(continued)*

Condensed Consolidated Balance Sheet	Unaudited 31 December 2019 Reported under current accounting policies $000	Effect of HKFRS 16 $000	Balance without the adoption of HKFRS 16 $000
Non-current liabilities			
Customer prepayments and deposits	15,728	–	15,728
Asset retirement obligations	42,795	–	42,795
Lease liabilities	395,969	(395,969)	–
Bank and other borrowings	1,803,132	–	1,803,132
Mobile licence fee liabilities	168,223	–	168,223
Deferred income tax liabilities	116,037	–	116,037
Total non-current liabilities	2,541,884	(395,969)	2,145,915
Net assets	5,088,911	5,930	5,094,841
Capital and reserves			
Share capital	112,167	–	112,167
Reserves	4,963,891	5,885	4,969,776
Total equity attributable to equity holders of the Company	5,076,058	5,885	5,081,943
Non-controlling interests	12,853	45	12,898
Total equity	5,088,911	5,930	5,094,841

3 Changes in accounting policies *(continued)*

(b) Impact on the Interim Financial Statements *(continued)*

Condensed Consolidated Balance Sheet	Audited 30 June 2019 As previously reported $000	Effect of HKFRS 16 $000	Unaudited 1 July 2019 $000
Non-current assets			
Leasehold land and land use rights	10,038	(10,038)	–
Fixed assets	2,839,714	(10,088)	2,829,626
Customer acquisition costs	60,288	–	60,288
Contract assets	103,196	–	103,196
Right-of-use assets	–	1,027,809	1,027,809
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
Intangible assets	2,764,958	–	2,764,958
Deposits and prepayments	121,568	(12,428)	109,140
Deferred income tax assets	4,789	–	4,789
Total non-current assets	6,065,537	995,255	7,060,792
Current assets			
Inventories	79,472	–	79,472
Financial assets at amortised cost	326,912	–	326,912
Contract assets	294,867	–	294,867
Trade receivables	442,312	–	442,312
Deposits and prepayments	167,287	(6,677)	160,610
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	(6,677)	3,810,844
Current liabilities			
Trade payables	448,469	–	448,469
Other payables and accruals	812,171	(30,101)	782,070
Contract liabilities	267,970	–	267,970
Lease liabilities	–	610,852	610,852
Current income tax liabilities	508,199	–	508,199
Bank borrowings	430,393	–	430,393
Customer prepayments and deposits	146,172	–	146,172
Mobile licence fee liabilities	60,041	–	60,041
Total current liabilities	2,673,415	580,751	3,254,166

3 Changes in accounting policies *(continued)*

(b) Impact on the Interim Financial Statements *(continued)*

Condensed Consolidated Balance Sheet	Audited 30 June 2019 As previously reported $000	Effect of HKFRS 16 $000	Unaudited 1 July 2019 $000
Non-current liabilities			
Customer prepayments and deposits	22,650	–	22,650
Asset retirement obligations	41,911	–	41,911
Lease liabilities	–	407,827	407,827
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	407,827	2,540,821
Net assets	5,076,649	–	5,076,649
Capital and reserves			
Share capital	112,453	–	112,453
Reserves	4,944,710	–	4,944,710
Total equity attributable to equity holders of the Company	5,057,163	–	5,057,163
Non-controlling interests	19,486	–	19,486
Total equity	5,076,649	–	5,076,649

Difference between operating lease commitments disclosed under HKAS 17 and lease liabilities recognised under HKFRS 16

The operating lease commitments disclosed as at 30 June 2019 were HK$1,920 million, while the lease liabilities recognised as at 1 July 2019 were HK$1,019 million, of which HK$611 million were current lease liabilities and HK$408 million were non-current lease liabilities.

The differences between the operating lease commitments discounted using the Group's incremental borrowing rate and the total lease liabilities recognised in the condensed consolidated balance sheet at the date of initial application of HKFRS 16 comprised the exclusion of non-lease components and short-term leases recognised on a straight-line basis as expenses, and different treatments on lease contracts in relation to termination options or under renewal process. The weighted average Group's incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 3.28%.

4 Financial risk management and financial instruments

(a) Financial risk factors

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

The Interim Financial Statements do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 30 June 2019.

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

(b) Fair value estimation

This note provides an update on the judgements and estimates made by the Group in determining the fair values of the financial instruments since the last annual financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group classifies its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

The following table presents the Group's financial assets measured and recognised at fair value at 31 December 2019 and 30 June 2019.

	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Assets				
Financial asset at fair value through other comprehensive income				
At 31 December 2019 (Unaudited)	**–**	**4,793**	**–**	**4,793**
At 30 June 2019 (Audited)	–	4,560	–	4,560

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

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

(b) Fair value estimation *(continued)*

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives and 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.

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 funds as determined by the managers of the relevant funds.

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

5 Segment reporting

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

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

5 Segment reporting *(continued)*

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

(a) Segment results

	Unaudited six months ended 31 December 2019			
	Hong Kong $000	Macau $000	Elimination $000	Consolidated $000
External revenue	4,110,086	146,520	–	4,256,606
Inter-segment revenue	95,901	2,841	(98,742)	–
Total revenue	4,205,987	149,361	(98,742)	4,256,606
Timing of revenue recognition				
At a point in time	1,843,658	95,954	(94,978)	1,844,634
Over time	2,362,329	53,407	(3,764)	2,411,972
	4,205,987	149,361	(98,742)	4,256,606
EBITDA	1,274,026	(173)	–	1,273,853
Depreciation, amortisation and loss on disposal	(892,551)	(22,479)	4	(915,026)
Operating profit/(loss)	381,475	(22,652)	4	358,827
Finance income				39,780
Finance costs				(61,950)
Profit before income tax				336,657

5 Segment reporting *(continued)*

(a) Segment results *(continued)*

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

5 Segment reporting *(continued)*

(b) Segment assets/(liabilities)

	At 31 December 2019 (Unaudited)			
	Hong Kong	**Macau**	**Unallocated**	**Consolidated**
	$000	**$000**	**$000**	**$000**
Segment assets	**9,660,082**	**235,605**	**695,242**	**10,590,929**
Segment liabilities	**(4,679,143)**	**(125,687)**	**(697,188)**	**(5,502,018)**

	At 30 June 2019 (Audited)			
	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)

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

6 Finance income

	Unaudited six months ended 31 December	
	2019	2018
	$000	$000
Interest income from listed debt securities	**9,522**	12,222
Interest income from bank deposits	**28,839**	22,331
Accretion income	**1,419**	1,255
	39,780	35,808

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

7 Finance costs

	Unaudited six months ended 31 December	
	2019	2018
	$000	$000
Interest expense on bank and other borrowings	**41,905**	43,021
Bank charges for credit card instalment	**618**	1,048
Accretion expenses		
Mobile licence fee liabilities	**7,135**	9,710
Asset retirement obligations	**920**	751
Lease liabilities	**17,456**	–
Net exchange (gain)/loss on financing activities (note 10)	**(6,084)**	18
	61,950	54,548

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

8 Profit before income tax

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

	Unaudited six months ended 31 December	
	2019	2018
	$000	$000
Charging:		
Rentals for land and buildings, transmission sites and leased lines	**146,490**	523,214
Impairment loss of trade receivables (note 15)	**6,683**	2,522
Impairment loss of inventories	**1,205**	1,630
Loss on disposal of fixed assets	**4,421**	5,729
Depreciation of fixed assets, leasehold land and land use rights	**342,954**	324,411
Depreciation of right-of-use assets	**394,811**	–
Amortisation of mobile licence fees	**142,735**	142,735
Amortisation of customer acquisition costs	**30,105**	27,469
Share-based payments	**6,341**	4,544
Crediting:		
Net exchange gain (note 10)	**7,682**	5,600

9 Income tax expense

	Unaudited six months ended 31 December	
	2019	2018
	$000	$000
Current income tax		
Hong Kong profits tax	**72,890**	96,556
Overseas tax	**720**	538
Under-provision in prior year		
Hong Kong profits tax	**535**	536
Total current income tax expense	**74,145**	97,630
Deferred income tax		
Decrease in deferred income tax assets	**249**	201
Increase/(decrease) in deferred income tax liabilities	**3,429**	(3,801)
Total deferred income tax expense	**3,678**	(3,600)
Income tax expense	**77,823**	94,030

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

10 Net exchange gain

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

	Unaudited six months ended 31 December	
	2019	2018
	$000	$000
Other operating expenses	**(1,598)**	(5,618)
Finance costs (note 7)	**(6,084)**	18
	(7,682)	(5,600)

11 Earnings per share

(a) Basic earnings per share

Basic earnings per share is calculated by dividing:

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

	Unaudited six months ended 31 December	
	2019	2018
	Cents	Cents
Total basic earnings per share attributable to the equity holders of the Company	**23.7**	29.7

(b) Diluted earnings per share

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

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

	Unaudited six months ended 31 December	
	2019	2018
	Cents	Cents
Total diluted earnings per share attributable to the equity holders of the Company	**23.7**	29.7

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

	Unaudited six months ended 31 December	
	2019	2018
	$000	$000
Profit attributable to the equity holders of the Company used in calculating basic earnings per share and diluted earnings per share	**265,467**	332,410

11 Earnings per share *(continued)*

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

	Unaudited six months ended 31 December	
	2019	2018
	Number	Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share (less shares held for share award scheme)	**1,121,567,316**	1,120,512,051
Adjustments for calculation of diluted earnings per share:		
Effect of awarded shares	**597,188**	410,709
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**1,122,164,504**	1,120,922,760

12 Dividends

(a) In respect of the period

	Unaudited six months ended 31 December	
	2019	2018
	$000	$000
Interim dividend declared of 14.5 cents (2018: 18 cents) per fully paid share	**162,643**	201,822

At a meeting held on 18 February 2020, the directors declared an interim dividend of 14.5 cents per fully paid share for the year ending 30 June 2020. The interim dividend declared is not reflected as a dividend payable in these Interim Financial Statements, but will be reflected as an appropriation of retained profits for the year ending 30 June 2020.

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

(b) Attributable to prior year paid in the period

	Unaudited six months ended 31 December	
	2019	2018
	$000	$000
Final dividend of 21 cents (2018: 23 cents) per fully paid share	**235,378**	257,714

13 Fixed assets

	Unaudited $000
Opening net book amount at 30 June 2019	**2,839,714**
Changes in accounting policies (note 3)	**(10,088)**
Restated opening net book amount at 1 July 2019	**2,829,626**
Additions	**149,808**
Disposals	**(4,808)**
Exchange differences	**(174)**
Depreciation	**(342,954)**
Closing net book amount at 31 December 2019	**2,631,498**
Opening net book amount at 1 July 2018	2,970,680
Additions	192,849
Disposals	(12,740)
Exchange differences	(621)
Depreciation	(324,091)
Closing net book amount at 31 December 2018	2,826,077

During the six months ended 31 December 2019, major fixed assets acquired by the Group included network and testing equipment, including network under construction amounting to $132,396,000.

At 31 December 2019, buildings with carrying amount of $73,963,000 (30 June 2019: $75,182,000) were pledged as security for bank borrowings of the Group (note 17).

14 Intangible assets

	Unaudited		
	Handset subsidies $000	Mobile licence fees $000	Total $000
Opening net book amount at 1 July 2019	**–**	**2,764,958**	**2,764,958**
Additions	**–**	**133,033**	**133,033**
Amortisation	**–**	**(142,735)**	**(142,735)**
Closing net book amount at 31 December 2019	**–**	**2,755,256**	**2,755,256**
Opening net book amount at 30 June 2018	466,474	3,050,428	3,516,902
Changes in accounting policies	(466,474)	–	(466,474)
Restated opening net book amount at 1 July 2018	–	3,050,428	3,050,428
Amortisation	–	(142,735)	(142,735)
Closing net book amount at 31 December 2018	–	2,907,693	2,907,693

15 Trade and other receivables

	Unaudited 31 December 2019			Audited 30 June 2019		
	Current $000	**Non-current $000**	**Total $000**	Current $000	Non-current $000	Total $000
Trade receivables	**599,164**	**–**	**599,164**	449,491	–	449,491
Loss allowance	**(9,471)**	**–**	**(9,471)**	(7,179)	–	(7,179)
	589,693	**–**	**589,693**	442,312	–	442,312
Other receivables	**47,123**	**–**	**47,123**	124,995	–	124,995
	636,816	**–**	**636,816**	567,307	–	567,307
Deposits	**76,888**	**71,865**	**148,753**	71,261	77,907	149,168
Prepayments	**104,933**	**40,608**	**145,541**	96,026	43,661	139,687
Total trade and other receivables	**818,637**	**112,473**	**931,110**	734,594	121,568	856,162

15 Trade and other receivables *(continued)*

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

	Unaudited 31 December 2019 $000	Audited 30 June 2019 $000
Current to 30 days	**395,003**	381,416
31 – 60 days	**74,345**	43,166
61 – 90 days	**8,868**	5,524
Over 90 days	**111,477**	12,206
	589,693	442,312

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 $6,683,000 for the impairment of its trade receivables during the six months ended 31 December 2019.

16 Trade payables

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

	Unaudited 31 December 2019 $000	Audited 30 June 2019 $000
Current to 30 days	**149,177**	151,275
31 – 60 days	**50,040**	86,820
61 – 90 days	**14,297**	45,841
Over 90 days	**113,961**	164,533
	327,475	448,469

17 Bank and other borrowings

	Unaudited 31 December 2019			Audited 30 June 2019		
	Current $000	**Non-current $000**	**Total $000**	Current $000	Non-current $000	Total $000
Secured bank borrowings	**–**	**66,000**	**66,000**	–	66,000	66,000
Unsecured bank borrowings	**430,783**	**329,954**	**760,737**	430,393	396,213	826,606
Guaranteed notes (a)	**–**	**1,407,178**	**1,407,178**	–	1,410,303	1,410,303
Total bank and other borrowings	**430,783**	**1,803,132**	**2,233,915**	430,393	1,872,516	2,302,909

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

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

	Level 1 $000	**Level 2 $000**	**Level 3 $000**	**Total $000**
At 31 December 2019				
Secured bank borrowings	**–**	**66,000**	**–**	**66,000**
Unsecured bank borrowings	**–**	**323,937**	**–**	**323,937**
Guaranteed notes	**1,449,578**	**–**	**–**	**1,449,578**
Total	**1,449,578**	**389,937**	**–**	**1,839,515**

	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

At 31 December 2019, secured bank borrowings are secured by certain buildings of the Group (note 13) (30 June 2019: same).

18 Share capital

	Unaudited	
	Shares of $0.1 each	$000
Authorised		
At 30 June 2019 and 31 December 2019	**2,000,000,000**	**200,000**
Issued and fully paid		
At 1 July 2019	**1,124,540,030**	**112,453**
Repurchase of shares (a)	**(3,691,000)**	**(369)**
Issue of shares in lieu of cash dividends (b)	**826,897**	**83**
At 31 December 2019	**1,121,675,927**	**112,167**

(a) During the six months ended 31 December 2019, the Company repurchased and cancelled 3,141,000 shares on the HKSE. Of these repurchased shares together with 550,000 repurchased in June 2019, 3,691,000 shares were cancelled prior to 31 December 2019. The amount paid to acquire the 3,141,000 cancelled shares of $21,522,000 was deducted from equity attributable to equity holders and the amount paid to acquire the 550,000 cancelled shares of $4,018,000 has been paid during the year ended 30 June 2019.

(b) On 6 September 2019, the board of directors declared a final dividend of 21 cents per fully paid share for the year ended 30 June 2019. The shareholders were provided with an option to receive the final dividend in form of scrip dividend. On 18 December 2019, 826,897 shares were issued at $6.632 per share in respect of the final dividend.

19 Share option scheme and share award scheme

(a) Share option scheme

(i) Movements in share options

	Unaudited	
	Average exercise price per share	Number of share options
At 30 June 2019 and 31 December 2019	**$14.28**	**3,000,000**

At 31 December 2019, 3,000,000 share options were exercisable with average exercise price of $14.28 per share.

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

(a) Share option scheme *(continued)*

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

Date of grant	Exercise period	Exercise price per share	**Unaudited 31 December 2019 Number of share options**	Audited 30 June 2019 Number of share options
25 July 2016	25 July 2017 to 24 July 2021	$14.28	**3,000,000**	3,000,000

(iii) Details of share options exercised

No share options were exercised during the six months ended 31 December 2019 and 2018.

(b) Share award scheme

(i) Movements in share award

	Unaudited
Number of awarded shares	
Outstanding at 1 July 2019	**3,545,400**
Vested	**(522,390)**
Lapsed	**(69,890)**
Outstanding at 31 December 2019	**2,953,120**

20 Commitments and contingent liabilities

(a) Capital commitments

	Unaudited 31 December 2019 $000	Audited 30 June 2019 $000
Fixed assets		
Contracted for	**106,404**	62,123

20 Commitments and contingent liabilities *(continued)*

(b) Performance bonds

	Unaudited 31 December 2019 $000	Audited 30 June 2019 $000
Hong Kong	**467,783**	400,000
Macau	**3,883**	3,883
	471,666	403,883

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.

(c) 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.

During the six months ended 31 December 2019, a bank issued a standby letter of credit of $480 million to a subsidiary of the Company in favour of the OFCA for submission of a deposit to participate in the auction for spectrums, of which $200 million was cancelled during the period. A bank also issued a letter of credit of $284 million to a subsidiary of the Company in favour of the OFCA in relation to the assignment of new spectrum the Group acquired, of which $68 million was utilised and included in the outstanding amount of the performance bonds reported above.

(d) At 31 December 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 $1,133,259,000) and $600,000,000, of which US$40,493,000 (approximately $315,403,000) and $450,000,000 of the banking facilities were utilised by the subsidiary.

21 Related party transactions

The Group is controlled by Cellular 8 Holdings Limited, which owns 67.34% of the Company's shares as at 31 December 2019. The remaining 32.66% of the shares are widely held, of which 3.81% is held by another subsidiary of Sun Hung Kai Properties Limited ("SHKP"). The ultimate holding company of the Group is SHKP, a company incorporated in Hong Kong.

(a) During the six months ended 31 December 2019, the Group had transactions with certain fellow subsidiaries and associates of SHKP in the ordinary course of business. All related party transactions are carried out in accordance with the terms of the relevant agreements governing the transactions. These transactions are not significant to the Group's Interim Financial Statements.

(b) Key management compensation

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

	Unaudited six months ended 31 December	
	2019	2018
	$000	$000
Salaries, bonuses and other short-term employee benefits	**21,289**	18,742
Share-based payments	**1,231**	1,289
	22,520	20,031

OTHER INFORMATION

(Financial figures are expressed in Hong Kong dollars)

Interim dividend

The Directors declared an interim dividend of 14.5 cents per share for the six months ended 31 December 2019 (2018: 18 cents). The interim dividend will be payable in cash, with an option to receive new and fully paid shares in lieu of cash under a scrip dividend scheme (the "Scrip Dividend Scheme"). The Directors may, after having made enquiry regarding the legal restrictions under the laws of the relevant place and the requirements of the relevant regulatory body or stock exchange in relation to the Scrip Dividend Scheme, exclude any shareholder outside Hong Kong from the Scrip Dividend Scheme provided that the Directors consider such exclusion to be necessary or expedient on account either of the legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place. Such shareholders will receive the interim dividend in cash. A circular containing details of the Scrip Dividend Scheme and the relevant election form are expected to be sent to shareholders on or about Wednesday, 11 March 2020.

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

The interim dividend will be distributed, and the share certificates issued under the Scrip Dividend Scheme will be sent on or about Thursday, 9 April 2020 to shareholders whose names appear on the Register of Members of the Company on Tuesday, 3 March 2020.

Closure of register of members

The record date for entitlement to the interim dividend is Tuesday, 3 March 2020. For determining the entitlement to the interim dividend, the Register of Members of the Company will be closed for one day on Tuesday, 3 March 2020 during which no transfer of shares will be effected. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Monday, 2 March 2020.

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(Financial figures are expressed in Hong Kong dollars)

Directors' and chief executive's interests

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

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

	Number of shares held					
Name of Director	**Personal interests (held as beneficial owner)**	**Other interests**	**Total**	**Number of underlying shares held under equity derivatives**	**Total**	**% of issued voting shares**
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	32,700[2]	–	32,700	3,000,000[3] (Personal interests in share options) 196,300[4] (Personal interests in unvested shares under share award scheme)	3,229,000	0.29
Chan Kai-lung, Patrick	21,900[2]	–	21,900	124,100[4] (Personal interests in unvested shares under share award scheme)	146,000	0.01
Chau Kam-kun, Stephen	21,900[2]	11,000[5]	32,900	124,100[4] (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 shares of the Company represented the vested awarded shares granted under the Company's share award scheme. Details of the scheme are shown in the section entitled "Share award scheme".

3. 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".

4. 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".

5. 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 issued voting shares
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")

	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 issued voting shares
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:

				Number of share options				
Name of Director	Date of grant	Exercise price $	Exercise period*	Outstanding at 1 July 2019	Granted during the period	Exercised during the period	Cancelled/ Lapsed during the period	Outstanding at 31 December 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	Actual shares held through corporation	Actual % of interests in issued voting shares
Splendid Kai Limited	2,500[1]	25.00
Hung Carom Company Limited	25[1]	25.00
Tinyau Company Limited	1[1]	50.00
Open Step Limited	8[1]	80.00
Vivid Synergy Limited	2,500[1]	25.00

Note:

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

Save as disclosed above, as at 31 December 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.

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(Financial figures are expressed in Hong Kong dollars)

Share option scheme

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

Movements of the share options granted to the participants pursuant to the Share Option Scheme during the six months ended 31 December 2019 are as follows:

				Number of share options				
Grantee	Date of grant	Exercise price $	Exercise period [1]	Outstanding at 1 July 2019	Granted during the period	Exercised during the period	Cancelled/ Lapsed during the period	Outstanding at 31 December 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.

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

(Financial figures are expressed in Hong Kong dollars)

Share award scheme

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

Movements of the awarded shares granted to the selected employees pursuant to the Share Award Scheme during the six months ended 31 December 2019 are as follows:

			Number of awarded shares				
Awardee	Date of award	Vesting period [1]	Outstanding at 1 July 2019	Awarded during the period	Vested during the period	Lapsed during the period	Outstanding at 31 December 2019
Directors							
Anna Yip	29 June 2018	29 June 2019 to 29 June 2021	109,000	–	(32,700)	–	76,300
	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	–	(21,900)	–	51,100
	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	–	(21,900)	–	51,100
	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	1,486,300	–	(445,890)	(29,890)	1,010,520
	31 January 2019	31 January 2020 to 31 January 2022	1,538,100	–	–	(40,000)	1,498,100

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.

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(Financial figures are expressed in Hong Kong dollars)

Interests of substantial shareholder

As at 31 December 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 issued voting shares
Sun Hung Kai Properties Limited ("SHKP")[1]	798,054,590	71.14%
HSBC Trustee (C.I.) Limited ("HSBCCI")[2]	798,984,902	71.23%

Notes:

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

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

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

Save as disclosed above, as at 31 December 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.

(Financial figures are expressed in Hong Kong dollars)

Purchase, sale or redemption of shares

During the six months ended 31 December 2019, the Company repurchased 3,141,000 shares of the Company on the HKSE. These repurchased shares were cancelled prior to 31 December 2019. Details of the repurchases were as follows:

Month of repurchase	Number of shares repurchased	Price per share		Aggregate price paid
		Highest $	Lowest $	$
July 2019	240,000	7.25	7.24	1,740,000
August 2019	507,000	7.25	7.08	3,643,000
September 2019	2,394,000	6.95	6.69	16,139,000
	3,141,000			21,522,000

The Directors considered that the repurchases could lead to an enhancement of the Company's earnings per share. Save as disclosed above, at no time during the six months ended 31 December 2019 was there any purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's shares.

Review of interim results

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

The Audit Committee held a meeting on 12 February 2020 and reviewed the interim financial statements of the Group for the six months ended 31 December 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 disclosures of data and explanations shown in the financial statements. The Committee was also satisfied with the risk management and internal control measures adopted by the Group.

The interim financial statements for the six months ended 31 December 2019 have not been audited but have been reviewed by the Company's external auditor.

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

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(Financial figures are expressed in Hong Kong dollars)

Corporate governance

The Company is committed to building and maintaining high standards of corporate governance. Throughout the six months ended 31 December 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 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 1 November 2019 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.

Compliance with model code for securities transactions by Directors

The Group adopted the Model Code set out in Appendix 10 of the Listing Rules as the code of conduct regarding Directors' transactions in the securities of the Company. Upon specific enquiry, each Director had confirmed that during the six months ended 31 December 2019, they had fully complied with the required standard set out in the Model Code and there was no event of non-compliance.

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

Hong Kong, 18 February 2020

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