SmarTone Telecommunications Holdings Limited

Stock Code : 0315

ANNUAL REPORT 2019/20

5G MAKE US SMART

Faster • Stabler • Smoother

ABOUT US

SmarTone Telecommunications Holdings Limited (0315.HK), listed in Hong Kong since 1996 and a subsidiary of Sun Hung Kai Properties Limited, is a leading telecommunications provider with operating subsidiaries in Hong Kong and Macau, offering voice, multimedia and mobile broadband services, as well as fixed fibre broadband services for both consumer and corporate markets. SmarTone spearheaded 5G development in Hong Kong since May 2020, with the launch of its territory-wide 5G services.

SmarTone is your smart partner that delivers a trusted and connected experience through our high-quality network, people-driven products and services combined with innovation, passion and understanding of customer needs.

SmarTone differentiates our content, excellent customer service, business and consumer products for all our Hong Kong customers, allowing them to live and feel smarter everyday. This strong presence is also backed by expert technical know-how, over 30 stores across Hong Kong, our 5 core brands and our innovative business strategies arm.

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DIRECTORS AND CORPORATE INFORMATION

Board of Directors

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

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

Company Secretary

Mr. MAK Yau-hing, Alvin

Authorised Representatives

Mr. CHAU Kam-kun, Stephen
Mr. MAK Yau-hing, Alvin

Registered Office

Clarendon House, 2 Church Street
Hamilton HM 11, Bermuda

Head Office and Principal Place of Business

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

Auditors

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

Hong Kong Share Registrar

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

Principal Share Registrar

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

Principal Bankers

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

Legal Advisors to the Company

As to Hong Kong law
Norton Rose Fulbright

As to Bermuda law
Conyers, Dill & Pearman

Bermuda Resident Representative

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

FINANCIAL HIGHLIGHTS

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

	Year ended or as at 30 June		
	2020	2019	Change
Consolidated profit and loss account			
Revenues	**6,986**	8,415	(17%)
Profit attributable to equity holders of the Company	**379**	632	(40%)
Basic earnings per share ($)	**0.34**	0.56	(39%)
Total dividends per share ($)	**0.295**	0.39	(24%)
Consolidated balance sheet			
Total assets	**10,432**	9,883	6%
Current liabilities	**(2,874)**	(2,673)	8%
Total assets less current liabilities	**7,558**	7,210	5%
Non-current liabilities	**(2,545)**	(2,133)	19%
Non-controlling interests	**20**	(20)	N/A
Net assets	**5,033**	5,057	(0%)
Share capital	**112**	112	(0%)
Reserves	**4,921**	4,945	(0%)
Total equity attributable to equity holders of the Company	**5,033**	5,057	(0%)

	Year ended 30 June		
	2020	2019	Change
Consolidated cash flows			
Net cash inflow from operating activities	**2,017**	1,304	55%
Interest received	**85**	70	21%
Payment for purchase of fixed assets	**(540)**	(519)	4%
Proceeds from disposal of financial assets at amortised cost	**319**	78	309%
Payment of mobile licence fees	**(96)**	(62)	55%
Dividends paid	**(389)**	(374)	4%
Repayment of bank borrowings (net)	**(494)**	(128)	286%
Principal elements of lease payments	**(758)**	–	N/A
Payment or prepayment for repurchase of shares	**(22)**	(58)	(62%)
Others	**(2)**	(2)	0%
Net increase in short-term bank deposits, and cash and cash equivalents	**120**	309	(61%)
Effect of foreign exchange rate changes	**1**	(7)	N/A
	121	302	(60%)

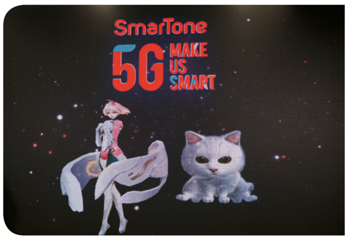
BUSINESS HIGHLIGHTS

Blazing 5G connectivity with the widest network coverage in Hong Kong

SmarTone marks a new milestone for the Hong Kong telecom industry and brings the best 5G network experience to consumers in Hong Kong, with the widest 5G network coverage. 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

SmarTone launched its world-class ***5G service*** with the city's widest network coverage through Dynamic Spectrum Sharing (DSS) to spearhead smart city development in Hong Kong.



SmarTone
5G

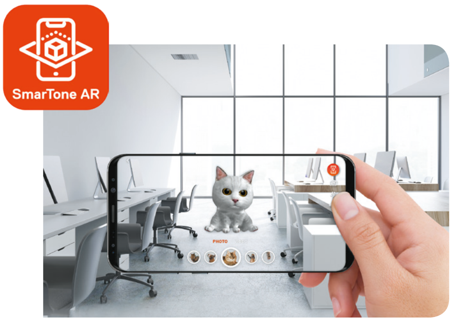
SmarTone ***"5G Experience Pod"*** brought a taste of the powerful 5G network and daily applications to the public.

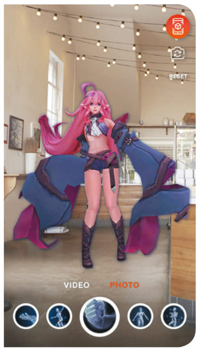
Collaboration with start-ups to put forth the ***SmarTone 5G Innovation Hub*** with a new wave of 5G live demo.

'The Widest Coverage in HK' is based on results obtained from SmarTone's road test conducted on 3 September 2020. The road test covers major roads including expressways, trunk roads, tunnels and bridges in Hong Kong. 5G coverage is defined as spot with received 5G radio signal level not weaker than -95dBm. The visual shown is for illustrating the coverage of our 5G network. Coverage may not be available in some locations.

2. Empowering Innovation

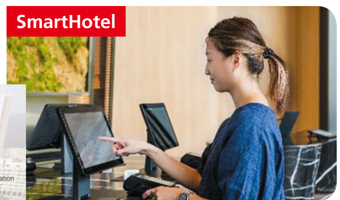
SmarTone AR unlock 3D virtual characters and pets and bring them to real world with AR, to have fun with virtual characters and pets wherever you go.





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

SmarTone Solutions injected the latest technology into end-to-end enterprise solutions to unleash the digital transformation of enterprises.



BUSINESS HIGHLIGHTS

3. Customer-Centric Strategy

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

With the exceptional team performance in customer services, we garnered multiple accolades at the ***2019 Service & Courtesy Award*** and ***Smiling Enterprise Award 2019/2020***.

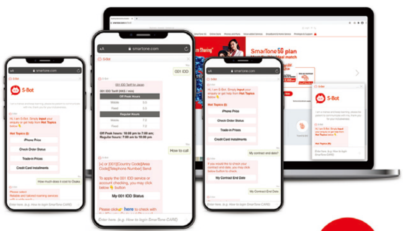
A premium membership class has been discovering a world of prestige for customers, including birthday celebrations, selected offers, priority and privileges, refined experiences as well as flash surprises.

4. Digitalisation

Full digital brand ***"Birdie"*** continues to partner with major brands to elevate its brand and loyalty amongst millennials as well as run promotions that benefit our customers.

Award-winning website and online store to offer a customer centric experience.

Chatbot continues to improve customer experience and enhance efficiency.



Chatbot

CHAIRMAN'S STATEMENT

(Financial figures are expressed in Hong Kong dollars)

Business review

The year under review has been one of the most challenging in recent memory as the COVID-19 pandemic severely affected both business operations, as well as our customers' way of life. The Group's profitability suffered; the decline was primarily due to the collapse in roaming revenues (both inbound and outbound) as international travel was severely restricted. In addition, a fixed asset impairment of our subsidiary in Macau was recognised in view of business uncertainties and the impact of COVID-19.

Underlying profit attributable to equity holders, which excludes a one-off cost adjustment in FY19 and the Macau impairment in FY20, dropped 24% from $581 million to $440 million. Reported profit attributable to equity holders was $379 million, 40% lower compared to the prior year profit of $632 million.

The Company has made an impairment for our Macau business, mainly for the network assets. The Macau mobile telecom market is highly competitive and even more so under COVID-19. We face an unlevel playing field in our competition: very high backhaul costs from one predominant operator, and substantial government charges. We are currently conducting a strategic review on the viability of the business.

To strengthen the resilience of the Company, management has already initiated a program of cost reduction and productivity improvement. The savings will primarily come from "non-network" related areas to ensure that the quality of the network, one of the key strengths of the Company, will not be impacted.

Leaving the impact of roaming aside, the core business of SmarTone was resilient during the last financial year. The number of subscribers increased by 6%, and mobile postpaid customers (ex. MVNO) also increased 4%. Under the non-HKFRS 16 accounting standard, service revenues excluding roaming increased 1%, and operating costs have been kept flat. Postpaid churn has improved to an industry low at 0.7% due to SmarTone's outstanding network performance and superior customer service.

There were some areas where we saw early signs of good growth. SmarTone's enterprise business (including enterprise solutions) has seen strong growth. Our solutions have received industry recognition for their ability to assist corporations to improve performance and enhance efficiency. For instance, SmartWorks received the 1st Prize for construction safety in the Construction Innovation Award 2019 presented by the Construction Industry Council. SmarTone's portfolio of solutions in industries range from construction and hospitality, to facility management, and is focused on the growing corporate demand for digital transformation.

In May, SmarTone launched its 5G service in Hong Kong, offering 5G connectivity with data speed up to 10 times faster than that of 4G. Through partnership with Ericsson, the Company was the first in Asia to introduce the industry-leading Dynamic Spectrum Sharing (DSS) technology, enabling a speedy 5G network rollout with the widest coverage across Hong Kong at launch, both indoor and outdoor, including major shopping malls, premium hotels and prime office buildings. Also, by deploying the newly acquired 3.5GHz spectrum and utilising a combination of low, mid and high spectrum bands, the Company is able to deliver ultra-fast speed and super-low latency with ample capacity at high-traffic locations.

Dividend

In line with the Company's 75% payout policy, the Board proposes a final dividend of 15 cents, making a full-year dividend of 29.5 cents per share, based on underlying profit attributable to equity holders of $440 million (excluding the impairment of a subsidiary).

Outlook

It is difficult to know when international travel restrictions will be relaxed and finally lifted. It is likely travel within the Greater Bay area will resume earlier than general travel, and that will materially improve our roaming revenues. Nonetheless, the coming year is still likely to be a very difficult one.

Despite the uncertain economic environment, there are a number of opportunities for the Company to expand its revenue streams. It is early days for 5G, but the uptake, as our customers renew their contracts, has been encouraging, even though the choice of 5G handsets is limited at this stage. At a time when users rely more than ever on their mobile devices for online activities, the faster speed provided by 5G is meaningful. Also, there has been a strong demand for our suite of cyber-security services, as users increasingly become aware of the dangers of data breaches. In addition, the Company will soon launch its 5G home broadband service. It is estimated at least 20% to 30% of Hong Kong households suffer either from expensive broadband fees (because of single operator access) or slow broadband speeds. 5G home broadband can address such pain-points, providing households with strong internet speed and plug-and-play convenience, at a reasonable cost.

The difficult economic environment does not change SmarTone's core focus for customers – to provide the best network and service. In light of this, the Company will continue to upgrade the network and invest in 5G. Through a very successful partnership with Ericsson and our backhaul providers, we will be able to step up our network quality and coverage at highly effective costs.

Appreciation

In July, Ms. Anna Yip tendered her resignation as Executive Director, the Chief Executive Officer, and the Authorised Representative of the Company. In May, Mr. Chan Kai-lung, Patrick, announced his retirement as Executive Director and Chief Financial Officer. Both Ms. Yip and Mr. Chan have contributed to the Company. Patrick, in particular, has supported the Company since its beginning, and has in total served the Company for 18 years. I would like to thank them for their contribution over the years.

I would like to take this opportunity to express my gratitude to our customers and shareholders for their continuing support, and to my fellow directors for their guidance. To our staff, I would like to thank them for their commitment and professionalism in supporting the Company through this challenging year.

Kwok Ping-luen, Raymond
Chairman

Hong Kong, 2 September 2020

MANAGEMENT DISCUSSION AND ANALYSIS

(Financial figures are expressed in Hong Kong dollars)

Review of financial results

During the year under review, the Group profit attributable to equity holders was 40% lower at $379 million (2018/19: $632 million). The decline was primarily due to a substantial decline in roaming revenue as a result of travel restrictions from COVID-19, impairment loss of fixed assets and right-of-use assets at the Macau segment, and lower profitability in the handset business.

Group service revenue decreased by 1% to $4,580 million (2018/19: $4,634 million) mainly due to the significant decrease in roaming revenue, partially offset by an increase in lease income under HKFRS 16, as well as the growth in Enterprise Solutions Services and Prepaid revenue. Mobile postpaid ARPU fell 6% to $210 (2018/19: $224).

Group's handset and accessory sales fell by $1,375 million or 36% to $2,406 million when compared with $3,781 million last year, mainly due to weakness in the handset trading business.

As a result, Group total revenue decreased by 17% to $6,986 million (2018/19: $8,415 million) mainly due to lower handset revenue.

Roaming revenue, which made up of 12% of Group's service revenue (2018/19: 16%) decreased by 25% due to global travel restrictions as a result of COVID-19.

Hong Kong customer number grew 6% year-on-year to 2.7 million through growth in different segments. Postpaid churn rate improved to an industry low of 0.7% compared to 0.8% last year.

Cost of inventories sold fell by $1,319 million or 35% to $2,403 million (2018/19: $3,723 million), in line with the corresponding decrease in handset and accessory sales.

Staff costs rose slightly by $8 million or 1% to $756 million (2018/19: $748 million).

With the adoption of HKFRS 16 during the year 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 $704 million or 34% to $1,398 million (2018/19: $2,102 million) as majority of the Group's lease expenses are now recognised in right-of-use assets depreciation and finance costs.

Under pre-HKFRS 16, cost of services provided and other operating expenses increased $28 million or 1%. Cost of services provided rose to support the corresponding increase in Enterprise Solutions revenue. Other operating expenses also increased due to the preparation and the launch of 5G services during the year.

Under HKFRS 16, depreciation and loss on disposal rose by $795 million or 117% to $1,473 million (2018/19: $678 million) mainly amid the recognition of right-of-use assets depreciation.

Under pre-HKFRS 16, depreciation and loss on disposal increased by $14 million or 2% mainly due to commencement of depreciation for CAPEX during the previous financial year.

Amortisation of customer acquisition costs rose by $8 million to $63 million (2018/19: $55 million) due to additional short-term incentive programs on customer acquisition.

Spectrum utilisation fee amortisation rose by $2 million to $288 million.

Impairment loss of fixed assets and right-of-use assets has been recorded at the Macau segment as a result of impairment assessments on fixed assets and right-of-use assets triggered by COVID-19.

Finance income decreased by $16 million or 18% to $70 million (2018/19: $85 million) mainly due to lower interest income.

Under HKFRS 16, finance costs increased by $8 million or 7% to $116 million (2018/19: $108 million) mainly amid the recognition of accretion expenses on lease liabilities.

Under pre-HKFRS 16, finance costs fell by $25 million or 23% mainly due to exchange gain from financing activities, decrease in accretion expenses on mobile licence fee liabilities and decrease in interest expenses on bank borrowings.

Income tax expense amounted to $134 million (2018/19: $182 million), reflecting an effective tax rate of 28.3% (2018/19: 22.7%). The increase in effective tax rate is mainly due to impairment related tax loss not recognised at the Macau segment. In light of the uncertainty of the tax deductibility of the spectrum utilisation fees, certain payments have been treated as non-deductible, which contributes to the Group effective tax rate 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.

Group EBITDA increased by $587 million or 32% to $2,429 million (2018/19: $1,842 million). Group operating profit was $520 million, representing a 37% decrease as compared with last year. Group profit attributable to equity holders fell by $253 million or 40% to $379 million (2018/19: $632 million).

Excluding a one-off cost adjustment in second half of 2018/19, and the non-cash impairment loss of fixed assets and right-of-use assets at Macau, Group profit attributable to equity holders of the Company decreased by $141 million or 24% to $440 million (2018/19: $581 million).

Capital structure, liquidity and financial resources

The Group maintained a strong balance sheet for the year under review. During the year, the Group was financed by share capital, internally generated funds and bank and other borrowings. As at 30 June 2020, the Group recorded share capital of $112 million, total equity of $5,013 million and total borrowings of $1,802 million.

The Group's cash resources remained robust with cash and bank balances of $2,251 million as at 30 June 2020 (30 June 2019: $2,129 million).

As at 30 June 2020, the Group had bank and other borrowings of $1,802 million (30 June 2019: $2,303 million) of which 91% 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 $604 million as at 30 June 2020 (30 June 2019: $310 million).

The Group had net cash generated from operating activities and interest received of $2,017 million and $85 million respectively during the year ended 30 June 2020. The Group's major outflows of funds during the year 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 2021 with internal cash resources and available banking facilities.

MANAGEMENT DISCUSSION AND ANALYSIS

(Financial figures are expressed in Hong Kong dollars)

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 $73 million as at 30 June 2020 (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 9% of the Group's total borrowings at 30 June 2020. The remaining 91% 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

As at 30 June 2020, the Group provided performance and financial guarantees of $3,121 million (30 June 2019: $2,824 million).

Employees, share award scheme and share option scheme

The Group had 1,898 full-time employees as at 30 June 2020 (30 June 2019: 1,893), with the majority of them based in Hong Kong. Total staff costs were $756 million for the year ended 30 June 2020 (2018/19: $748 million).

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

A share award scheme was adopted by the Group as an incentive arrangement to recognise the contributions by certain employees and to attract and retain suitable personnel for the development of the Group. During the year under review, 1,553,110 shares were granted, 1,550,550 shares were vested and 123,620 shares were lapsed. 3,424,340 shares (30 June 2019: 3,545,400) were outstanding as at 30 June 2020.

The Group has share option scheme under which the Company may grant options to participants, including directors and employees, to subscribe for shares of the Company. During the year under review, no share options were granted, cancelled or lapsed. 3,000,000 (30 June 2019: 3,000,000) share options were outstanding as at 30 June 2020.

Corporate Governance

The Company is committed to building and maintaining high standards of corporate governance. Throughout the year ended 30 June 2020, the Company has applied the principles and complied with the requirements set out in the Corporate Governance Code and Corporate Governance Report (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), except for the following deviations:

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

Code Provision A.6.7 of the CG Code provides that independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Code Provision E.1.2 of the CG Code also provides that the chairman of the board should attend the annual general meeting. Mr. Kwok Ping-luen, Raymond, Non-Executive Director and Chairman of the Board, and Mr. Gan Fock-kin, Eric and Mr. Lam Kwok-fung, Kenny, Independent Non-Executive Directors, were unable to attend the annual general meeting of the Company held on 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 at the time, took the chair of the said meeting pursuant to the Bye-laws of the Company.

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

The Board

Roles of Directors

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

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

Corporate governance function

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

CORPORATE GOVERNANCE REPORT

Composition

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

As at 30 June 2020, the Board comprises three Executive Directors, six Non-Executive Directors and five Independent Non-Executive Directors. The presence of eleven Non-Executive Directors, of whom five are independent, is considered by the Board to be a reasonable balance between Executive and Non-Executive Directors.

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

Except for those relationships disclosed in the biographical details of the Directors set out on pages 41 to 47 of this Annual Report, the Directors have no other financial, business, family or other material or relevant relationships with each other.

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

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

Appointment and re-election of Directors

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

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

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

Chairman and Chief Executive Officer

In order to reinforce their respective independence, accountability and responsibility, and to avoid power being concentrated in any one individual, the roles of the Chairman is separate from those of the Chief Executive Officer. The Chairman of the Company is Mr. Kwok Ping-luen, Raymond. For the year under review and up to 16 August 2020, the Chief Executive Officer of the Company was Ms. Anna Yip. Their respective responsibilities are clearly established and defined by the Board in writing. The Chairman is responsible for ensuring that the Board is functioning properly, with good corporate governance practices and procedures. The Chief Executive Officer, supported by the Executive Directors and the management team, is responsible for managing the Group's businesses, including the implementation of major strategies and initiatives adopted by the Board.

Board process

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

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

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

Directors' attendance at Board meetings and general meeting

Four Board meetings and a general meeting were held during the year ended 30 June 2020. The attendance record of the Directors at the meetings is set out below:

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

CORPORATE GOVERNANCE REPORT

Directors' training

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

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

All Directors have provided to the Company a record of the training they received during the year ended 30 June 2020, which includes attending seminars, giving talks at seminars and/or reading materials relevant to the Company's business or to the Directors' duties and responsibilities.

During the year ended 30 June 2020, the Directors participated in the following trainings:

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

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

Board Committees

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

Board Supervisory Committee (the "BSC")

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

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

Remuneration Committee

The chairman of the Committee is Dr. Li Ka-cheung, Eric (Independent Non-Executive Director) and the other members are Mr. Ng Leung-sing (Independent Non-Executive Director) and Mr. Fung Yuk-lun, Allen (Non-Executive Director, re-designated as Executive Director with effect from 17 August 2020). The majority of the members of the Remuneration Committee are Independent Non-Executive Directors of the Company.

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

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

During the year ended 30 June 2020, the Remuneration Committee passed a written resolution for approving the emoluments payable to Executive Directors/senior management.

Remuneration policy for Directors and senior management

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

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

CORPORATE GOVERNANCE REPORT

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

Nomination Committee

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

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

During the year ended 30 June 2020, the Nomination Committee passed a written resolution for reviewing the size, structure and composition of the Board and recommending re-election of Directors.

The Nomination Committee has reviewed and recommended the re-election of those retiring Directors who offer themselves for re-election at the forthcoming 2020 Annual General Meeting.

Nomination policy

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

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

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

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

Board diversity

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

The current Board comprises male and female Directors of different age groups, length of services in the Group, cultural and educational background, and professional experience (see the section "The Board – Composition" of this Corporate Governance Report and the biographical details of the Directors set out on pages 41 to 47 of this Annual Report). The Nomination Committee considers the current composition and structure of the Board as appropriate.

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

Audit Committee

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

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

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

The Audit Committee held two meetings during the year ended 30 June 2020 to review with management and the Company's internal and external auditors the Group's significant internal controls and financial matters as set out in the Committee's terms of reference. The Committee's review covers the audit plans and findings of internal and external auditors, external auditor's independence, the Group's accounting principles and practices, Listing Rules and statutory compliance, internal controls, risk management and financial reporting matters (including the interim and annual financial statements for the Board's approval).

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

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

The Audit Committee also held a meeting on 25 August 2020 and reviewed the financial statements of the Group for the year ended 30 June 2020 as well as the report of the Risk Management Committee and the report of Internal Audit. The Committee was satisfied that the accounting policies and methods of computation adopted by the Group are appropriate and in line with the market participants in Hong Kong. The Committee found no unusual items that were omitted from the financial statements and was satisfied with the disclosure of data and explanations shown in the financial statements. The Committee was also satisfied that adequate and effective risk management and internal control systems have been maintained by the Group for the year ended 30 June 2020.

External auditor's independence

The nature and ratio of annual fees to external auditor for non-audit services and for audit services are subject to scrutiny by the Audit Committee. The provision of non-audit services by the external auditor requires prior approval of Audit Committee so as to ensure that the independence and objectivity of the external auditor will not be impaired. Details of the fees paid or payable to the auditor for the year ended 30 June 2020 are as follows:

	HK$
Audit services	2,646,000
Non-audit services	
Taxation	352,000
Review of interim financial statements	347,000
Others[1]	825,000
	1,524,000
Total fees	4,170,000

Note:

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

The consolidated financial statements of the Company and its subsidiaries as at and for the year ended 30 June 2020 have been audited by PricewaterhouseCoopers. Before the commencement of the said audit, the Committee received written confirmation from PricewaterhouseCoopers confirming that they are independent accountants with respect to the Company within the meaning of the requirements of section 290 of the Code of Ethics for Professional Accountants of the Hong Kong Institute of Certified Public Accountants.

The Committee was satisfied with the findings of their review of the audit fees, process and effectiveness, independence and objectivity of PricewaterhouseCoopers and had recommended the Board to propose a resolution of their re-appointment as the Company's external auditor at the forthcoming 2020 Annual General Meeting.

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

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

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

The responsibilities of the auditor for the consolidated financial statements are set out in the Independent Auditor's Report on pages 53 to 58 of this Annual Report.

Risk management and internal control systems

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

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

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

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

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

The Board, through the Audit Committee, conducted a review on the effectiveness of the Group's risk management and internal control systems and concluded that adequate and effective risk management and internal control systems have been maintained for the year ended 30 June 2020. The review considered the adequacy of resources, qualifications and experience of staff of the Group's accounting, financial reporting and internal audit functions, and their training programmes and budget. The review covered all material controls, including financial, operational and compliance controls and risk management functions. It was based on a framework which assesses the Group's risk management and internal control systems against control environment, risk management, control activities, information and communication and monitoring activities on all major business and operational processes. The review also considered (a) the changes, since the last annual review, in the nature and extent of significant risks, and the Group's ability to respond to changes in its business and the external environment; (b) the scope and quality of management's ongoing monitoring of risks and of the internal control systems, the work of its internal audit function and other assurance providers; (c) the extent and frequency of communication of monitoring results to the Board which enables it to assess control of the Group and the effectiveness of risk management; (d) significant control failings or weaknesses that have been identified during the period and the extent to which they have resulted in unforeseen outcomes or contingencies that have had, could have had or may in the future have, a material impact on the Group's financial performance or condition; and (e) the effectiveness of the Group's processes for financial reporting and Listing Rule compliance.

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

Compliance with model code for securities transactions by Directors

The Group adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules as the code of conduct regarding Directors' transactions in the securities of the Company. Upon specific enquiry, each Director had confirmed that during the year ended 30 June 2020, they had fully complied with the required standard set out in the Model Code and there was no event of non-compliance.

Shareholders' rights

Right to convene special general meeting

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

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

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

Right to put enquiries to the Board

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

Right to put forward proposals at general meetings

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

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

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

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

Communication with shareholders

Investor relations

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

Dividend policy

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

REPORT OF THE DIRECTORS

(Financial figures are expressed in Hong Kong dollars)

The Directors submit their report together with the audited financial statements for the year ended 30 June 2020.

Principal activities and geographical analysis of operations

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

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

Business review

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

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

(i) Principal risks and uncertainties facing the Group

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

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

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

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

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

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

(ii) Environmental policies and performance

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

(iii) Compliance with laws and regulations

The Group recognises the importance of compliance with legal and regulatory requirements and risks of non-compliance with such requirements. The Group conducts on-going review of newly enacted/revised laws and regulations affecting the operations of the Group and provides relevant trainings and guidance to staff. To the best knowledge of the Directors, the Group has complied in all material respects the relevant laws and regulations that have significant impact on the operations of the Group for the year ended 30 June 2020.

(iv) Relationship with employees

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

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

(v) Relationship with customers

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

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

(vi) Relationship with suppliers

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

Results

The results of the Group for the year ended 30 June 2020 are set out in the consolidated profit and loss account on page 59.

Dividend

The Directors recommended the payment of a final dividend for the year ended 30 June 2020 of $0.15 per share (2018/19: $0.21 per share). The proposed final dividend, together with the interim dividend of $0.145 per share paid by the Company during the year (2018/19: $0.18 per share), makes a total dividend for the year of $0.295 per share (2018/19: $0.39 per share).

Five years financial summary

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

REPORT OF THE DIRECTORS

(Financial figures are expressed in Hong Kong dollars)

Distributable reserves

Distributable reserves of the Company at 30 June 2020, calculated under the Company's Bye-laws and the Bermuda laws, amounted to $1,829,358,000 (30 June 2019: $2,238,395,000).

Donations

During the year, the Group did not make any charitable or other donations (2018/19: $15,000).

Shares issued in the year

Details of the shares issued in the year ended 30 June 2020 are shown in note 35 to the consolidated financial statements.

Directors

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

* Mr. Kwok Ping-luen, Raymond
Chairman

* *Mr. Cheung Wing-yui*
Deputy Chairman

Mr. Fung Yuk-lun, Allen[1]
Deputy Chairman

Mr. Chau Kam-kun, Stephen

* Mr. David Norman Prince

* Mr. Siu Hon-wah, Thomas

* Mr. John Anthony Miller

Ms. Anna Yip[2]

Mr. Chan Kai-lung, Patrick[3]

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

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

** Mr. Gan Fock-kin, Eric

** Mrs. Ip Yeung See-ming, Christine

** Mr. Lam Kwok-fung, Kenny

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

Notes:

1. Mr. Fung Yuk-lun, Allen was re-designated from a Non-Executive Director to an Executive Director of the Company with effect from 17 August 2020.

2. Ms. Anna Yip resigned as an Executive Director and the Chief Executive Officer of the Company with effect from 17 August 2020.

3. Mr. Chan Kai-lung, Patrick retired as an Executive Director of the Company with effect from 29 August 2020.

In accordance with Bye-law No. 84 of the Company's Bye-laws, Mr. Fung Yuk-lun, Allen, Mr. John Anthony Miller, Mr. Ng Leung-sing and Mr. Lam Kwok-fung, Kenny retire by rotation at the forthcoming annual general meeting. All retiring Directors, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

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

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

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

Directors' emoluments

The directors' fees payable to the Directors of the Company are determined by the Board under the authority granted by shareholders at annual general meetings. The fees are subject to annual assessment based on prevailing market rate of directors' fees for companies listed in Hong Kong. Other emoluments, if any, payable to the Directors of the Company are based on terms of the respective service contracts. Details of the emoluments paid and payable to the Directors of the Company for the financial year ended 30 June 2020 are shown in note 41 to the consolidated financial statements.

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

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

Biographical details of Directors

Brief biographical details of the Directors are set out on pages 41 to 47.

REPORT OF THE DIRECTORS

(Financial figures are expressed in Hong Kong dollars)

Directors' and chief executive's interests

As at 30 June 2020, the interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and The Stock Exchange of Hong Kong Limited (the "SEHK") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under section 352 of the SFO, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules, to be notified to the Company and the SEHK, 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	101,400[2]	–	101,400	3,000,000[3] (Personal interests in share options) 127,600[4] (Personal interests in unvested shares under share award scheme)	3,229,000	0.29
Chan kai-lung, Patrick	65,700[2]	–	65,700	80,300[4] (Personal interests in unvested shares under share award scheme)	146,000	0.01
Chau Kam-kun, Stephen	65,700[2]	11,000[5]	76,700	80,300[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	526,796,686[1] 70,000[2]	527,055,429	–	527,055,429	18.19
Chau Kam-kun, Stephen	1,000	–	1,000	–	1,000	0.00
David Norman Prince	2,000	–	2,000	–	2,000	0.00
Siu Hon-wah, Thomas	–	7,000[3]	7,000	–	7,000	0.00
Li Ka-cheung, Eric	–	4,028[4]	4,028	–	4,028	0.00

Notes:

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

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

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

4. These shares in SHKP were held by the spouse of Dr. Li Ka-cheung, Eric.

(Financial figures are expressed in Hong Kong dollars)

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

Name of Director	Number of shares held: Personal interests (held as beneficial owner)	Number of shares held: Other interests	Number of shares held: Total	Number of underlying shares held under equity derivatives	Total	% of 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:

Name of Director	Date of grant	Exercise price $	Exercise period*	Number of share options: Outstanding at 1 July 2019	Granted during the year	Exercised during the year	Cancelled/ Lapsed during the year	Outstanding at 30 June 2020
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	1,204,421,125[2]	25.00

Notes:

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

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

   On 29 April 2020, a sale and purchase agreement was entered into by Somerpath International Limited ("Somerpath"), which is held indirectly under the Discretionary Trust, with various parties for selling 5% interest in Vivid Synergy Limited at HK$1,878,896,961.22 plus reimbursement of the costs of funding therefor (the "Transaction"). The said agreement is a conditional agreement, completion of which subsequently took place on 21 July 2020 in accordance with the terms and conditions set out therein.

   On 3 June 2020, the number of issued shares held by all members of Vivid Synergy Limited (including Somerpath) increased on a pro-rata basis after a capitalisation issue by Vivid Synergy Limited. Mr. Kwok Ping-luen, Raymond was then deemed to be interested in 1,204,421,125 shares in Vivid Synergy Limited by virtue of him being a beneficiary of the Discretionary Trust for the purpose of Part XV of the SFO.

   On 21 July 2020, the Transaction was completed and Mr. Kwok Ping-luen, Raymond was deemed to be interested in 963,536,900 shares (representing 20% of the interests in issued voting shares of Vivid Synergy Limited) by virtue of him being a beneficiary of the Discretionary Trust for the purpose of Part XV of the SFO.

Save as disclosed above, as at 30 June 2020, 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 SEHK 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 SEHK pursuant to the Model Code.

REPORT OF THE DIRECTORS

(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.

1. Principal terms of the Share Option Scheme

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

(a) Purpose

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

(b) Participants

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

(c) Maximum number of shares available for issue

The Company can issue options so that the total number of shares that may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company does not in aggregate exceed 10% of the shares in issue as at the date of adoption of the Share Option Scheme. The Company may renew this limit at any time, subject to shareholders' approval and the issue of a circular and in accordance with the Listing Rules provided that the number of shares to be issued upon exercise of all outstanding options granted and yet to be exercised under all the share option schemes of the Company does not exceed 30% of the shares in issue from time to time. At 2 September 2020, the number of shares available for issue in respect thereof is 102,761,185 shares which represents approximately 9.16% of the issued shares of the Company.

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

(d) Maximum entitlement of each participant

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

(e) Time of exercise of option

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

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

(f) Payment on acceptance of option

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

(g) Basis of determining the exercise price

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

(h) Remaining life

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

REPORT OF THE DIRECTORS

(Financial figures are expressed in Hong Kong dollars)

2. Movements of share options

Movements of the share options granted to the participants pursuant to the Share Option Scheme during the year ended 30 June 2020 are as follows:

				Number of share options				
Grantee	Date of grant	Exercise price $	Exercise period[1]	Outstanding at 1 July 2019	Granted during the year	Exercised during the year	Cancelled/ Lapsed during the year	Outstanding at 30 June 2020
Director								
Anna Yip	25 July 2016	14.28	25 July 2017 to 24 July 2021	3,000,000	–	–	–	3,000,000

Note:

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

As at 2 September 2020, options to subscribe for a total of 3,000,000 shares were still outstanding under the Share Option Scheme which represents approximately 0.27% of the issued shares of the Company.

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

Share award scheme

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

1. Principal terms of the Share Award Scheme

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

(a) Purpose and objectives

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

(b) Administration

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

(c) Duration

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

(d) Maximum limit

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

(e) Operation of the Share Award Scheme

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

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

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

(f) Vesting and Lapse

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

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

(g) Voting Rights

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

(h) Termination

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

(Financial figures are expressed in Hong Kong dollars)

2. Movements of awarded shares

Movements of the awarded shares granted to the selected employees pursuant to the Share Award Scheme during the year ended 30 June 2020 are as follows:

			Number of awarded shares				
Awardee	Date of award	Vesting period[1]	Outstanding at 1 July 2019	Awarded during the year	Vested during the year	Lapsed during the year	Outstanding at 30 June 2020
Directors							
Anna Yip	29 June 2018	29 June 2019 to 29 June 2021	109,000	–	(65,400)	–	43,600
	31 January 2019	31 January 2020 to 31 January 2022	120,000	–	(36,000)	–	84,000
Chan kai-lung, Patrick	29 June 2018	29 June 2019 to 29 June 2021	73,000	–	(43,800)	–	29,200
	31 January 2019	31 January 2020 to 31 January 2022	73,000	–	(21,900)	–	51,100
Chau Kam-kun, Stephen	29 June 2018	29 June 2019 to 29 June 2021	73,000	–	(43,800)	–	29,200
	31 January 2019	31 January 2020 to 31 January 2022	73,000	–	(21,900)	–	51,100
Employees	29 June 2018	29 June 2019 to 29 June 2021	1,486,300	–	(868,770)	(53,690)	563,840
	31 January 2019	31 January 2020 to 31 January 2022	1,538,100	–	(448,980)	(65,230)	1,023,890
	28 February 2020	28 February 2021 to 28 February 2023	–	1,553,110	–	(4,700)	1,548,410

Note:

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

(Financial figures are expressed in Hong Kong dollars)

Interests of substantial shareholder

As at 30 June 2020, 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	71.11%
HSBC Trustee (C.I.) Limited ("HSBCCI")[2]	807,292,867	71.93%

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 30 June 2020, the Company had not been notified by any persons (other than Directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

Arrangement to acquire shares or debentures

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

REPORT OF THE DIRECTORS

(Financial figures are expressed in Hong Kong dollars)

Directors' interests in competing business

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

Permitted indemnity provision

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

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

Sufficiency of public float

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

Purchase, sale or redemption of shares

During the year ended 30 June 2020, the Company repurchased 3,141,000 shares of the Company on the SEHK. These repurchased shares were cancelled prior to 30 June 2020. Details of the repurchases were as follows:

Month of repurchase	Number of shares repurchased	Price per share Highest $	Price per share Lowest $	Aggregate price paid $
July 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, and except that the trustee of the share award scheme of the Company, pursuant to the terms of the rules and trust deed of the scheme, purchased on the SEHK a total of 450,000 shares of the Company at a total consideration of $2,220,000, at no time during the year ended 30 June 2020 was there any purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's shares.

Pre-emptive rights

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

(Financial figures are expressed in Hong Kong dollars)

Equity-linked agreements

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

Management contracts

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

Major suppliers and customers

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

Percentage of purchases attributable to the Group's largest supplier	36%
Percentage of purchases attributable to the Group's five largest suppliers	51%
Percentage of revenues attributable to the Group's largest customer	18%
Percentage of revenues attributable to the Group's five largest customers	25%

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

Connected transactions

1. Certain related party transactions as disclosed in note 39 to the consolidated financial statements also constituted connected transactions. The following transactions between certain connected persons (as defined in the Listing Rules) and the Group have been entered into and/or are continuing for which relevant announcements, if necessary, had been made by the Company in accordance with the requirements of the Listing Rules.

   (a) Certain subsidiaries and associated companies of SHKP, the controlling shareholder of the Company, have leased premises to the Group for use as offices, retail stores and warehouses and have granted licences to the Group for the installation of base stations, antennae and telephone cables on certain premises owned by them. For the year ended 30 June 2020, rental and licence fees paid and payable to subsidiaries and associated companies of SHKP totalled $133,444,000.

   (b) Sun Hung Kai Properties Insurance Limited, a wholly-owned subsidiary of SHKP, provides general insurance services to the Group. For the year ended 30 June 2020, insurance premiums paid and payable were $3,947,000.

REPORT OF THE DIRECTORS

(Financial figures are expressed in Hong Kong dollars)

(c) The Group provides technical services for the properties owned or managed by certain subsidiaries and associated companies of SHKP for enhancement of mobile coverage in the properties. For the year ended 30 June 2020, the revenue received or receivable by the Group were $13,551,000.

(d) The Group provides information and communication technology (ICT) solutions to certain subsidiaries and associated companies of SHKP covering, among others, business digitalisation, connectivity and industry-specific solutions. For the year ended 30 June 2020, the revenue received or receivable were $45,980,000

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

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

2. At 30 June 2020, the Group had an interest in an associate, the major shareholder of which is a subsidiary of SHKP. The principal activity of the associate is to invest in an equity fund which primarily invests in technology related companies in the People's Republic of China.

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

Auditor

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

On behalf of the Board

Kwok Ping-luen, Raymond
Chairman

Hong Kong, 2 September 2020

Directors

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

Mr. Raymond Kwok (aged 67) has been with the Group since April 1992 and was appointed Director of the Company in October 1996. He holds a Master of Arts degree in Law from Cambridge University, a Master's degree in Business Administration from Harvard University, an Honorary Doctorate degree in Business Administration from The Open University of Hong Kong and an Honorary Doctorate degree in Laws from The Chinese University of Hong Kong.

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

In civic activities, Mr. Kwok is a member of the 13th National Committee of the Chinese People's Political Consultative Conference. He is also a director of The Real Estate Developers Association of Hong Kong and a member of the Council of The Chinese University of Hong Kong.

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

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

Mr. Cheung Wing-yui (aged 70) 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 currently a member of Sponsorship & Development Fund Committee and a court member of The Open University of Hong Kong and an honorary council member of The Hong Kong Institute of Directors Limited. He had held the positions of deputy chairman of the council of The Open University of Hong Kong, director of The Community Chest 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.

DIRECTORS PROFILE

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

Mr. Allen Fung (aged 52) has been a Non-Executive Director of the Company since December 2013. He was re-designated as an Executive Director of the Company with effect from 17 August 2020. 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 to 1994 and a visiting Assistant Professor of History at Brown University in 1996 to 1997. From 1997 to 2013, Mr. Fung worked in McKinsey & Company ("McKinsey"), a global management consulting company. He was the managing partner of McKinsey Hong Kong from 2004 to 2010. In 2011, he became a director of McKinsey globally.

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 subsidiaries of SHKP. 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 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. He was appointed director of certain subsidiaries of the Company with effect from 17 August 2020.

CHAU Kam-kun, Stephen *Executive Director*

Mr. Stephen Chau (aged 59) 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 Board Director of the Hong Kong Applied Science and Technology Research Institute Company Limited (ASTRI) and a member of its Technology Review Panel. He is a member of the Executive Committee of the Communications Association of Hong Kong (CAHK).

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

David Norman PRINCE *Non-Executive Director*

Mr. David Prince (aged 69) was appointed Director of the Company in July 2005. Mr. Prince has over 20 years' experience of operating at board level in an international environment. Mr. Prince is a member of the Chartered Institute of Management Accountants (UK) and the Chartered Institute of Purchasing and Supply (UK). He is a non-executive director of SUNeVision Holdings Ltd. He is also a director of Wilson Group Limited and a consultant of Sun Hung Kai Real Estate Agency Limited, both are wholly-owned subsidiaries of Sun Hung Kai Properties Limited.

Mr. Prince is currently a non-executive director and a member of the audit committee of Adecco SA which is the global leader in human resources services.

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

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

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

Mr. Thomas Siu (aged 67) was appointed Director of the Company in July 2008. Mr. Siu was the managing director of Wilson Group, which is a major transport infrastructure services provider in Hong Kong and is wholly-owned by Sun Hung Kai Properties Limited, and is currently a consultant of Wilson Group. Prior to joining Wilson Group, Mr. Siu had more than 25 years of experience in telecommunications and IT sectors. His experience covers finance, business operations and development. Mr. Siu is also a non-executive director of SUNeVision Holdings Ltd.

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

DIRECTORS PROFILE

John Anthony MILLER *Non-Executive Director*

Mr. John Anthony Miller (aged 70), SBS, OBE, was appointed Director of the Company in November 2010.

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

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

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

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

Dr. Eric Li (aged 67), 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.

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

Mr. Ng Leung-sing (aged 71) 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 April 2018), vice-chairman of Chiyu Banking Corporation Limited (until March 2017), independent non-executive director of MTR Corporation Limited (until May 2017), general manager of the Bank-wide Operation Department of Bank of China (Hong Kong) Limited from 2005 to 2009, and executive director and general manager of The China and South Sea Bank Limited, Hong Kong from 1990 to 1998. He was also the Chinese Representative of the Sino-British Land Commission and the trustee of the Hong Kong Government Land Fund from 1988 to 1997, a member of the Corporate Contribution Programme Organisation Committee of The Community Chest of Hong Kong from 1992 to 1996, a member of the Legislative Council of Hong Kong from 1996 to 2004 and from 2012 to 2016, a member of the Hong Kong Housing Authority from 1996 to 2004, a member of the Court of Lingnan University from 1999 to 2011, a member of the managing board of the Kowloon-Canton Railway Corporation from 2004 to 2007, and a member of the board of management of the Chinese Permanent Cemeteries from 2009 to 2015.

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

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

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

Mr. Eric Gan (aged 57) was appointed Director of the Company in December 2005. Mr. Gan is founder and president of eAccess Ltd., the fourth mobile operator (EMOBILE brand) in Japan which become a wholly-owned subsidiary of SoftBank Corp in 2013. Mr. Gan is currently an executive vice president of Softbank Corp.

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

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

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

DIRECTORS PROFILE

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

Mrs. Christine Ip (aged 56) 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

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

Mr. Kenny Lam (aged 46) 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 is also an independent director of Bank of East Asia (China) Limited.

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

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

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

Notes:

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

No service contracts have been signed between the Company and the Directors (except Mr. Chau Kam-kun, Stephen) 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.

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

The details of the emoluments of the Directors on a named basis for the year ended 30 June 2020 are disclosed in note 41 to the consolidated financial statements.

The Directors' interests in shares of the Company or any of its associated corporations, if any, within the meaning of Part XV of the Securities and Futures Ordinance as at 30 June 2020 are disclosed in the "Directors' and chief executive's interests" section of the Report of the Directors on pages 28 to 31 of this Annual Report.

Senior management

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

STAFF ENGAGEMENT

Together We Nurture

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

1. Grooming Talents

Introduce diversified opportunities for ***people development***, including cross-sector exchanges for frontline service staff, 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.

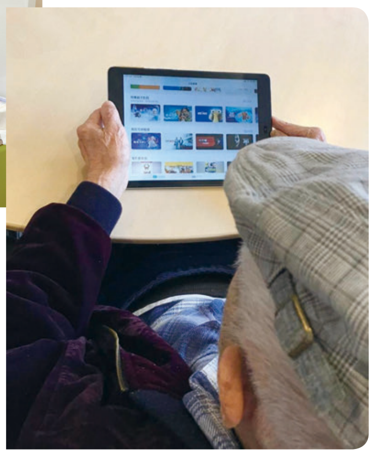
1. Caring For The Community

"Be a SmarTizen" is the new initiative of SmarTone to promote digital intelligence. Through the "Be a SmarTizen" Programme, we 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, especially during COVID-19 pandemic.

2. Supporting Charities

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



GROUP FINANCIAL SUMMARY

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

	2020	2019	2018	2017	2016
Consolidated profit and loss account					
Revenues	**6,986**	8,415	9,988	8,715	18,356
Profit attributable to equity holders of the Company	**379**	632	615	672	797
Basic earnings per share ($)	**0.34**	0.56	0.55	0.62	0.75
Dividends					
Total dividends	**331**	438	458	659	644
Total per share for the year ($)	**0.295**	0.39	0.41	0.60	0.60
Consolidated balance sheet					
Total assets	**10,432**	9,883	10,018	9,776	10,403
Current liabilities	**(2,874)**	(2,673)	(2,497)	(2,185)	(2,863)
Total assets less current liabilities	**7,558**	7,210	7,521	7,591	7,540
Non-current liabilities	**(2,545)**	(2,133)	(2,689)	(2,956)	(3,176)
Non-controlling interests	**20**	(20)	(33)	(41)	(47)
Net assets	**5,033**	5,057	4,799	4,594	4,317
Share capital	**112**	112	112	111	108
Reserves	**4,921**	4,945	4,687	4,483	4,209
Total equity attributable to equity holders of the Company	**5,033**	5,057	4,799	4,594	4,317

羅兵咸永道

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

Opinion

What we have audited

The consolidated financial statements of SmarTone Telecommunications Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 59 to 140, which comprise:

- the consolidated balance sheet as at 30 June 2020;
- the consolidated profit and loss account for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 30 June 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

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

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

Independence

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

Key Audit Matters

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

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

- Revenue recognition
- Capitalisation of assets and useful lives
- Adoption of HKFRS 16 – Leases

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition Refer to note 2(z) – Summary of significant accounting policies and note 3(a) – Critical accounting estimates and judgements. We focused on this area because the accuracy of revenue amounts recorded in the Consolidated Financial Statements is an inherent risk in the telecommunications industry. Revenue recognition is therefore designated as a significant audit risk. Significant effort is spent auditing the revenue recognised because of the high volume of transactions, complexity of the systems, frequent changes to a variety of tariff structures and different types of multiple-element contracts. Significant management judgement is required to assess the relative standalone selling price of each performance obligation and the allocation of revenue among those different performance obligations in multiple-element contracts. Management has used an in-house developed application to extract relevant data from the existing systems to allocate and recognise revenue under the new standard.	Our procedures in relation to revenue recognition included: • Testing the relevant IT control environment in which billing and other relevant support systems reside, including changes made to processes and new applications to support the implementation of HKFRS 15; • Assessing the appropriateness of management's assessments on the identification of performance obligations based on the contractual agreements and our knowledge of the business; • Assessing the reasonableness of management's judgements and estimates used to determine the stand-alone selling price of each performance obligation and to allocate revenue to multiple-element arrangements with reference to observable market data; • Testing, the key controls over the capture and measurement of revenue transactions and performing detailed testing of revenue transactions, on a sample basis, by tracing the transactions from the billing systems to supporting documents, such as underlying invoices, contractual agreements and evidence of cash receipts; and • Testing, on a sample basis, the calculation and allocation of total transaction prices to each performance obligation of multiple-element arrangements and the related journal entries posting.

Key Audit Matters *(continued)*

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

Key Audit Matters *(continued)*

Key Audit Matter	How our audit addressed the Key Audit Matter
Adoption of HKFRS 16 – Leases Refer to note 2(i) and note 2(b) – Summary of significant accounting policies. Management adopted HKFRS 16 – Leases ("HKFRS 16") on 1 July 2019 by using the modified retrospective approach. This approach required the Group to determine the carrying amounts of the leases in existence as at 1 July 2019 if those leases had always been accounted for applying HKFRS 16. We focused on this area because significant effort was spent auditing the lease liabilities recognised due to the large volume of leases and the significant judgements and estimates involved in determining the appropriate discount rates and lease terms.	• We understood of and evaluated the internal controls, including new processes and controls in respect of the application of HKFRS 16. • We validated the effectiveness of these key internal controls, on a sample basis. • We assessed the appropriateness of management's assessments on the identification of leases based on the contractual agreements and our knowledge of the business. • We obtained a summary of leases from management, and tested, on a sample basis, the key terms of each lease, including lease terms and lease payments, by tracing such inputs to the underlying lease contracts. • We assessed the judgements and estimates involved in determining the lease terms with renewal options based on the contractual terms, nature and condition of the assets and our knowledge of the business. • We assessed the appropriateness of discount rates applied in determining the lease liabilities. • We tested, on a sample basis, the calculation of the lease liabilities based on lease payments, the discount rates and the expected lease terms.

Other Information

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

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 2 September 2020

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 30 June 2020
(Expressed in Hong Kong dollars)

	Notes	2020 $000	2019 $000
Service revenue and other related service		**4,579,953**	4,633,700
Handset and accessory sales		**2,406,498**	3,781,337
Revenues	5	**6,986,451**	8,415,037
Cost of inventories sold		**(2,403,331)**	(3,722,748)
Cost of services provided		**(379,252)**	(376,809)
Staff costs	6	**(756,006)**	(748,259)
Other operating expenses	9	**(1,018,635)**	(1,725,432)
Depreciation, amortisation, impairment and loss on disposal	9	**(1,909,401)**	(1,018,586)
Operating profit		**519,826**	823,203
Finance income	7	**69,672**	85,190
Finance costs	8	**(115,700)**	(107,733)
Profit before income tax	9	**473,798**	800,660
Income tax expense	10	**(134,181)**	(181,864)
Profit after income tax		**339,617**	618,796
Attributable to			
Equity holders of the Company		**378,985**	632,247
Non-controlling interests		**(39,368)**	(13,451)
		339,617	618,796
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in cents per share)	14		
Basic		**33.8**	56.3
Diluted		**33.8**	56.3

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2020
(Expressed in Hong Kong dollars)

	2020 **$000**	2019 $000
Profit for the year	**339,617**	618,796
Other comprehensive loss		
Item that may be reclassified subsequently to profit and loss:		
Currency translation differences	**(2,086)**	(5,365)
Item that will not be reclassified subsequently to profit and loss:		
Fair value loss on financial asset at fair value through other comprehensive income	**(209)**	(2,086)
Other comprehensive loss for the year	**(2,295)**	(7,451)
Total comprehensive income for the year	**337,322**	611,345
Total comprehensive income attributable to		
Equity holders of the Company	**376,690**	624,796
Non-controlling interests	**(39,368)**	(13,451)
	337,322	611,345

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

CONSOLIDATED BALANCE SHEET

At 30 June 2020
(Expressed in Hong Kong dollars)

	Notes	2020 $000	2019 $000
Non-current assets			
Leasehold land and land use rights		**–**	10,038
Fixed assets	16	**2,704,484**	2,839,714
Customer acquisition costs	17	**77,706**	60,288
Contract assets	18	**139,859**	103,196
Right-of-use assets	19	**945,204**	–
Interest in an associate	21	**3**	3
Financial asset at fair value through other comprehensive income	22	**4,351**	4,560
Financial assets at amortised cost	23	**–**	156,423
Intangible assets	24	**2,872,560**	2,764,958
Deposits and prepayments	25	**123,932**	121,568
Deferred income tax assets	26	**4,141**	4,789
Total non-current assets		**6,872,240**	6,065,537
Current assets			
Inventories	27	**59,645**	79,472
Financial assets at amortised cost	23	**155,560**	326,912
Contract assets	18	**185,974**	294,867
Trade receivables	25	**360,682**	442,312
Deposits and prepayments	25	**247,602**	167,287
Other receivables	25	**47,588**	124,995
Tax reserve certificate		**252,362**	252,362
Short-term bank deposits	28	**123,316**	173,327
Cash and cash equivalents	28	**2,127,409**	1,955,987
Total current assets		**3,560,138**	3,817,521
Current liabilities			
Trade payables	29	**451,790**	448,469
Other payables and accruals	29	**768,923**	812,171
Contract liabilities	30	**280,899**	267,970
Lease liabilities	31	**631,004**	–
Current income tax liabilities		**466,185**	508,199
Bank borrowings	32	**130,885**	430,393
Customer prepayments and deposits		**58,445**	146,172
Mobile licence fee liabilities	33	**85,924**	60,041
Total current liabilities		**2,874,055**	2,673,415

CONSOLIDATED BALANCE SHEET

At 30 June 2020
(Expressed in Hong Kong dollars)

	Notes	2020 $000	2019 $000
Non-current liabilities			
Customer prepayments and deposits		**8,952**	22,650
Asset retirement obligations	34	**49,938**	41,911
Lease liabilities	31	**331,540**	–
Bank and other borrowings	32	**1,671,419**	1,872,516
Mobile licence fee liabilities	33	**369,769**	83,309
Deferred income tax liabilities	26	**113,580**	112,608
Total non-current liabilities		**2,545,198**	2,132,994
Net assets		**5,013,125**	5,076,649
Capital and reserves			
Share capital	35	**112,227**	112,453
Reserves		**4,920,780**	4,944,710
Total equity attributable to equity holders of the Company		**5,033,007**	5,057,163
Non-controlling interests		**(19,882)**	19,486
Total equity		**5,013,125**	5,076,649

The financial statements on pages 59 to 140 were approved by the Board of Directors on 2 September 2020 and were signed on its behalf.

Kwok Ping-luen, Raymond
Director

Chau Kam-kun, Stephen
Director

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

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30 June 2020
(Expressed in Hong Kong dollars)

	Notes	**2020** **$000**	2019 $000
Cash flows from operating activities			
Profit before income tax		**473,798**	800,660
Adjustments for:			
Depreciation of fixed assets	16	**679,276**	654,575
Depreciation of right-of-use assets	19	**785,787**	–
Amortisation of leasehold land and land use rights		**–**	643
Amortisation of intangible assets	24	**287,704**	285,470
Amortisation of customer acquisition costs	17	**63,014**	54,776
Loss on disposal of fixed assets	9	**8,375**	23,122
Impairment loss of fixed assets	16	**75,057**	–
Impairment loss of right-of-use assets	19	**10,188**	–
Finance income	7	**(69,672)**	(85,190)
Finance costs	8	**115,700**	107,733
Share-based payments	6	**12,166**	12,468
		2,441,393	1,854,257
Changes in working capital			
Decrease in inventories		**19,827**	81,993
Decrease/(increase) in contract assets, trade receivables, deposits, prepayments and other receivables		**116,741**	(75,593)
Decrease in trade and other payables, accruals, contract liabilities and deferred income		**(97,902)**	(108,149)
Decrease in customer prepayments and deposits		**(101,425)**	(153,660)
Capitalisation of customer acquisition costs		**(79,813)**	(61,173)
Cash generated from operations		**2,298,821**	1,537,675
Interest paid		**(107,552)**	(78,700)
Income tax paid		**(174,573)**	(155,391)
Net cash inflow from operating activities		**2,016,696**	1,303,584
Cash flows from investing activities			
Payment for purchase of fixed assets		**(540,089)**	(519,448)
Proceeds from disposal of fixed assets		**268**	8,074
Proceeds from disposal of financial assets at amortised cost		**319,220**	78,404
Payment of mobile licence fees		**(96,019)**	(62,350)
Decrease/(increase) in short-term bank deposits		**49,988**	(77,501)
Interest received		**85,423**	69,592
Net cash outflow from investing activities		**(181,209)**	(503,229)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30 June 2020
(Expressed in Hong Kong dollars)

	Notes	2020 $000	2019 $000
Cash flows from financing activities			
Payment for repurchase of shares		**(21,522)**	(53,717)
Prepayment for repurchase of shares		**–**	(4,018)
Purchase of shares for share award scheme		**(2,227)**	(8,987)
Proceeds from bank borrowings		**60,000**	66,000
Repayment of bank borrowings		**(553,530)**	(194,426)
Principal elements of lease payments		**(758,474)**	–
Dividends paid to the Company's equity holders		**(389,263)**	(373,964)
Net cash outflow from financing activities		**(1,665,016)**	(569,112)
Net increase in cash and cash equivalents		**170,471**	231,243
Cash and cash equivalents at 1 July		**1,955,987**	1,731,951
Effect of foreign exchange rates changes		**951**	(7,207)
Cash and cash equivalents at 30 June	28	**2,127,409**	1,955,987

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2020
(Expressed in Hong Kong dollars)

	Attributable to equity holders of the Company										
	Share capital $000	Share premium $000	Revaluation reserve $000	Capital redemption reserve $000	Contributed surplus $000	Employee share-based compensation reserve $000	Exchange reserve $000	Retained profits $000	Total $000	Non-controlling interests $000	Total $000
At 30 June 2018 as originally reported	112,426	1,547,727	4,748	14,548	348	6,595	3,378	3,109,311	4,799,081	32,643	4,831,724
Changes in accounting policies	–	–	–	–	–	–	–	61,504	61,504	294	61,798
Restated total equity at 1 July 2018	112,426	1,547,727	4,748	14,548	348	6,595	3,378	3,170,815	4,860,585	32,937	4,893,522
Comprehensive income											
Profit for the year	–	–	–	–	–	–	–	632,247	632,247	(13,451)	618,796
Other comprehensive loss											
Fair value loss on financial asset at fair value through other comprehensive income	–	–	(2,086)	–	–	–	–	–	(2,086)	–	(2,086)
Currency translation differences	–	–	–	–	–	–	(5,365)	–	(5,365)	–	(5,365)
Total comprehensive income for the year ended 30 June 2019	–	–	(2,086)	–	–	–	(5,365)	632,247	624,796	(13,451)	611,345
Transactions with owners											
Share-based payments (note 6)	–	–	–	–	–	12,468	–	–	12,468	–	12,468
Lapse of share award	–	–	–	–	343	(343)	–	–	–	–	–
Repurchase of shares (note 35(c))	(901)	–	–	901	–	–	–	(53,717)	(53,717)	–	(53,717)
Prepayment for repurchase of shares	–	–	–	–	–	–	–	(4,018)	(4,018)	–	(4,018)
Purchase of shares for share award scheme	–	–	–	–	(8,987)	–	–	–	(8,987)	–	(8,987)
Payment of 2018 final dividend (note 35(b))	73	7,447	–	–	–	–	–	(257,714)	(250,194)	–	(250,194)
Payment of 2019 interim dividend (note 15)	855	77,197	–	–	–	–	–	(201,822)	(123,770)	–	(123,770)
Total transactions with owners	27	84,644	–	901	(8,644)	12,125	–	(517,271)	(428,218)	–	(428,218)
At 30 June 2019	112,453	1,632,371	2,662	15,449	(8,296)	18,720	(1,987)	3,285,791	5,057,163	19,486	5,076,649

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2020
(Expressed in Hong Kong dollars)

	Attributable to equity holders of the Company										
	Share capital $000	Share premium $000	Revaluation reserve $000	Capital redemption reserve $000	Contributed surplus $000	Employee share-based compensation reserve $000	Exchange reserve $000	Retained profits $000	Total $000	Non-controlling interests $000	Total $000
At 30 June 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 year	–	–	–	–	–	–	–	378,985	378,985	(39,368)	339,617
Other comprehensive loss											
Fair value loss on financial asset at fair value through other comprehensive income	–	–	(209)	–	–	–	–	–	(209)	–	(209)
Currency translation differences	–	–	–	–	–	–	(2,086)	–	(2,086)	–	(2,086)
Total comprehensive income for the year ended 30 June 2020	–	–	(209)	–	–	–	(2,086)	378,985	376,690	(39,368)	337,322
Transactions with owners											
Share-based payments (note 6)	–	–	–	–	–	12,166	–	–	12,166	–	12,166
Lapse of share award	–	–	–	–	461	(461)	–	–	–	–	–
Vesting of share award	–	–	–	–	11,059	(12,085)	–	1,026	–	–	–
Repurchase of shares (note 35(c))	(369)	–	–	369	–	–	–	(21,522)	(21,522)	–	(21,522)
Purchase of shares for share award scheme	–	–	–	–	(2,227)	–	–	–	(2,227)	–	(2,227)
Payment of 2019 final dividend (note 35(b))	83	5,401	–	–	–	–	–	(235,378)	(229,894)	–	(229,894)
Payment of 2020 interim dividend (note 15)	60	3,214	–	–	–	–	–	(162,643)	(159,369)	–	(159,369)
Total transactions with owners	(226)	8,615	–	369	9,293	(380)	–	(418,517)	(400,846)	–	(400,846)
At 30 June 2020	**112,227**	**1,640,986**	**2,453**	**15,818**	**997**	**18,340**	**(4,073)**	**3,246,259**	**5,033,007**	**(19,882)**	**5,013,125**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1 General information

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

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

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

These consolidated financial statements are presented in Hong Kong dollars, unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 2 September 2020.

2 Summary of significant accounting policies

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

(a) Basis of preparation

(i) Compliance with HKFRS and HKCO

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

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

The Group has applied the following new standards, amendments to standards and interpretations to existing standards for the first time for their annual reporting period commencing 1 July 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 2(b)(ii). The other amendments to standards and interpretation did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

2 Summary of significant accounting policies *(continued)*

(a) Basis of preparation *(continued)*

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

Certain new standards and amendments to standards have been published that are not mandatory for 30 June 2020 reporting periods and have not been early adopted by the Group.

Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting[1]
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 10 and HKAS 2 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
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 The original effective date of 1 January 2016 has been postponed until further announcement.

2 Summary of significant accounting policies *(continued)*

(b) Changes in accounting policies

This note explains the impact of the adoption of HKFRS 16 Leases on the Group's financial statements.

(i) 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).

The new accounting policies are set out in Note 2(i).

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 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*.

2 Summary of significant accounting policies *(continued)*

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

(ii) Impact on the consolidated financial statements

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

	For the year ended 30 June 2020		
Consolidated Profit and Loss Account	**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	**4,579,953**	**(71,272)**	**4,508,681**
Handset and accessory sales	**2,406,498**	**–**	**2,406,498**
Revenues	**6,986,451**	**(71,272)**	**6,915,179**
Cost of inventories sold	**(2,403,331)**	**–**	**(2,403,331)**
Cost of services provided	**(379,252)**	**–**	**(379,252)**
Staff costs	**(756,006)**	**–**	**(756,006)**
Other operating expenses	**(1,018,635)**	**(732,191)**	**(1,750,826)**
Depreciation, amortisation, impairment and loss on disposal	**(1,909,401)**	**790,640**	**(1,118,761)**
Operating profit	**519,826**	**(12,823)**	**507,003**
Finance income	**69,672**	**–**	**69,672**
Finance costs	**(115,700)**	**32,954**	**(82,746)**
Profit before income tax	**473,798**	**20,131**	**493,929**
Income tax expense	**(134,181)**	**(1,783)**	**(135,964)**
Profit after income tax	**339,617**	**18,348**	**357,965**
Attributable to			
Equity holders of the Company	**378,985**	**15,738**	**394,723**
Non-controlling interests	**(39,368)**	**2,610**	**(36,758)**
	339,617	**18,348**	**357,965**

2 Summary of significant accounting policies *(continued)*

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

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

Consolidated Statement of Comprehensive Income	For the year ended 30 June 2020 Reported under current accounting policies $000	Effect of HKFRS 16 $000	Balance without the adoption of HKFRS 16 $000
Profit for the year	339,617	18,348	357,965
Other comprehensive loss			
Item that may be reclassified subsequently to profit and loss:			
Currency translation differences	(2,086)	(2)	(2,088)
Item that will not be reclassified subsequently to profit and loss:			
Fair value loss on financial asset at fair value through other comprehensive income	(209)	–	(209)
Other comprehensive loss for the year	(2,295)	(2)	(2,297)
Total comprehensive income for the year	337,322	18,346	355,668
Total comprehensive income attributable to			
Equity holders of the Company	376,690	15,736	392,426
Non-controlling interests	(39,368)	2,610	(36,758)
	337,322	18,346	355,668

2 Summary of significant accounting policies *(continued)*

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

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

	At 30 June 2020		
Consolidated Balance Sheet	**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	–	9,097	9,097
Fixed assets	2,704,484	16,719	2,721,203
Customer acquisition costs	77,706	–	77,706
Contract assets	139,859	–	139,859
Right-of-use assets	945,204	(945,204)	–
Interest in an associate	3	–	3
Financial asset at fair value through other comprehensive income	4,351	–	4,351
Intangible assets	2,872,560	–	2,872,560
Deposits and prepayments	123,932	10,962	134,894
Deferred income tax assets	4,141	–	4,141
Total non-current assets	6,872,240	(908,426)	5,963,814
Current assets			
Inventories	59,645	–	59,645
Financial assets at amortised cost	155,560	–	155,560
Contract assets	185,974	–	185,974
Trade receivables	360,682	–	360,682
Deposits and prepayments	247,602	4,196	251,798
Other receivables	47,588	–	47,588
Tax reserve certificate	252,362	–	252,362
Short-term bank deposits	123,316	–	123,316
Cash and cash equivalents	2,127,409	–	2,127,409
Total current assets	3,560,138	4,196	3,564,334
Current liabilities			
Trade payables	451,790	–	451,790
Other payables and accruals	768,923	38,185	807,108
Contract liabilities	280,899	–	280,899
Lease liabilities	631,004	(631,004)	–
Current income tax liabilities	466,185	1,783	467,968
Bank borrowings	130,885	–	130,885
Customer prepayments and deposits	58,445	–	58,445
Mobile licence fee liabilities	85,924	–	85,924
Total current liabilities	2,874,055	(591,036)	2,283,019

2 Summary of significant accounting policies *(continued)*

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

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

Consolidated Balance Sheet	At 30 June 2020 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	8,952	–	8,952
Asset retirement obligations	49,938	–	49,938
Lease liabilities	331,540	(331,540)	–
Bank and other borrowings	1,671,419	–	1,671,419
Mobile licence fee liabilities	369,769	–	369,769
Deferred income tax liabilities	113,580	–	113,580
Total non-current liabilities	2,545,198	(331,540)	2,213,658
Net assets	5,013,125	18,346	5,031,471
Capital and reserves			
Share capital	112,227	–	112,227
Reserves	4,920,780	15,736	4,936,516
Total equity attributable to equity holders of the Company	5,033,007	15,736	5,048,743
Non-controlling interests	(19,882)	2,610	(17,272)
Total equity	5,013,125	18,346	5,031,471

Consolidated Cash Flow Statement	For the year ended 30 June 2020 Reported under current accounting policies $000	Effect of HKFRS 16 $000	Balance without the adoption of HKFRS 16 $000
Net cash inflow from operating activities	2,016,696	(758,474)	1,258,222
Net cash outflow from investing activities	(181,209)	–	(181,209)
Net cash outflow from financing activities	(1,665,016)	758,474	(906,542)
Net increase in cash and cash equivalents	170,471	–	170,471

2 Summary of significant accounting policies *(continued)*

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

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

Consolidated Balance Sheet	30 June 2019 As previously reported $000	Effect of HKFRS 16 $000	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

2 Summary of significant accounting policies *(continued)*

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

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

Consolidated Balance Sheet	30 June 2019 As previously reported $000	Effect of HKFRS 16 $000	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 $1,920 million, while the lease liabilities recognised as at 1 July 2019 were $1,019 million, of which $611 million were current lease liabilities and $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 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%.

2 Summary of significant accounting policies *(continued)*

(c) Principles of consolidation and equity accounting

(i) Subsidiaries

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

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

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

(ii) Associates

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

(iii) Equity method

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

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

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

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

2 Summary of significant accounting policies *(continued)*

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

(iv) Changes in ownership interests

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

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

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

(d) Separate financial statements

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

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

2 Summary of significant accounting policies *(continued)*

(e) Segment reporting

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

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

(f) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

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

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

2 Summary of significant accounting policies *(continued)*

(f) Foreign currency translation *(continued)*

(iii) Group companies

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

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet,
- income and expenses for each profit and loss account and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognised in other comprehensive income.

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

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

(g) Intangible assets

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

(i) Mobile licence fees

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

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

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

2 Summary of significant accounting policies *(continued)*

(h) Fixed assets

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

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

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

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

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

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

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

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

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

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

2 Summary of significant accounting policies *(continued)*

(i) Leases

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.

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.

Assets and liabilities arising from a lease are initially measured on a present value basis.

(i) Lease liabilities

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.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

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.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the Group as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third party financing; and
- makes adjustments specific to the lease.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until effective. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between the principal and finance cost. The finance cost is charged to the 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.

2 Summary of significant accounting policies *(continued)*

(i) Leases *(continued)*

(ii) Right-of-use assets

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.

The right-of-use assets are depreciated over the shorter of the assets' useful lives and the lease terms on a straight-line basis.

(iii) Short-term and low-value leases

Payments associated with short-term leases for all classes of underlying assets and all low-value leases are recognised on a straight-line basis over the lease terms as expenses in the consolidated profit and loss account. Short-term leases are leases with a lease term of 12 months or less.

Accounting policies applied until 30 June 2019

Leases in which a significant portion of the risks and rewards of ownership were not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss 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.

(j) Customer acquisition costs eligible for capitalisation

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

2 Summary of significant accounting policies *(continued)*

(k) Impairment of non-financial assets

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

(l) Investments and other financial assets

(i) Classification

The Group classifies its financial assets in the following measurement categories:

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

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

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

The Group classifies its debt instruments at amortised cost. Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(ii) Recognition and derecognition

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

2 Summary of significant accounting policies *(continued)*

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

(iii) Measurement

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

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the consolidated profit and loss account.

Equity instruments

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

(iv) Impairment

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

(m) Offsetting financial instruments

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

2 Summary of significant accounting policies *(continued)*

(n) Inventories

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

(o) Trade receivables

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

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

(p) Contract assets

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

(q) Cash and cash equivalents

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

(r) Share capital

Ordinary shares are classified as equity.

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

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

Shares held for share award scheme are deducted from equity.

2 Summary of significant accounting policies *(continued)*

(s) Trade and other payables

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

(t) Contract liabilities

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

(u) Borrowings and borrowing costs

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

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

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

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

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

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

2 Summary of significant accounting policies *(continued)*

(v) Current and deferred income tax

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

(i) Current income tax

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

(ii) Deferred income tax

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

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

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

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

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

2 Summary of significant accounting policies *(continued)*

(w) Provisions

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

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

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

(x) Employee benefits

(i) Employee leave entitlements

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

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

(ii) Bonus plans

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

(iii) Retirement benefits

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

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

2 Summary of significant accounting policies *(continued)*

(x) Employee benefits *(continued)*

(iii) Retirement benefits *(continued)*

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

(iv) Share-based payments

Share-based compensation benefits are provided to employees via share option scheme and share award scheme. Information relating to these schemes is set out in note 36. The Group operates equity-settled, share-based compensation plans under which the Group receives services from employees as consideration for equity instruments of the Group.

Share option scheme

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2 Summary of significant accounting policies *(continued)*

(x) Employee benefits *(continued)*

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

Share award scheme

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

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

(y) Contingent assets and liabilities

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

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

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

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

2 Summary of significant accounting policies *(continued)*

(z) Revenue recognition

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

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

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

(i) Sales of goods

Revenue from the sales of goods is recognised when control of the products has been transferred to the customer, which generally coincides with the time when the goods are delivered to customers and title has passed and collectability of the related receivables is reasonably assured.

(ii) Provision of services

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

(iii) Multiple-element arrangements

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

(aa) Interest income

Interest income on financial assets at amortised cost and financial asset at FVOCI calculated using the effective interest method is recognised in the consolidated profit and loss account as part of "finance income".

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

(ab) Dividend income

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

2 Summary of significant accounting policies *(continued)*

(ac) Earning per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing:

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

(ii) Diluted earnings per share

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

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

(ad) Dividend distribution

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

(ae) Financial guarantee

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

(af) Related parties

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

2 Summary of significant accounting policies *(continued)*

(ag) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

3 Critical accounting estimates and judgements

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

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

(a) Revenue recognition

The amount of revenue recognised for each performance obligation is determined by considering the standalone selling prices or estimated fair values of each of the services element and handset device element provided within the bundled contracts. The Group is required to exercise considerable judgement in relation to estimating the fair value of undelivered element.

(b) Useful lives of fixed assets

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

3 Critical accounting estimates and judgements *(continued)*

(c) Impairment of fixed assets, right-of-use assets and intangible assets

The Group performs impairment assessment on fixed assets, right-of-use assets and intangible assets when there is any impairment indicator. The recoverable amounts are determined based on value-in-use calculations or market valuations. These calculations require judgements and estimates.

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

An asset impairment assessment was carried out and an impairment of fixed assets of $75,057,000 and right-of-use assets of $10,188,000 were recognised for the year ended 30 June 2020. Management has determined the value-in-use of the fixed assets with impairment indicator and the recoverable amounts were determined based on the higher of fair value less costs of disposal and value-in-use calculations of these fixed assets.

(d) Current and deferred income tax

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

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

4 Financial risk management

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

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

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

(a) Financial risk factors

(i) Market risk

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

Foreign exchange risk

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

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

4 Financial risk management *(continued)*

(a) Financial risk factors *(continued)*

(i) Market risk *(continued)*

Exposure

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

	2020 USD $000	2019 USD $000
Financial assets at amortised cost	**155,560**	483,335
Financial asset at fair value through other comprehensive income	**4,351**	4,560
Trade receivables	**47,592**	51,258
Other receivables	**2**	18,599
Short-term bank deposits	**–**	173,327
Cash and cash equivalents	**27,913**	1,695,503
Bank and other borrowings	**(1,646,829)**	(1,787,958)
Trade payables	**(61,435)**	(81,459)
Other payables and accruals	**(55,873)**	(46,672)

Sensitivity

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

	Impact on pre-tax profit	
	2020 $000	2019 $000
US/HK$ exchange rate – increase 1%*	**(15,287)**	5,105
US/HK$ exchange rate – decrease 1%*	**15,287**	(5,105)

* Holding all other variables constant

Cash flow and fair value interest rate risk

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

4 Financial risk management *(continued)*

(a) Financial risk factors *(continued)*

(i) Market risk *(continued)*

Cash flow and fair value interest rate risk (continued)

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

	2020 $000	**% of total borrowings**	2019 $000	% of total borrowings
Variable rate borrowings	**155,475**	**9%**	514,951	22%
Fixed rate borrowings	**1,646,829**	**91%**	1,787,958	78%
	1,802,304	**100%**	2,302,909	100%

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

Sensitivity

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

	Impact on pre-tax profit	
	2020 $000	2019 $000
Interest rates – increase by 100 basis points*	**20,874**	15,923
Interest rates – decrease by 100 basis points*	**(20,874)**	(15,923)

* Holding all other variables constant

Price risk

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

At 30 June 2020, if the fair value of the financial asset at fair value through other comprehensive income had increased or decreased by 10% and all other variables were held constant, the investment revaluation reserve of the Group would increase or decrease by approximately $435,000 (2019: $456,000).

4 Financial risk management *(continued)*

(a) Financial risk factors *(continued)*

(ii) Credit risk

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

Risk management

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

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

Impairment

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

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

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

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

The overall impact of impairment of the contract assets on the consolidated financial statements is considered by management. Management considered the lifetime expected losses with respect to these contract assets were minimal as at 30 June 2020 and the Group made no write-offs or provision for these contract assets during the year.

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

4 Financial risk management *(continued)*

(a) Financial risk factors *(continued)*

(iii) Liquidity risk

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

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

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

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

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

Contractual maturities of financial liabilities	1 year or less $000	1 year to 2 years $000	2 years to 5 years $000	Over 5 years $000	Total contractual cash flows $000	Carrying amount $000
At 30 June 2020						
Trade payables	**451,790**	**–**	**–**	**–**	**451,790**	**451,790**
Other payables and accruals	**663,207**	**–**	**–**	**–**	**663,207**	**663,207**
Bank and other borrowings (include interest payable)	**193,700**	**226,415**	**1,510,909**	**73,491**	**2,004,515**	**1,816,332**
Mobile licence fee liabilities	**88,661**	**65,248**	**85,018**	**296,327**	**535,254**	**455,693**
Lease liabilities	**646,578**	**248,765**	**88,199**	**1,340**	**984,882**	**962,544**
Total	**2,043,936**	**540,428**	**1,684,126**	**371,158**	**4,639,648**	**4,349,566**
At 30 June 2019						
Trade payables	448,469	–	–	–	448,469	448,469
Other payables and accruals	671,186	–	–	–	671,186	671,186
Bank and other borrowings (include interest payable)	508,876	199,239	1,810,066	78,170	2,596,351	2,317,816
Mobile licence fee liabilities	62,350	62,350	38,280	–	162,980	143,350
Total	1,690,881	261,589	1,848,346	78,170	3,878,986	3,580,821

4 Financial risk management *(continued)*

(b) Capital management

The Group's objectives when managing capital are to:

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

- maintain an optimal capital structure to reduce the cost of capital.

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

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

	2020	2019
	$000	$000
Net (cash)/debt	**(448,421)**	173,595
Total equity	**5,013,125**	5,076,649
Net debt to equity ratio	**N/A**	3%

(c) Fair value estimation

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

4 Financial risk management *(continued)*

(c) Fair value estimation *(continued)*

The following table presents the Group's assets that are measured at fair value at 30 June 2020 and 2019.

	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Assets				
Financial asset at fair value through other comprehensive income (note 22)				
At 30 June 2020	**–**	**4,351**	**–**	**4,351**
At 30 June 2019	–	4,560	–	4,560

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

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

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

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

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

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

5 Segment reporting

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

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

5 Segment reporting *(continued)*

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

(a) Segment results

	For the year ended 30 June 2020			
	Hong Kong $000	Macau $000	Elimination $000	Consolidated $000
External revenue	6,760,466	225,985	–	6,986,451
Inter-segment revenue	139,268	4,872	(144,140)	–
Total revenue	6,899,734	230,857	(144,140)	6,986,451
Timing of revenue recognition				
At a point in time	2,404,069	139,997	(137,568)	2,406,498
Over time	4,495,665	90,860	(6,572)	4,579,953
	6,899,734	230,857	(144,140)	6,986,451
EBITDA	2,438,256	(9,029)	–	2,429,227
Depreciation, amortisation, impairment and loss on disposal	(1,780,002)	(129,407)	8	(1,909,401)
Operating profit/(loss)	658,254	(138,436)	8	519,826
Finance income				69,672
Finance costs				(115,700)
Profit before income tax				473,798
Other information				
Additions to fixed assets	636,037	4,715	–	640,752
Additions to intangible assets	395,306	–	–	395,306
Depreciation of fixed assets	645,064	34,219	(7)	679,276
Depreciation of right-of-use assets	777,849	7,938	–	785,787
Amortisation of intangible assets	287,704	–	–	287,704
Amortisation of customer acquisition costs	61,697	1,317	–	63,014
Loss on disposal of fixed assets	7,688	688	(1)	8,375
Impairment loss of trade receivables	7,800	1,031	–	8,831
Impairment loss of fixed assets	–	75,057	–	75,057
Impairment loss of right-of-use assets	–	10,188	–	10,188
Impairment loss/(reversal of impairment loss) of inventories	437	(965)	–	(528)

5 Segment reporting *(continued)*

(a) Segment results *(continued)*

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

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

5 Segment reporting *(continued)*

(b) Segment assets/(liabilities)

	At 30 June 2020			
	Hong Kong $000	**Macau $000**	**Unallocated $000**	**Consolidated $000**
Segment assets	**9,903,860**	**112,101**	**416,417**	**10,432,378**
Segment liabilities	**(4,719,152)**	**(120,336)**	**(579,765)**	**(5,419,253)**

	At 30 June 2019			
	Hong Kong $000	Macau $000	Unallocated $000	Consolidated $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)

The total of non-current assets other than interest in an associate, financial asset at fair value through other comprehensive income, financial assets at amortised cost and deferred income tax assets located in Hong Kong is $6,788,631,000 (2019: $5,718,899,000), and the total of these non-current assets located in Macau is $75,114,000 (2019: $180,863,000).

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

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

6 Staff costs

	2020 $000	2019 $000
Wages and salaries	**671,617**	653,918
Bonuses	**33,050**	41,067
Contributions to defined contribution plans	**39,173**	40,806
Share-based payments	**12,166**	12,468
	756,006	748,259

7 Finance income

	2020 $000	2019 $000
Interest income from listed debt securities	**14,728**	23,157
Interest income from bank deposits	**52,106**	47,358
Accretion income	**2,838**	2,510
Others	**–**	12,165
	69,672	85,190

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

8 Finance costs

	Notes	2020 $000	2019 $000
Interest expense on bank and other borrowings		**80,061**	84,937
Bank charges for credit card instalment		**761**	1,466
Accretion expenses			
Mobile licence fee liabilities	33	**13,056**	17,668
Asset retirement obligations	34	**1,394**	1,661
Lease liabilities	31	**32,954**	–
Net exchange (gain)/loss on financing activities	13	**(12,526)**	2,001
		115,700	107,733

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 year.

9 Profit before income tax

Profit before income tax is stated after charging/(crediting) the following:

	Notes	**2020 $000**	2019 $000
Other operating expenses			
– Network costs		**574,573**	542,705
– Operating lease rentals for land and buildings and transmission sites		**–**	759,214
– Short-term and low-value leases		**37,616**	–
– Impairment loss of trade receivables	25	**8,831**	4,858
– Auditor's remuneration			
– Audit services		**2,646**	2,638
– Non-audit services		**1,524**	1,244
– Net exchange gain	13	**(687)**	(4,036)
– Others		**394,132**	418,809
Loss on disposal of fixed assets		**8,375**	23,122
Depreciation of fixed assets	16	**679,276**	654,575
Depreciation of leasehold land and land use right		**–**	643
Depreciation of right-of-use assets	19	**785,787**	–
Amortisation of mobile licence fees	24	**287,704**	285,470
Amortisation of customer acquisition costs	17	**63,014**	54,776
Impairment loss of fixed assets	16	**75,057**	–
Impairment loss of right-of-use assets	19	**10,188**	–
(Reversal of impairment loss)/impairment loss of inventories	27	**(528)**	1,309

10 Income tax expense

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

(a) Income tax expense

	2020 **\$000**	2019 \$000
Current income tax		
Hong Kong profits tax	**131,359**	192,570
Overseas tax	**1,378**	1,176
(Over)/under-provision in prior years		
Hong Kong profits tax	**(176)**	465
Total current income tax expense	**132,561**	194,211
Deferred income tax		
Decrease in deferred income tax assets	**648**	753
Increase/(decrease) in deferred income tax liabilities	**972**	(13,100)
Total deferred income tax expense/(benefit)	**1,620**	(12,347)
Income tax expense	**134,181**	181,864

10 Income tax expense *(continued)*

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

	2020	2019
	$000	$000
Profit before income tax expense	**473,798**	800,660
Tax at the Hong Kong tax rate of 16.5% (2019: 16.5%)	**78,177**	132,109
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Interest income	**(9,044)**	(8,360)
Net exchange (gain)/loss	**(2,048)**	354
Anti-epidemic fund	**(541)**	–
Others	**5**	11
Subtotal	**66,549**	124,114
Difference in overseas tax rates	**6,718**	2,034
(Over)/under-provision in prior years	**(176)**	465
Tax loss not recognised	**17,193**	9,807
Utilisation of previously unrecognised tax losses	**(383)**	(119)
Temporary differences not recognised	**44,280**	45,563
Income tax expense	**134,181**	181,864

(c) Tax losses

	2020	2019
	$000	$000
Unused tax losses for which no deferred tax asset has been recognised	**302,152**	205,532
Potential tax benefit	**40,165**	28,318

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

11 Five highest paid individuals

Of the five highest paid individuals, three (2019: three) are directors whose emoluments are disclosed in note 41. The aggregate of the emoluments in respect of the other two (2019: two) individuals are as follows:

	2020	2019
	$000	$000
Salaries, allowances and benefits in kind	**7,440**	7,304
Bonuses	**798**	1,181
Retirement scheme contributions	**420**	413
Share-based payments	**729**	667
	9,387	9,565

The emoluments of the two (2019: two) highest paid individuals are within the following bands:

	2020 Number of Individuals	2019 Number of Individuals
$4,000,001 – $4,500,000	**1**	–
$4,500,001 – $5,000,000	**1**	2
	2	2

12 Employee retirement benefits

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

Contributions to the ORSO scheme by the Group and the employees are calculated as specified percentages of each employee's basic salary. Where employees leave the scheme prior to the full vesting of the employer's contributions, the amount of forfeited contributions is used to reduce the contributions payable by the Group. As at 30 June 2020, all available forfeited contributions had been utilised by the Group to reduce its contributions payable (2019: same).

The MPF scheme was established under the Hong Kong Mandatory Provident Fund Scheme Ordinance in December 2000 and the Group's employees may elect to join the MPF scheme. Both the Group and the employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of $30,000 (2019: same). Contributions to the scheme vest immediately.

13 Net exchange gain

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

	2020	2019
	$000	$000
Other operating expenses (note 9)	**(687)**	(4,036)
Finance costs (note 8)	**(12,526)**	2,001
	(13,213)	(2,035)

14 Earnings per share

(a) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to equity holders of the Company
- by the weighted average number of ordinary shares outstanding during the financial year and excluding shares held for share award scheme (note 36).

	2020	2019
	Cents	Cents
Total basic earnings per share attributable to the equity holders of the Company	**33.8**	56.3

(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.

	2020	2019
	Cents	Cents
Total diluted earnings per share attributable to the equity holders of the Company	**33.8**	56.3

14 Earnings per share *(continued)*

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

	2020 **$000**	2019 $000
Profit attributable to the equity holders of the Company used in calculating basic earnings per share and diluted earnings per share	**378,985**	632,247

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

	2020 **Number**	2019 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share (less shares held for share award scheme)	**1,121,551,764**	1,122,123,600
Adjustments for calculation of diluted earnings per share:		
Effect of awarded shares	**504,027**	559,683
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**1,122,055,791**	1,122,683,283

15 Dividends

	2020 $000	2019 $000
Interim dividend, paid, of 14.5 cents (2019: 18 cents) per fully paid share	**162,643**	201,822
Final dividend, proposed, of 15 cents (2019: 21 cents) per fully paid share	**168,341**	235,881
	330,984	437,703

At a meeting held on 2 September 2020, the directors proposed a final dividend of 15 cents per fully paid share. This proposed dividend is not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained profits for the year ending 30 June 2021.

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

For the dividends attributable to the years ended 30 June 2020 and 2019, scrip dividend elections were offered to shareholders except for the final dividend for the year ended 30 June 2020, which will be distributed in cash. Shares issued during the year on the shareholders' election to receive shares are set out in note 35.

16 Fixed assets

	Leasehold improvements $000	Buildings $000	Network and testing equipment $000	Computer, billing and office telephone equipment $000	Other fixed assets $000	Network under construction $000	Total $000
At 1 July 2018							
Cost	260,442	157,035	7,516,246	1,103,797	131,284	275,485	9,444,289
Accumulated depreciation	(229,016)	(26,620)	(5,144,543)	(978,359)	(95,071)	–	(6,473,609)
Net book amount	31,426	130,415	2,371,703	125,438	36,213	275,485	2,970,680
Year ended 30 June 2019							
Opening net book amount	31,426	130,415	2,371,703	125,438	36,213	275,485	2,970,680
Exchange differences	(209)	(276)	–	(132)	(26)	–	(643)
Additions	23,360	–	11,158	94,551	8,712	417,667	555,448
Reclassifications	–	–	523,829	–	–	(523,829)	–
Disposals	–	–	(29,270)	(71)	(69)	(1,786)	(31,196)
Depreciation (note 9)	(15,331)	(4,348)	(558,886)	(69,357)	(6,653)	–	(654,575)
Closing net book amount	39,246	125,791	2,318,534	150,429	38,177	167,537	2,839,714
At 30 June 2019							
Cost	279,807	156,597	7,842,340	1,191,218	135,455	167,537	9,772,954
Accumulated depreciation	(240,561)	(30,806)	(5,523,806)	(1,040,789)	(97,278)	–	(6,933,240)
Net book amount	39,246	125,791	2,318,534	150,429	38,177	167,537	2,839,714
Year ended 30 June 2020							
Opening net book amount	**39,246**	**125,791**	**2,318,534**	**150,429**	**38,177**	**167,537**	**2,839,714**
Changes in accounting policies (note 2(b))	**(10,088)**	**–**	**–**	**–**	**–**	**–**	**(10,088)**
Restated opening net book amount at 1 July 2019	**29,158**	**125,791**	**2,318,534**	**150,429**	**38,177**	**167,537**	**2,829,626**
Exchange differences	**(102)**	**(142)**	**–**	**(63)**	**(10)**	**–**	**(317)**
Additions	**4,371**	**–**	**3,428**	**105,505**	**5,152**	**522,296**	**640,752**
Reclassifications	**–**	**–**	**489,095**	**–**	**–**	**(489,095)**	**–**
Disposals	**–**	**–**	**(8,869)**	**(29)**	**(4)**	**(2,342)**	**(11,244)**
Depreciation (note 9)	**(12,919)**	**(4,337)**	**(572,598)**	**(82,644)**	**(6,778)**	**–**	**(679,276)**
Impairment (note 9)	**(138)**	**–**	**(65,666)**	**(1,456)**	**(207)**	**(7,590)**	**(75,057)**
Closing net book amount	**20,370**	**121,312**	**2,163,924**	**171,742**	**36,330**	**190,806**	**2,704,484**
At 30 June 2020							
Cost	**264,318**	**156,357**	**8,158,013**	**1,263,397**	**138,651**	**198,396**	**10,179,132**
Accumulated depreciation and impairment	**(243,948)**	**(35,045)**	**(5,994,089)**	**(1,091,655)**	**(102,321)**	**(7,590)**	**(7,474,648)**
Net book amount	**20,370**	**121,312**	**2,163,924**	**171,742**	**36,330**	**190,806**	**2,704,484**

At 30 June 2020, buildings with a carrying amount of $72,744,000 (2019: $75,182,000) were pledged as security for bank borrowings of the Group (note 32).

17 Customer acquisition costs

	$000
At 1 July 2018	54,511
Additions	61,173
Amortisation (note 9)	(54,776)
Exchange differences	(620)
Closing net book amount	60,288
At 30 June 2019	
Cost	114,882
Accumulated amortisation	(54,594)
Net book amount	60,288
Year ended 30 June 2020	
Opening net book amount	**60,288**
Additions	**79,812**
Amortisation (note 9)	**(63,014)**
Exchange differences	**620**
Closing net book amount	**77,706**
At 30 June 2020	
Cost	**195,496**
Accumulated amortisation	**(117,790)**
Net book amount	**77,706**

18 Contract assets

	2020			2019		
	Current $000	**Non-current $000**	**Total $000**	Current $000	Non-current $000	Total $000
Contract assets	**185,974**	**139,859**	**325,833**	294,867	103,196	398,063

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

19 Right-of-use assets

The Group leases various transmission sites, offices, warehouses, retail stores 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. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

The balance sheet shows the following amounts relating to leases:

	30 June 2020 $000	1 July 2019 $000
Leasehold land and land use rights	**9,097**	10,038
Transmission sites	**790,860**	755,341
Offices, warehouses and retail stores	**129,607**	243,597
Leased lines	**15,640**	18,833
	945,204	1,027,809

Additions to the right-of-use assets with the corresponding increase in lease liabilities and assets retirement obligations during the year ended 30 June 2020 were $702,688,000 and $11,346,000 respectively.

Depreciation of right-of-use assets recognised in the consolidated profit and loss account is as follows:

	2020 $000	2019 $000
Leasehold land and land use rights	**620**	–
Transmission sites	**639,330**	–
Offices, warehouses and retail stores	**143,358**	–
Leased lines	**2,479**	–
	785,787	–

Impairment loss for the year of $10,188,000 is included in depreciation, amortisation, impairment and loss on disposal in the consolidated profit and loss account.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

20 Subsidiaries

Particulars of the principal subsidiaries at 30 June 2020 are as follows:

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Group equity interest 2020	Group equity interest 2019
SmarTone (BVI) Limited*	The British Virgin Islands ("BVI")	Investment holding and group financing in BVI	1,000 ordinary shares of US$1 each US$1,000	**100%**	100%
SmarTone Mobile Communications Limited	Hong Kong	Provision of mobile services and sales of handsets and accessories in Hong Kong	100,000,000 ordinary shares of $1 each $100,000,000	**100%**	100%
SmarTone Communications Limited	Hong Kong	Provision of wireless fixed services in Hong Kong	2 ordinary shares of $1 each $2	**100%**	100%
SmarTone Finance Limited	BVI	Issuance of guaranteed notes in Hong Kong	1 ordinary share of US$1 each US$1	**100%**	100%
SmarTone-Comunicações Móveis, S.A.	Macau	Provision of mobile services and sales of handsets and accessories in Macau	100,000 shares of MOP100 each MOP10,000,000	**72%**	72%
廣州數碼通客戶服務有限公司#	The People's Republic of China	Provision of customer support services and telemarketing services in Mainland China	Registered capital of $27,400,000	**100%**	100%

* Subsidiary held directly by the Company.
\# Registered as wholly foreign owned enterprises under PRC law.

All of the above subsidiaries are limited liability companies.

21 Interest in an associate

	2020 $000	2019 $000
Share of net assets	**3**	3

During the year ended 30 June 2020, there is no movement of share of net assets of interest in an associate (2019: same).

Particulars of the associate at 30 June 2020 are as follows:

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued shares held	Interest held 2020	Interest held 2019
New Top Finance Limited	BVI	Investment holding in BVI	375 ordinary shares of US$1 each	**37.5%**	37.5%

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

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

22 Financial asset at fair value through other comprehensive income

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

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

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

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

	2020 $000	2019 $000
Non-current asset		
Unlisted security	**4,351**	4,560

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

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

(c) Amounts recognised in other comprehensive income

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

	2020 **$000**	2019 $000
Loss recognised in other comprehensive income	**209**	2,086

(d) Fair value and risk exposure

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

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

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

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

23 Financial assets at amortised cost

Financial assets at amortised cost include the following debt investments:

	2020			2019		
	Current **$000**	**Non-current** **$000**	**Total** **$000**	Current $000	Non-current $000	Total $000
Listed bonds	**155,560**	**–**	**155,560**	326,912	156,423	483,335

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

	2020 **$000**	2019 $000
Fair values of listed bonds	**156,414**	480,820

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

24 Intangible assets

	Handset subsidies $000	Mobile licence fees $000	Total $000
At 1 July 2018			
Cost	1,609,148	4,103,521	5,712,669
Accumulated amortisation	(1,142,674)	(1,053,093)	(2,195,767)
Net book amount	466,474	3,050,428	3,516,902
Year ended 30 June 2019			
Opening net book amount at 30 June 2018, as originally stated	466,474	3,050,428	3,516,902
Changes in accounting policies	(466,474)	–	(466,474)
Restated opening net book amount at 1 July 2018	–	3,050,428	3,050,428
Amortisation (note 9)	–	(285,470)	(285,470)
Closing net book amount	–	2,764,958	2,764,958
At 30 June 2019			
Cost	–	4,103,521	4,103,521
Accumulated amortisation	–	(1,338,563)	(1,338,563)
Net book amount	–	2,764,958	2,764,958
Year ended 30 June 2020			
Opening net book amount	**–**	**2,764,958**	**2,764,958**
Additions	**–**	**395,306**	**395,306**
Amortisation (note 9)	**–**	**(287,704)**	**(287,704)**
Closing net book amount	**–**	**2,872,560**	**2,872,560**
At 30 June 2020			
Cost	**–**	**4,498,827**	**4,498,827**
Accumulated amortisation	**–**	**(1,626,267)**	**(1,626,267)**
Net book amount	**–**	**2,872,560**	**2,872,560**

As a result of the bid of a block of 20 MHz spectrum at the 3.3 GHz band and 50 MHz spectrum at the 3.5 GHz band, the Group acquired mobile licences of $395 million during the year ended 30 June 2020.

25 Trade and other receivables

	2020			2019		
	Current $000	**Non-current $000**	**Total $000**	Current $000	Non-current $000	Total $000
Trade receivables	**367,185**	**–**	**367,185**	449,491	–	449,491
Loss allowance	**(6,503)**	**–**	**(6,503)**	(7,179)	–	(7,179)
	360,682	**–**	**360,682**	442,312	–	442,312
Other receivables	**47,588**	**–**	**47,588**	124,995	–	124,995
	408,270	**–**	**408,270**	567,307	–	567,307
Deposits	**100,097**	**56,887**	**156,984**	71,261	77,907	149,168
Prepayments	**147,505**	**67,045**	**214,550**	96,026	43,661	139,687
Total trade and other receivables	**655,872**	**123,932**	**779,804**	734,594	121,568	856,162

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

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

The credit periods granted by the Group to its customers generally range from 15 days to 45 days from the date of invoice (2019: same). An ageing analysis of trade receivables, net of provision, based on invoice date is as follows:

	2020 $000	2019 $000
Current to 30 days	**296,730**	381,416
31 – 60 days	**20,578**	43,166
61 – 90 days	**5,479**	5,524
Over 90 days	**37,895**	12,206
	360,682	442,312

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

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 $8,831,000 (2019: $4,858,000) for the impairment of its trade receivables during the year ended 30 June 2020.

25 Trade and other receivables *(continued)*

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

	2020 $000	2019 $000
At 1 July	**7,179**	8,034
Impairment loss recognised in the consolidated profit and loss account (note 9)	**8,831**	4,858
Amounts written off during the year	**(9,507)**	(5,713)
At 30 June	**6,503**	7,179

At 30 June 2020, trade receivables of $6,503,000 (2019: $7,179,000) were impaired and fully provided. The individually impaired receivables mainly relate to independent customers that were in financial difficulties. The ageing of these receivables is as follows:

	2020 $000	2019 $000
Past due 31 – 60 days	**1,230**	876
Past due 61 – 90 days	**393**	1,376
Past due over 90 days	**4,880**	4,927
	6,503	7,179

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

26 Deferred income tax

Deferred income tax for the Group's temporary differences arising from operations in Hong Kong and overseas is calculated at 16.5% (2019: 16.5%) and the appropriate current tax rates ruling in the relevant countries respectively.

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

(a) Deferred income tax assets

	Mobile licence fee assets $000	Decelerated depreciation allowance $000	Total $000
At 1 July 2018	18,889	5,542	24,431
Recognised in the consolidated profit and loss account	(3,268)	(753)	(4,021)
At 30 June 2019	15,621	4,789	20,410
At 1 July 2019	**15,621**	**4,789**	**20,410**
Recognised in the consolidated profit and loss account	**(9,216)**	**(648)**	**(9,864)**
At 30 June 2020	**6,405**	**4,141**	**10,546**

(b) Deferred income tax liabilities

	Accelerated depreciation allowance $000
At 1 July 2018	144,597
Recognised in the consolidated profit and loss account	(16,368)
At 30 June 2019	128,229
At 1 July 2019	**128,229**
Recognised in the consolidated profit and loss account	**(8,244)**
At 30 June 2020	**119,985**

26 Deferred income tax *(continued)*

Deferred income tax assets in the consolidated balance sheet comprise decelerated depreciation allowance of $4,141,000 (2019: $4,789,000).

Deferred income tax liabilities in the consolidated balance sheet comprise mobile licence fee assets and accelerated deprecation allowance of $113,580,000 (2019: $112,608,000).

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group has not recognised deferred income tax assets of $40,165,000 (2019: $28,318,000) in respect of tax losses of $302,152,000 (2019: $205,532,000). Under the current tax legislation, unrecognised tax losses of $215,342,000 (2019: $124,319,000) related to a subsidiary operating in Macau are subject to an expiry period of three years from the year in which the tax loss arises. The remaining tax losses do not expire under current tax legislation.

27 Inventories

	2020 **$000**	2019 $000
Handsets and accessories, at cost	**58,768**	84,941
Others, at cost	**13,956**	8,138
Less: provision for slow-moving and obsolete inventories	**(13,079)**	(13,607)
	59,645	79,472

The Group recognised a reversal of impairment provision of $528,000 (2019: impairment provision of $1,309,000) for slow-moving and obsolete inventories during the year ended 30 June 2020. The amount has been included in "cost of inventories sold" in the consolidated profit and loss account.

28 Short-term bank deposits and cash and cash equivalents

	2020 **$000**	2019 $000
Cash at bank and in hand	**97,920**	51,766
Short-term bank deposits with original maturities of 3 months or less	**2,029,489**	1,904,221
Cash and cash equivalents per consolidated cash flow statement	**2,127,409**	1,955,987
Short-term bank deposits with original maturities more than 3 months	**123,316**	173,327
	2,250,725	2,129,314
Maximum exposure to credit risk	**2,247,839**	2,125,794

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

28 Short-term bank deposits and cash and cash equivalents

(continued)

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

	2020 **$000**	2019 $000
Hong Kong dollars	**2,209,529**	248,724
US dollars	**27,913**	1,868,830
Renminbi	**2,725**	1,261
Others	**10,558**	10,499
	2,250,725	2,129,314

29 Trade and other payables

	2020 **$000**	2019 $000
Trade payables (a)	**451,790**	448,469
Other payables and accruals (b)	**768,923**	812,171
	1,220,713	1,260,640

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

	2020 **$000**	2019 $000
Current to 30 days	**133,442**	151,275
31 – 60 days	**118,872**	86,820
61 – 90 days	**86,998**	45,841
Over 90 days	**112,478**	164,533
	451,790	448,469

The carrying amount of the Group's trade payables are mainly denominated in HK dollars which accounted for 86% (2019: 82%).

29 Trade and other payables *(continued)*

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

	2020 **$000**	2019 $000
Accrued expenses	**431,723**	485,917
Payables for fixed assets	**281,016**	253,348
Receipt in advance	**56,184**	72,906
	768,923	812,171

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

30 Contract liabilities

	2020 **$000**	2019 $000
Contract liabilities		
– Mobile telecommunications service contracts	**280,899**	267,970

Revenue in relation to mobile telecommunications service contracts, which was included in the contract liabilities balance at the beginning of the year amounting to $268 million, was recognised during the year ended 30 June 2020.

(i) Unsatisfied long-term fixed price contracts

	2020 **$000**	2019 $000
Aggregate amount of the transaction price allocated to long-term contracts that are partially or fully satisfied	**2,432,256**	2,184,190

Management expects that 70% (2019: 69%) of the transaction price allocated to the unsatisfied contracts as of 30 June 2020 will be recognised as revenue during the next reporting period. The remaining 30% (2019: 31%) will be recognised as revenue after the year ending 30 June 2021.

31 Lease liabilities

	30 June 2020			1 July 2019		
	Current $000	**Non-current $000**	**Total $000**	Current $000	Non-current $000	Total $000
Lease liabilities	**631,004**	**331,540**	**962,544**	610,852	407,827	1,018,679

Movement of lease liabilities is as follows:

	2020 $000
At 1 July	**1,018,679**
Additions	**702,688**
Payments for lease liabilities	**(791,428)**
Accretion expenses (note 8)	**32,954**
Exchange differences	**(349)**
At 30 June	**962,544**

32 Bank and other borrowings

	2020			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	**130,885**	**203,600**	**334,485**	430,393	396,213	826,606
Guaranteed notes (a)	**–**	**1,401,819**	**1,401,819**	–	1,410,303	1,410,303
Total bank and other borrowings	**130,885**	**1,671,419**	**1,802,304**	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 April 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.

32 Bank and other borrowings *(continued)*

The maturity of non-current bank and other borrowings are as follows:

	2020	2019
	$000	$000
Between 1 and 2 years	**166,669**	131,970
Between 2 and 5 years	**1,443,150**	1,676,746
Over 5 years	**61,600**	63,800
	1,671,419	1,872,516

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

	Level 1	**Level 2**	**Level 3**	**Total**
	$000	**$000**	**$000**	**$000**
At 30 June 2020				
Secured bank borrowings	**–**	**66,000**	**–**	**66,000**
Unsecured bank borrowings	**–**	**199,932**	**–**	**199,932**
Guaranteed notes	**1,477,389**	**–**	**–**	**1,477,389**
Total	**1,477,389**	**265,932**	**–**	**1,743,321**

	Level 1	Level 2	Level 3	Total
	$000	$000	$000	$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 30 June 2020, 91% (2019: 78%) of the Group's bank and other borrowings are denominated in US dollars and 9% (2019: 22%) are denominated in Hong Kong dollars.

At 30 June 2020, secured bank borrowings are secured by certain buildings of the Group (note 16) (2019: same).

33 Mobile licence fee liabilities

	2020 $000	2019 $000
At 1 July	**143,350**	188,032
Additions	**395,306**	–
Accretion expenses included in consolidated profit and loss account (note 8)	**13,056**	17,668
Payment	**(96,019)**	(62,350)
At 30 June	**455,693**	143,350
Less: mobile licence fee liabilities included under current liabilities	**(85,924)**	(60,041)
Non-current portion	**369,769**	83,309

Analysis of the present value of mobile licence fee liabilities:

	2020 $000	2019 $000
Minimum annual fees payable		
Within 1 year	**88,661**	62,350
After 1 year but within 5 years	**446,593**	100,630
	535,254	162,980
Less: future finance charges	**(79,561)**	(19,630)
Present value of mobile licence fee liabilities	**455,693**	143,350
Comprising:		
Within 1 year	**85,924**	60,041
After 1 year but within 5 years	**369,769**	83,309
	455,693	143,350

34 Asset retirement obligations

	2020	2019
	$000	$000
At 1 July	**41,911**	43,027
Additions	**11,346**	2,791
Accretion expenses included in consolidated profit and loss account (note 8)	**1,394**	1,661
Utilisations	**(4,713)**	(5,568)
At 30 June	**49,938**	41,911

The provision for assets retirement obligations represents the present value of the estimated future costs of dismantling and removing property, plant and equipment when they are no longer used and restoring the sites and stores on which they are located.

The Group has been investing in the transmission and distribution network to supply mobile services to customers in Hong Kong. As the Group expects that transmission sites being used for the transmission and distribution network will continue to be used to supply mobile services to its customers, the Group currently considers it remote that the transmission and distribution network in railways and various tunnels would be removed from existing transmission sites. Therefore in accordance with applicable accounting standards, asset retirement obligations for these assets have not been recognised by the Group.

35 Share capital

	Notes	Shares of $0.1 each	$000
Authorised			
At 30 June 2019 and 30 June 2020		**2,000,000,000**	**200,000**
Issued and fully paid			
At 1 July 2018		1,124,269,277	112,426
Issue of shares in lieu of cash dividends	(b)	9,278,753	928
Repurchase of shares	(c)	(9,008,000)	(901)
At 30 June 2019 and 1 July 2019		**1,124,540,030**	**112,453**
Issue of shares in lieu of cash dividends	(b)	**1,426,071**	**143**
Repurchase of shares	(c)	**(3,691,000)**	**(369)**
At 30 June 2020		**1,122,275,101**	**112,227**

(a) During the years ended 30 June 2020 and 2019, no share options were exercised.

(b) On 6 September 2019, the board of directors declared a final dividend of 21 cents (2019: 23 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 (2019: 733,527) shares were issued at $6.632 (2019: $10.252) per share in respect of the final dividend.

On 18 February 2020, the board of directors declared an interim dividend of 14.5 cents (2019: 18 cents) per fully paid share for the year ended 30 June 2020. The shareholders were provided with an option to receive the interim dividend in form of scrip dividend. On 9 April 2020, 599,174 (2019: 8,545,226) shares were issued at $5.464 (2019: $9.134) per share in respect of the interim dividend.

35 Share capital *(continued)*

(c) During the year ended 30 June 2020, the Company repurchased and cancelled 3,141,000 shares on the SEHK. Of these repurchased shares together with 550,000 repurchased shares in June 2019, 3,691,000 shares were cancelled prior to 30 June 2020. 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.

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

During the year ended 30 June 2019, the Company repurchased and cancelled 6,800,000 shares on the SEHK. The total amount paid to acquire these cancelled shares of $53,717,000 was deducted from equity attributable to equity holders.

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

(Expressed in Hong Kong dollars)

36 Share option scheme and share award scheme

(a) Share option scheme

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

(i) Movements in share options

	Average exercise price per share	Number of share options
At 30 June 2019 and 30 June 2020	**$14.28**	**3,000,000**

At 30 June 2020, 3,000,000 (2019: 2,000,000) share options were exercisable with average exercise price of $14.28 (2019: $14.28) per share.

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

Date of grant	Exercise period	Exercise price per share	**2020 Number of share options**	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 years ended 30 June 2020 and 2019.

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

(b) Share award scheme

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

(i) Details of share award granted during the year ended 30 June 2020

Date of grant	Number of awarded shares granted	Average fair value per share	Vesting period
28 February 2020	1,553,110	$5.50	28 February 2021 to 28 February 2023

(ii) Movements in share award

	2020	2019
Number of awarded shares		
Outstanding at 1 July	**3,545,400**	1,871,800
Granted	**1,553,110**	1,830,800
Vested	**(1,550,550)**	–
Lapsed	**(123,620)**	(157,200)
Outstanding at 30 June	**3,424,340**	3,545,400

(iii) Shares held for share award scheme

	Number of shares	$000
Opening balance at 1 July 2018	–	–
Acquisition of shares by the Trust	1,092,000	8,987
Shares received in form of scrip dividend	20,579	–
Balance at 30 June 2019	**1,112,579**	**8,987**
Acquisition of shares by the Trust	**450,000**	**2,227**
Shares received in form of scrip dividend	**20,813**	**–**
Shares utilised under share award scheme	**(1,550,550)**	**(11,059)**
Balance at 30 June 2020	**32,842**	**155**

37 A reconciliation of liabilities arising from financing activities

	Bank borrowings $000	Guaranteed notes $000	Lease liabilities $000	Total $000
At 1 July 2018	1,017,526	1,412,855	–	2,430,381
Proceeds from bank borrowings	66,000	–	–	66,000
Repayment of bank borrowings	(194,426)	–	–	(194,426)
Finance costs	3,506	(2,552)	–	954
At 30 June 2019 as originally reported	**892,606**	**1,410,303**	**–**	**2,302,909**
Changes in accounting policies (note 2(b))	**–**	**–**	**1,018,679**	**1,018,679**
Restated at 1 July 2019	**892,606**	**1,410,303**	**1,018,679**	**3,321,588**
Proceeds from bank borrowings	**60,000**	**–**	**–**	**60,000**
Repayment of bank borrowings	**(553,530)**	**–**	**–**	**(553,530)**
Additions of lease liabilities	**–**	**–**	**702,688**	**702,688**
Payment for lease liabilities	**–**	**–**	**(791,428)**	**(791,428)**
Finance costs	**1,409**	**(8,484)**	**32,954**	**25,879**
Exchange differences	**–**	**–**	**(349)**	**(349)**
At 30 June 2020	**400,485**	**1,401,819**	**962,544**	**2,764,848**

38 Commitments and contingent liabilities

(a) Capital commitments

	2020 $000	2019 $000
Fixed assets		
Contracted for	**119,543**	62,123

(b) Contingent liabilities

	2020 $000	2019 $000
Performance guarantees	**3,107,181**	2,823,883
Financial guarantees	**13,588**	–
	3,120,769	2,823,883

39 Related party transactions

The Group is controlled by Cellular 8 Holdings Limited, which owns 67.3% of the Company's shares as at 30 June 2020. The remaining 32.7% of the shares are widely held, of which 3.81% is held by another subsidiary of SHKP. The ultimate holding company of the Group is SHKP, a company incorporated in Hong Kong.

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

	2020	2019
	$000	$000
Rentals for land and buildings and transmission sites (i)	**22,384**	128,834
Depreciation and accretion expenses for land and buildings and transmission sites (i)	**112,867**	–
Insurance expense (ii)	**3,947**	4,072
Mobile coverage services (iii)	**13,551**	8,025
Enterprise solutions (iv)	**45,980**	7,067

(i) Leases of land and buildings and transmission sites

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

For the year ended 30 June 2020, rental and licence fees paid and payable to subsidiaries and associated companies of SHKP totalled $22,384,000 (2019: $128,834,000).

For the year ended 30 June 2020, depreciation and accretion expenses totalled $112,867,000 (2019: nil).

(ii) Insurance services

Sun Hung Kai Properties Insurance Limited, a wholly owned subsidiary of SHKP, provides general insurance services to the Group. For the year ended 30 June 2020, insurance premiums paid and payable were $3,947,000 (2019: $4,072,000).

(iii) Mobile coverage services

The Group provides technical services for the properties owned or managed by certain subsidiaries and associated companies of SHKP for enhancement of mobile coverage in the properties. For the year ended 30 June 2020, the revenue received or receivable by the Group were $13,551,000 (2019: $8,025,000).

(iv) Enterprise solutions

The Group provides information and communication technology ("ICT") solutions to certain subsidiaries and associated companies of SHKP covering, among others, business digitalisation, connectivity and industry-specific solutions. For the year ended 30 June 2020, the revenue received or receivable were $45,980,000 (2019: $7,067,000).

39 Related party transactions *(continued)*

(b) At 30 June 2020, the Group had an interest in an associate, the major shareholder of which is a subsidiary of SHKP. The principal activity of the associate is to invest in an equity fund which primarily invests in technology related companies in the People's Republic of China.

(c) Key management compensation

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

	2020 **$000**	2019 $000
Salaries, bonuses and other short-term employee benefits	**35,248**	32,703
Share-based payments	**2,510**	3,385
	37,758	36,088

(d) The balances set out below with SHKP and its subsidiaries and associated companies (the "SHKP Group") (including buildings and estates managed by the SHKP Group) are included within the relevant balance sheet items:

	2020 **$000**	2019 $000
Trade receivables (note 25)	**20,848**	12,142
Deposits and prepayments (note 25)	**25,613**	25,282
Other receivables (note 25)	**–**	519
Trade payables (note 29)	**1,245**	1,144
Other payables and accruals (note 29)	**3,081**	4,061

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

40 Balance sheet and reserve movement of the Company

	2020 $000	2019 $000
Non-current asset		
Investments in subsidiaries	**8,411,160**	8,411,067
Current assets		
Prepayments	**988**	425
Amounts due from subsidiaries	**40,389**	39,575
Tax recoverable	**–**	55
Cash and cash equivalents	**325**	409
Total assets	**41,702**	40,464
Current liabilities		
Amounts due to subsidiaries	**4,846,180**	4,444,283
Other payables and accruals	**3,750**	3,657
Total liabilities	**4,849,930**	4,447,940
Net assets	**3,602,932**	4,003,591
Capital and reserves		
Share capital	**112,227**	112,453
Reserves (Note (a))	**3,490,705**	3,891,138
Total equity attributable to equity holders of the Company	**3,602,932**	4,003,591

The balance sheet of the Company was approved by the Board of Directors on 2 September 2020 and was signed on its behalf.

Kwok Ping-luen, Raymond
Director

Chau Kam-kun, Stephen
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

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

Note (a) Reserve movement of the Company

	Company					
	Share premium $000	Capital redemption reserve $000	Contributed surplus $000	Employee share-based compensation reserve $000	Retained profits $000	Total $000
1 July 2018	1,533,931	14,548	739,537	6,594	526,327	2,820,937
Comprehensive income						
Profit for the year	–	–	–	–	1,498,446	1,498,446
Transactions with owners						
Share-based payments	–	–	–	12,468	–	12,468
Lapse of share award	–	–	343	(343)	–	–
Repurchase of shares (note 35(c))	–	901	–	–	(53,717)	(52,816)
Prepayment for repurchase of shares	–	–	–	–	(4,018)	(4,018)
Purchase of shares for share award scheme	–	–	(8,987)	–	–	(8,987)
Payment of 2018 final dividend (note 35(b))	7,447	–	–	–	(257,714)	(250,267)
Payment of 2019 interim dividend (note 35(b))	77,197	–	–	–	(201,822)	(124,625)
At 30 June 2019 and 1 July 2019	**1,618,575**	**15,449**	**730,893**	**18,719**	**1,507,502**	**3,891,138**
Comprehensive income						
Profit for the year	**–**	**–**	**–**	**–**	**187**	**187**
Transactions with owners						
Share-based payments	**–**	**–**	**–**	**12,166**	**–**	**12,166**
Lapse of share award	**–**	**–**	**461**	**(461)**	**–**	**–**
Vesting of share award	**–**	**–**	**11,059**	**(12,085)**	**1,026**	**–**
Repurchase of shares (note 35(c))	**–**	**369**	**–**	**–**	**(21,522)**	**(21,153)**
Purchase of shares for share award scheme	**–**	**–**	**(2,227)**	**–**	**–**	**(2,227)**
Payment of 2019 final dividend (note 35(b))	**5,401**	**–**	**–**	**–**	**(235,378)**	**(229,977)**
Payment of 2020 interim dividend (note 35(b))	**3,214**	**–**	**–**	**–**	**(162,643)**	**(159,429)**
At 30 June 2020	**1,627,190**	**15,818**	**740,186**	**18,339**	**1,089,172**	**3,490,705**

41 Benefits and interests of directors

(a) Directors' and chief executive's emoluments

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

	2020							2019
	Fees $000	Salaries and allowances $000	Bonuses $000	Retirement scheme contributions $000	Estimated money value of other benefits $000	Share-based payments $000	Total $000	Total $000
Executive Directors								
Ms. Anna Yip	144	7,167	4,179	358	91	821	12,760	10,419
Mr. Chan Kai-lung, Patrick	144	5,701	404	570	80	480	7,379	7,806
Mr. Chau Kam-kun, Stephen	144	5,969	944	596	99	480	8,232	8,298
Non-Executive Directors								
Mr. Kwok Ping-luen, Raymond	180	–	–	–	–	–	180	180
Mr. Cheung Wing-yui	162	–	–	–	–	–	162	162
Mr. Fung Yuk-lun, Allen	162	–	–	–	–	–	162	162
Mr. David Norman Prince	144	–	–	–	–	–	144	144
Mr. Siu Hon-wah, Thomas	144	–	–	–	–	–	144	144
Mr. John Anthony Miller	144	–	–	–	–	–	144	144
Dr. Li Ka-cheung, Eric, *JP* *	288	–	–	–	–	–	288	288
Mr. Ng Leung-sing, *JP* *	288	–	–	–	–	–	288	288
Mr. Gan Fock-kin, Eric *	288	–	–	–	–	–	288	288
Mrs. Ip Yeung See-ming, Christine *	144	–	–	–	–	–	144	144
Mr. Lam Kwok-fung, Kenny *	144	–	–	–	–	–	144	144
	2,520	18,837	5,527	1,524	270	1,781	30,459	28,611
2019	2,520	18,486	3,125	1,497	265	2,718		

* Independent Non-Executive Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

41 Benefits and interests of directors *(continued)*

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

During the years ended 30 June 2020 and 2019, no director:

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

In addition to the above emoluments, directors were granted share options and share awards under the Company's share option and share award schemes. The details of these benefits in kind are disclosed under the section "Share option scheme" and "Share award scheme" in the Report of the Directors and note 36.

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

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

42 Ultimate holding company

The directors consider the ultimate holding company at 30 June 2020 to be Sun Hung Kai Properties Limited, a company incorporated in Hong Kong with its shares listed on the main board of SEHK.

43 Post balance sheet event

On 13 August 2020, the Group received the HKSAR government's approval on the first tranche of the Employee Support Scheme (covering the period from June 2020 to August 2020). The approved subsidy amount was $38 million and it will be accounted for in the year ending 30 June 2021.