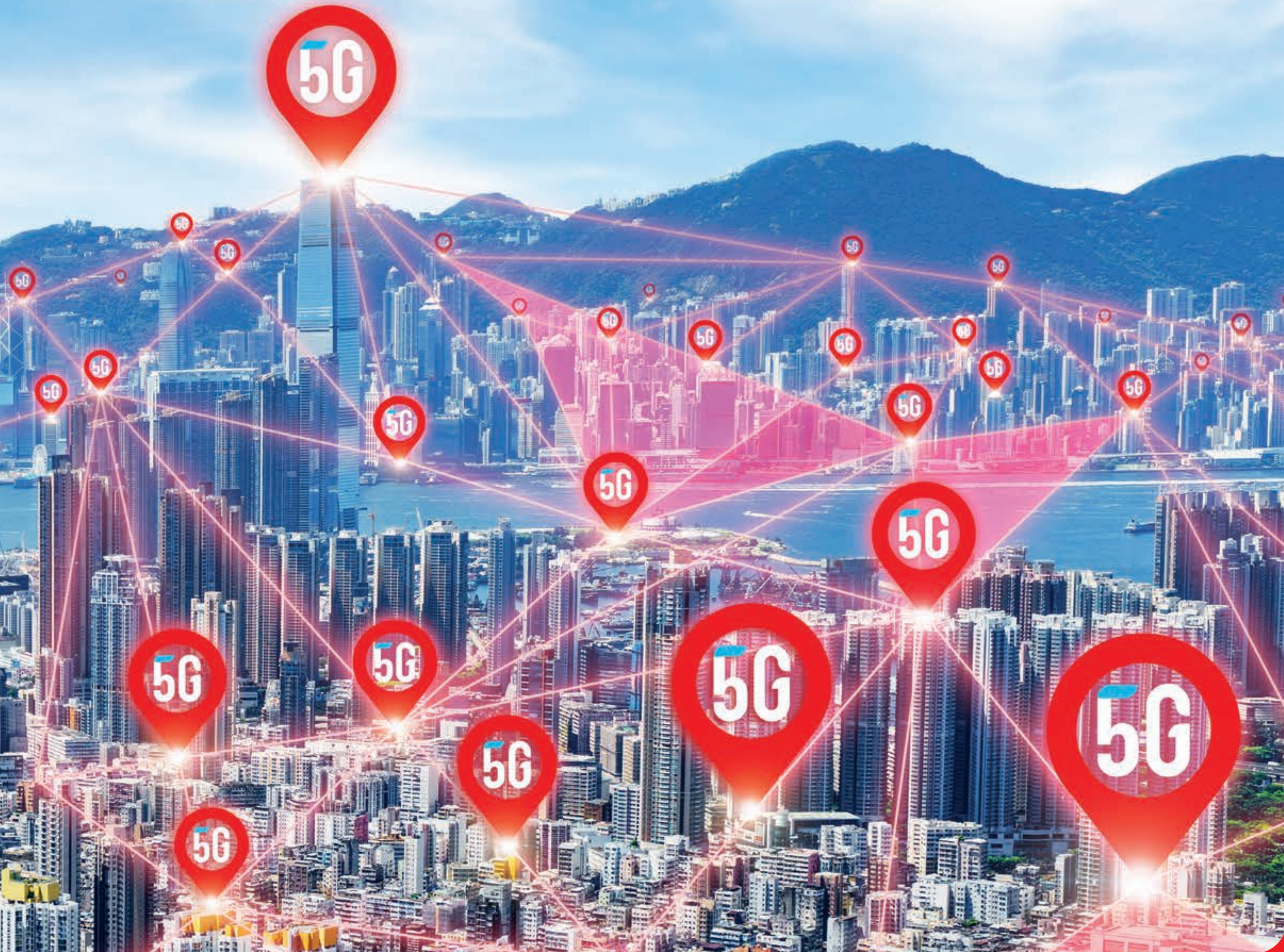
SmarTone Telecommunications Holdings Limited

Stock Code : 0315

ANNUAL REPORT 2020/21

SmarTone 5G

The Widest Coverage in HK



No.1 Consumers' Best Preferred 5G Network SmarTone

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.

CONTENTS

DIRECTORS AND CORPORATE INFORMATION

Board of Directors

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

* *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
Woo Kwan Lee & Lo

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		
	2021	2020	Change
Consolidated profit and loss account			
Revenues	**6,720**	6,986	(4%)
Profit attributable to equity holders of the Company	**445**	379	17%
Basic earnings per share ($)	**0.40**	0.34	18%
Total dividends per share ($)	**0.30**	0.295	2%
Consolidated balance sheet			
Total assets	**10,650**	10,432	2%
Current liabilities	**(2,660)**	(2,874)	(7%)
Total assets less current liabilities	**7,990**	7,558	6%
Non-current liabilities	**(2,893)**	(2,545)	14%
Non-controlling interests	**22**	20	10%
Net assets	**5,119**	5,033	2%
Share capital	**111**	112	(1%)
Reserves	**5,008**	4,921	2%
Total equity attributable to equity holders of the Company	**5,119**	5,033	2%

	Year ended 30 June		
	2021	2020	Change
Consolidated cash flows			
Net cash inflow from operating activities	**2,420**	2,017	20%
Interest received	**38**	85	(55%)
Payment for purchase of fixed assets	**(851)**	(540)	58%
Payment for purchase of financial assets at amortized cost	**(507)**	–	N/A
Proceeds from disposal of financial assets at amortized cost	**179**	319	(44%)
Payment of mobile license fees	**(120)**	(96)	25%
Dividends paid	**(328)**	(389)	(16%)
Repayment of bank borrowings (net)	**(223)**	(494)	(55%)
Principal elements of lease payments	**(712)**	(758)	(6%)
Payment for repurchase of shares	**(47)**	(22)	114%
Others	**(6)**	(2)	200%
Net (decrease)/increase in short-term bank deposits, and cash and cash equivalents	**(157)**	120	N/A
Effect of foreign exchange rate changes	**1**	1	(0%)
	(156)	121	N/A

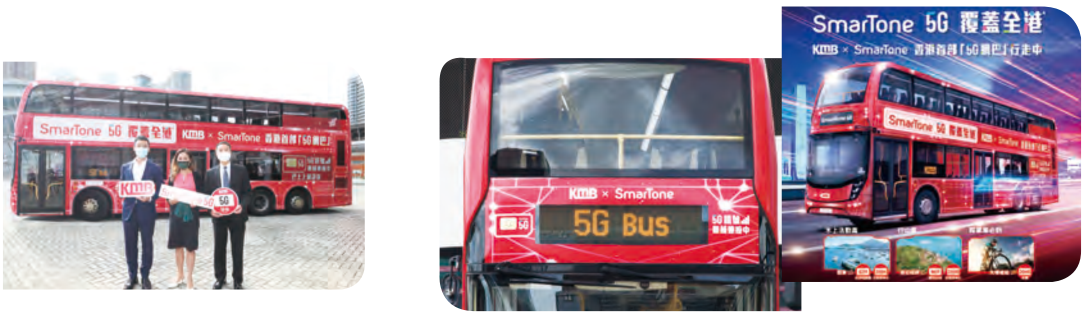
BUSINESS HIGHLIGHTS

Drive for digital transformation to accelerate 5G development in Hong Kong

1. Technology Leadership

SmarTone 5G LAB unleashes the possibilities of 5G applications in business and daily life, to encourage cross-industry collaboration and propel Hong Kong's emergence as a leading innovation hub.

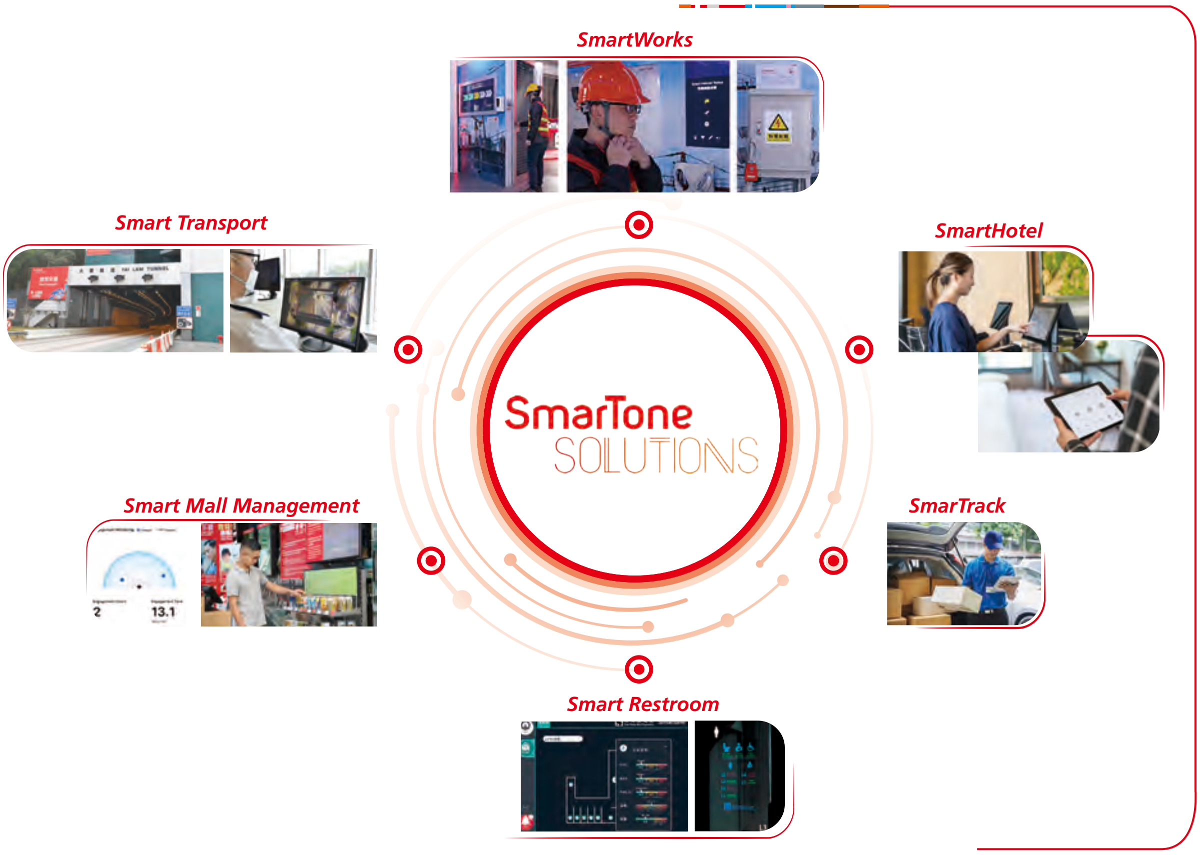
SmarTone and KMB joint hand to launch the first ***5G Bus***. By connecting to the SmarTone 5G network, passengers can enjoy ultra-fast 5G internet services in the bus compartment.



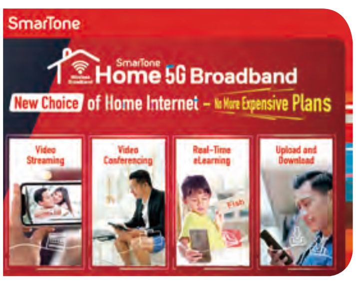
* Based on results obtained from SmarTone's road test conducted on 19 July 2021. The route of the road test went through the 18 districts of Hong Kong, covering major roads including expressways, trunk roads, tunnels and bridges. The result shows that SmarTone's 5G network has coverage in each of the districts. 5G coverage is defined as spot with received 5G radio signal level not weaker than -95dBm.

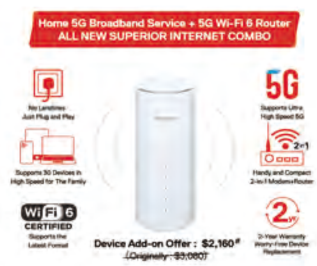
2. Empowering Innovation

SmarTone Solutions injected the latest 5G technology into end-to-end enterprise solutions to unleash the digital transformation of enterprises and development of Smart City.



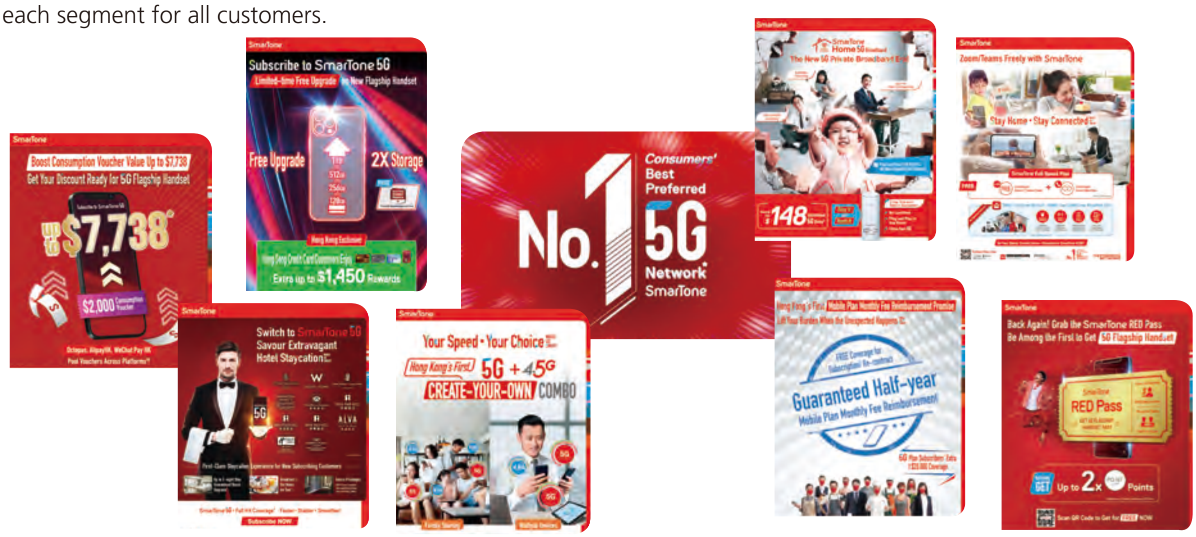
SmarTone ***Home 5G Broadband*** gives customers a hassle-free home internet experience with 5G ultra-fast speed. It provides a new choice of home internet to add a "private broadband" anytime.



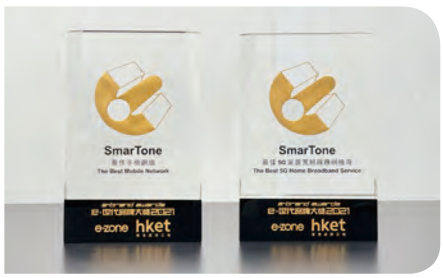


3. Customer-Centric Strategy

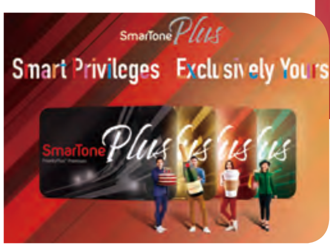
SmarTone was selected as the ***"Best Preferred Mobile Service Operator for 5G"*** in an independent market survey[1]. Utilising our powerful network, top quality services driven by innovation, intelligence and an all-round knowledge of consumer needs, we developed customised services and experiences and differentiate each segment for all customers.

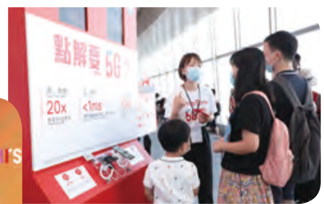


With excellent network and customer service, we are proud to be recognised by ***prestigious awards***, including 2020 Service Talent Award of the Hong Kong Retail Management Association, "The Best Mobile Network" and "The Best 5G Home Broadband Service" at the e-zone e-brand awards.



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

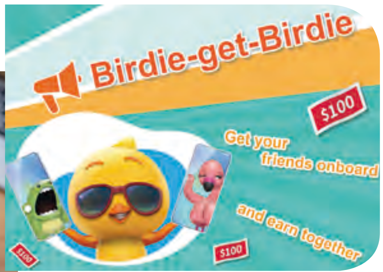


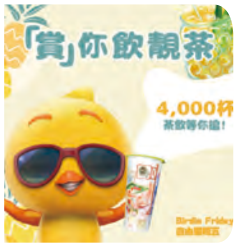


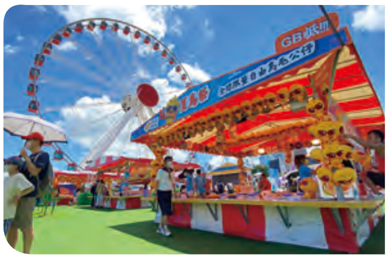
1 *Independent research by Nuance Tree Research Company*

4. Digitalization

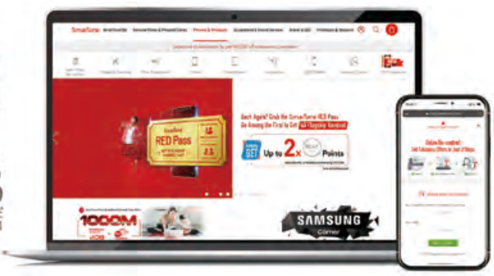
Full digital brand ***"Birdie"*** continues to partner with major brands in the city, offering promotions that benefit our customers to elevate its young brand image and customer loyalty.

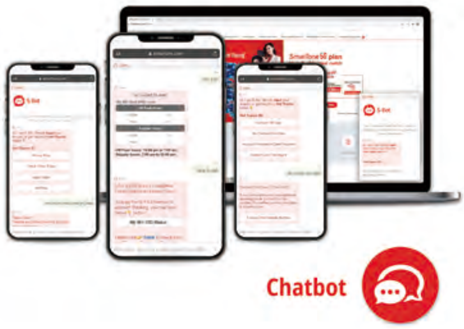






Award-winning website and online store to offer a customer-centric experience.





Chatbot continues to improve customer experience and enhance efficiency.

CHAIRMAN'S STATEMENT

(Financial figures are expressed in Hong Kong dollars)

Business review

During the year under review, business conditions remained challenging as COVID continues to affect all aspects of daily life. As the virtual stoppage of international travel continued, roaming revenue, which previously was a key source of profitability, remained at a historic low. Despite these challenges, the Company delivered a profit attributable to equity holders of $445M for FY21, which compares to $440M (excluding the one-off impairment charge of $61M) for FY20.

During the past year, the Company was able to grow local service revenue (excluding roaming) by 2%. This was due to a number of key factors. Firstly, the uptake on SmarTone's 5G services was encouraging, with 5G commanding a premium over 4G services. Secondly, the Enterprise Solutions business started to rebound as corporates increasingly adopted digital services. Thirdly, SmarTone's 5G Home Broadband started to ramp up growth – the feedback from customers so far has been excellent. These underlying drivers of revenue growth, coupled with an increasing mobile postpaid exit ARPU from $189 to $202, continue to show good momentum.

The challenging environment prompted management to adopt new ways to make our operations leaner without sacrificing quality of services. SmarTone launched a cost efficiency program to lower cost and enhance productivity, which is delivering early results. The majority of savings the Company achieved during the year under review will be recurring, and future savings are planned as the investment in digital transformation continues. These actions will help position the Company to take advantage of new service opportunities with the adoption of 5G.

The Company launched 5G services in May 2020. Our vision is to build a world-class network that we and Hong Kong can be proud of. This is why we have invested heavily, and this is why we will continue to invest. With our strong balance sheet, our technical capabilities, and our collaboration with Ericsson, we have been able to build a high quality and cost-effective network. As of today, SmarTone's 5G network covers 99% of the population, all MTR lines, major roads, highways, and tunnels. In nearly all areas where previously there was 4G coverage, there is now 5G. Based on the results of the international testing agency nPerf, which has conducted many tests on telecom networks in tens of countries, SmarTone's 5G network was judged to be number one in Hong Kong in terms of 5G coverage. But network quality is not just about financial resources; it is also about listening to our customers and deploying resources to cater for their changing needs. For instance, we are expanding coverage in major hiking trails and country parks, as these places become hotspots in Hong Kong daily life. We are also applying cutting edge technologies with AI to "slice" our 5G network, so that we can provide maximum bandwidth and stability to different customers based on their different usage. So far the response to our 5G offerings has been encouraging. While we charge a real premium for a premium 5G network, many existing and new users have upgraded to our 5G network.

We believe the development of 5G is crucial to Hong Kong's transition into a Smart City which will bring benefits to Hong Kong citizens. In May 2021, the Company, together with Sun Hung Kai Properties, launched the 5G Lab on the 100th floor of Hong Kong's tallest building, the ICC. The objective is to raise awareness on 5G development and demonstrate how the 5G infrastructure will support Hong Kong's development. The Lab showcases the many early benefits of 5G. This is not just about faster 5G speed, although 5G is at least 5x-10x faster. 5G has much faster uplink speed, which allows users to do "zoom calls" or children to do "e-learning" smoothly without jitters, something not possible under 4G. 5G also brings much lower latency, which allows for immediate feedback from your apps and a whole new experience in mobile gaming. It is early days but there will be many more 5G consumer applications to come. We are confident that our users will continue to upgrade to 5G and that 5G adoption will accelerate.

The 5G Lab has only been open for three months, but the response has been overwhelming. Within such a short time we have drawn in about 200,000 visitors, including many CEOs of key enterprises who hope to leverage 5G for applications that can help their businesses. We are opening up the 5G Lab for school visits, and plan to have more than 300 high schools visiting the Lab by June 2022. We believe the more our young people understand the potential of technology and how it will change our lives, the more they will be interested in studying science and technology. This will help Hong Kong transform itself to become an innovation hub as laid out in the Fourteenth Five-Year Plan, and better integrate with the Greater Bay.

(Financial figures are expressed in Hong Kong dollars)

These are early days, but enterprises are starting to exploit the potential of 5G to improve their operations with the help of SmarTone. The following are simply some select examples. Several construction companies are already using "Smart Helmets" which protect workers against heat stroke, heart attack and construction site dangers through a monitoring and early warning system. The Kowloon Motor Bus Company is adopting new 5G technologies to provide instant information on how crowded each bus is, so that passengers can plan their trips better, and so that they can deploy their buses better. Yata, the supermarket chain, is using 5G plus AI technologies to monitor and shorten the time of queuing in peak hours. The Company is working with several operators on tele-medicine services. The Company is providing "Smart Health" solutions to several elderly care operators. We believe there are big business opportunities in Enterprise Solutions for SmarTone, as more applications become available leveraging 5G.

Dividend

In line with the Company's 75% payout policy, the Board proposes a final dividend of 15.5 cents, making a full-year dividend of 30.0 cents per share, based on profit attributable to equity holders of $445M.

Outlook

The operating environment remains very challenging. It is unclear when international travel will resume, and when we will start to see our roaming revenues ramping back up. Next year our costs in spectrum amortization will rise materially because of the renewal of certain segments of 4G spectrum. Spectrum costs have been a major cost item for mobile operators, on top of normal taxes that every company pays. Since 2001, SmarTone has already paid a staggering $5.9B on spectrum fees. In the upcoming financial year our spectrum amortization costs are projected to exceed $400M, which is close to our current *total profit*. We welcome the Government's recent approach to substantially reduce spectrum fees on 5G. This is critical for Hong Kong, as it allows operators to deploy the necessary financial resources into network building. Globally the country with the fastest roll-out in 5G is in fact mainland China where, not surprisingly, operators are not charged for spectrum. We also urge that such spectrum fees be tax deductible, similar to other operating costs – otherwise this will create disincentives for operators to invest in building a state-of-the-art network.

Amidst a difficult operating environment, SmarTone sees new revenue opportunities. For consumers, the gradual upgrade of customers to 5G will likely accelerate and will be a key contributor to growth. For enterprises, the growth in enterprise solutions is ramping up, as corporates are keen to use technology to improve their businesses. There are also new services and solutions that will open up new revenue lines, such as solutions in cyber-security, 5G Home Broadband, etc.

Appreciation

During the year under review, Mr. Samuel Lee has been appointed as an Independent Non-Executive Director of SmarTone. I would like to welcome Mr. Lee to the Board.

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 as well as their dedication and hard work during this challenging period.

Kwok Ping-luen, Raymond
Chairman

Hong Kong, 1 September 2021

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 increased to $445 million (2019/20: $379 million). The increase was primarily due to the successful execution of cost reduction and productivity initiatives and increase in local service revenue, which offset the substantial decline in roaming revenue as a result of travel restrictions from COVID-19.

Group service revenue decreased by 5% to $4,339 million (2019/20: $4,580 million) mainly due to the significant decrease in roaming revenue, partially offset by an increase of 2% in local service revenue. Mobile postpaid ARPU fell 6% to $199 (2019/20: $210).

Group's handset and accessory sales fell by $25 million or 1% to $2,381 million when compared with $2,406 million last year, mainly due to delay in timing of 5G flagship phones launched in the market.

As a result, Group total revenue decreased by 4% to $6,720 million (2019/20: $6,986 million) mainly due to lower roaming revenue.

Roaming revenue, which made up of 5% of Group's service revenue (2019/20: 12%) decreased by 58% as a result of travel restrictions from COVID-19.

Hong Kong customer number grew 1% year-on-year to 2.74 million through growth in different segments. Postpaid churn rate increased slightly to 0.8% compared to 0.7% last year.

Cost of inventories sold fell by $88 million or 4% to $2,316 million (2019/20: $2,403 million), in line with the corresponding decrease in handset and accessory sales with improved margins.

Staff costs fell by $167 million or 22% to $589 million (2019/20: $756 million) as a result of cost reduction and productivity initiatives.

Cost of services provided and other operating expenses fell by $42 million or 3% to $1,356 million (2019/20: $1,398 million) primarily due to lower roaming costs, and the result of cost reduction and productivity initiatives on network and sales and marketing costs.

Depreciation, amortization and loss on disposal fell by $39 million or 2% to $1,785 million (2019/20: $1,824 million) mainly due to decrease in right-of-use assets depreciation driven by rental reduction as the result of cost reduction initiatives, partially offset by increase in amortization of spectrum utilization fee.

Finance income decreased by $34 million or 49% to $36 million (2019/20: $70 million) mainly due to lower bank interest rates.

Finance costs decreased by $2 million or 1% to $114 million (2019/20: $116 million) mainly due to lower interest expenses on bank borrowings as the Group reduced its outstanding bank borrowings.

Income tax expense amounted to $153 million (2019/20: $134 million), reflecting an effective tax rate of 25.7% (2019/20: 28.3%). In light of the uncertainty of the tax deductibility of the spectrum utilization 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 utilization fees from the Inland Revenue Department.

Group EBITDA increased by $30 million or 1% to $2,460 million (2019/20: $2,429 million). Group operating profit was $674 million, increased by $154 million or 30% (2019/20: $520 million). Group profit attributable to equity holders increased by $66 million or 17% to $445 million (2019/20: $379 million). Excluding the non-cash impairment loss of fixed assets and right-of-use assets at Macau in 2019/20, Group profit attributable to equity holders of the Company increased by $4 million (2019/20: $440 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 2021, the Group recorded share capital of $111 million, total equity of $5,097 million and total borrowings of $1,588 million.

The Group's cash resources remained robust with cash and bank balances of $2,095 million as at 30 June 2021 (30 June 2020: $2,251 million).

As at 30 June 2021, the Group had bank and other borrowings of $1,588 million (30 June 2020: $1,802 million) of which 96% 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 amortized cost, amounted to $994 million as at 30 June 2021 (30 June 2020: $604 million).

The Group had net cash generated from operating activities and interest received of $2,420 million and $38 million respectively during the year ended 30 June 2021. The Group's major outflows of funds during the year were payments for purchase of fixed assets, payment for purchase of financial assets at amortized cost, payments for leases, payment for dividends, mobile license 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 2022 with internal cash resources and available banking facilities.

Treasury policy

The Group invests its surplus funds in accordance with a treasury policy approved from time to time by the board of directors. Surplus funds are placed in bank deposits and invested in financial assets at amortized cost. Bank deposits and financial assets at amortized cost 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 collateralize 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 $70 million as at 30 June 2021 (30 June 2020: $73 million).

Interest rate exposure

The Group is exposed to interest rate changes that affect bank borrowings denominated in Hong Kong dollars which accounted for 4% of the Group's total borrowings at 30 June 2021. The remaining 96% of the Group's borrowings are fixed rates borrowings. Hence, the Group is well protected from any potential increase in interest rates in the future. The Group does not currently undertake any interest rate hedging.

MANAGEMENT DISCUSSION AND ANALYSIS

(Financial figures are expressed in Hong Kong dollars)

Functional currency and foreign exchange exposure

The functional currency of the Company is the Hong Kong dollar. The Group is exposed to other currency movements, principally in terms of certain trade receivables, bank deposits, financial asset at fair value through other comprehensive income, financial assets at amortized 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 2021, the Group provided performance and financial guarantees of $2,401 million (30 June 2020: $3,121 million).

Employees, share award scheme and share option scheme

The Group had 1,665 full-time employees as at 30 June 2021 (30 June 2020: 1,898), with the majority of them based in Hong Kong. Total staff costs were $589 million for the year ended 30 June 2021 (2019/20: $756 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 recognize the contributions by certain employees and to attract and retain suitable personnel for the development of the Group. During the year under review, 1,552,420 shares were vested and 462,240 shares were lapsed. 1,409,680 shares (30 June 2020: 3,424,340) were outstanding as at 30 June 2021.

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, 3,000,000 share options were lapsed. No share option was outstanding as at 30 June 2021 (30 June 2020: 3,000,000).

Corporate Governance

The Company is committed to building and maintaining high standards of corporate governance. Throughout the year ended 30 June 2021, 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 a 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. Mr. David Norman Prince, Non-Executive Director, and Mr. Gan Fock-kin, Eric, Independent Non-Executive Directors, were unable to attend the annual general meeting of the Company held on 4 November 2020 due to overseas commitments or other prior engagements. The remaining eight Independent Non-Executive Directors and Non-Executive Directors (representing 80% 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.

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 2021, the Board comprises two Executive Directors, five Non-Executive Directors and six Independent Non-Executive Directors. The presence of eleven Non-Executive Directors, of whom six are independent, is considered by the Board to be a reasonable balance between Executive and Non-Executive Directors.

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

Except for those relationships disclosed in the biographical details of the Directors set out on pages 40 to 47 of this Annual Report, the Directors have no other financial, business, family or other material 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. Their respective responsibilities are clearly established and defined by the Board in writing. The role of the Chairman is to ensure that the Board is functioning properly, with good corporate governance practices and procedures. The role of the Chief Executive Officer, supported by the Executive Directors and the management team, is to manage 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 finalized 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 2021. 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		
Mr. Fung Yuk-lun, Allen *(Deputy Chairman)*	4/4	1/1
Mr. Chau Kam-kun, Stephen	4/4	1/1
Ms. Anna Yip *(Chief Executive Officer)*[1]	0/0	0/0
Mr. Chan Kai-lung, Patrick[2]	0/0	0/0
Non-Executive Directors		
Mr. Kwok Ping-luen, Raymond *(Chairman)*	4/4	1/1
Mr. Cheung Wing-yui *(Deputy Chairman)*	4/4	1/1
Mr. David Norman Prince	4/4	0/1
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	4/4	0/1
Mrs. Ip Yeung See-ming, Christine	4/4	1/1
Mr. Lam Kwok-fung, Kenny	4/4	1/1
Mr. Lee Yau-tat, Samuel[3]	1/1	0/0

Notes:

1. Ms. Anna Yip resigned as an Executive Director and the Chief Executive Officer of the Company with effect from 17 August 2020.
2. Mr. Chan Kai-lung, Patrick retired as an Executive Director of the Company with effect from 29 August 2020.
3. Mr. Lee Yau-tat, Samuel was appointed Independent Non-Executive Director of the Company with effect from 9 April 2021.

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 2021, 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 2021, the Directors participated in the following trainings:

Directors	**Type of trainings**
Executive Directors	
Mr. Fung Yuk-lun, Allen *(Deputy Chairman)*	A, C
Mr. Chau Kam-kun, Stephen	A, C
Non-Executive Directors	
Mr. Kwok Ping-luen, Raymond *(Chairman)*	A, C
Mr. Cheung Wing-yui *(Deputy Chairman)*	A, B, 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
Mr. Lee Yau-tat, Samuel	A, 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 (re-designated from a Non-Executive Director to an 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 2021, the Remuneration Committee passed a written resolution for reviewing the emoluments payable to the Directors and senior management.

Remuneration policy for Directors and senior management

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

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

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

Nomination Committee

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

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

During the year ended 30 June 2021, the Nomination Committee passed two written resolution for reviewing the size, structure and composition of the Board and recommending new appointment and 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 2021 Annual General Meeting.

Nomination policy

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

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

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

Audit Committee

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

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

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

The Audit Committee held two meetings during the year ended 30 June 2021 to review with management and the Company's internal and external auditors the Group's significant internal controls and financial matters as set out in the Committee's terms of reference. The Committee's review covers the audit plans and findings of internal and external auditors, external auditor's independence, the Group's accounting principles and practices, Listing Rules and statutory compliance, internal controls, risk management and financial reporting matters (including the interim and annual financial statements for the Board's approval).

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

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

The Audit Committee also held a meeting on 26 August 2021 and reviewed the financial statements of the Group for the year ended 30 June 2021 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 2021.

External auditor's independence

PricewaterhouseCoopers ("PwC") is the Company's external auditor for the year ended 30 June 2021. 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 PwC and other audit firms (for miscellaneous services) for the year ended 30 June 2021 are as follows:

	HK$
Services provided by PwC	
Audit services	2,410,000
Non-audit services	
Taxation	304,000
Review of interim financial statements	322,000
Other assurance services	270,000
	896,000
	3,306,000
Services provided by other audit firms	
Audit services	66,000
Non-audit services	
Taxation	34,000
Other assurance services	55,000
	89,000
	155,000

Before commencement of the audit of the consolidated financial statements of the Company and its subsidiaries as at and for the year ended 30 June 2021, the Committee received written confirmation from PwC confirming that they are independent accountants with respect to the Company within the meaning of the requirements of Part 4A 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 PwC and had recommended the Board to propose a resolution of their re-appointment as the Company's external auditor at the forthcoming 2021 Annual General Meeting.

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

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

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

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

Risk management and internal control systems

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

The risk management and internal control systems of the Group comprises a comprehensive organizational 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 unauthorized 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 2021. 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 programs 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 unauthorized 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 2021, 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 2021.

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 competition, 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 recognizes 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 2021.

(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 recognizes 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 recognized, as evidenced by the service awards received from various reputable organizations 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 2021 are set out in the consolidated profit and loss account on page 58.

Dividend

The Directors recommended the payment of a final dividend for the year ended 30 June 2021 of $0.155 per share (2019/20: $0.15 per share). The proposed final dividend, together with the interim dividend of $0.145 per share paid by the Company during the year (2019/20: $0.145 per share), makes a total dividend for the year of $0.30 per share (2019/20: $0.295 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 2021, calculated under the Company's Bye-laws and the Bermuda laws, amounted to $1,468,807,000 (30 June 2020: $1,829,358,000).

Donations

During the year, the Group did not make any charitable or other donations (2019/20: Nil).

Share capital

Details of the movements in share capital of the Company 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

** Mr. Lee Yau-tat, Samuel[4]

* *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.

4. Mr. Lee Yau-tat, Samuel was appointed Independent Non-Executive Director of the Company with effect from 9 April 2021.

In accordance with Bye-law No. 84 of the Company's Bye-laws, Mr. Cheung Wing-yui, Mr. David Norman Prince, Mr. Siu Hon-wah, Thomas and Mr. Gan Fock-kin, Eric retire by rotation at the forthcoming annual general meeting. In accordance with Bye-law No. 83(2), Mr. Lee Yau-tat, Samuel also retires 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 2021 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 40 to 47.

REPORT OF THE DIRECTORS

(Financial figures are expressed in Hong Kong dollars)

Directors' and chief executive's interests

As at 30 June 2021, 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
Chau Kam-kun, Stephen	116,800[2]	11,000[3]	127,800	29,200[4] (Personal interests in unvested shares under share award scheme)	157,000	0.01

Notes:

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

2. These 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 shares in the Company were held by the spouse of Mr. Chau Kam-kun, Stephen.

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".

(Financial figures are expressed in Hong Kong dollars)

2. Long positions in shares and underlying shares of the associated corporations of the Company

(a) Sun Hung Kai Properties Limited ("SHKP")

	Number of shares held					
Name of Director	Personal interests (held as beneficial owner)	Other interests	Total	Number of underlying shares held under equity derivatives	Total	% of issued voting shares
Kwok Ping-luen, Raymond	188,743	528,346,686[1] 80,000[2]	528,615,429	–	528,615,429	18.24
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	4,000,000	–	4,000,000	4,000,000[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 2020	Granted during the year	Exercised during the year	Cancelled/ Lapsed during the year	Outstanding at 30 June 2021
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	963,536,900[1]	20.00

Note:

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

Save as disclosed above, as at 30 June 2021, 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.

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 1 September 2021, the number of shares available for issue in respect thereof is 102,761,185 shares which represents approximately 9.25% 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 favor 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.

(Financial figures are expressed in Hong Kong dollars)

(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.

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 2021 are as follows:

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

Note:

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

Other than the share options stated above, no share options had been granted by the Company to other participants pursuant to the Share Option Scheme. Save as disclosed above, no other share options were granted, exercised, cancelled or lapsed during the 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 recognize 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 recognize 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 total number of shares that may be awarded under the Share Award Scheme shall not exceed 10% of the shares in issue (i.e., 1,124,269,277 shares) as at the Adoption Date.

(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 2021 are as follows:

Awardee	Date of award	Vesting period[1]	Number of awarded shares: Outstanding at 1 July 2020	Awarded during the year	Vested during the year	Lapsed during the year	Outstanding at 30 June 2021
Directors							
Anna Yip	29 June 2018	29 June 2019 to 29 June 2021	43,600	–	–	(43,600)	–
	31 January 2019	31 January 2020 to 31 January 2022	84,000	–	–	(84,000)	–
Chan Kai-lung, Patrick	29 June 2018	29 June 2019 to 29 June 2021	29,200	–	(29,200)	–	–
	31 January 2019	31 January 2020 to 31 January 2022	51,100	–	(51,100)	–	–
Chau Kam-kun, Stephen	29 June 2018	29 June 2019 to 29 June 2021	29,200	–	(29,200)	–	–
	31 January 2019	31 January 2020 to 31 January 2022	51,100	–	(21,900)	–	29,200
Employees	29 June 2018	29 June 2019 to 29 June 2021	563,840	–	(501,000)	(62,840)	–
	31 January 2019	31 January 2020 to 31 January 2022	1,023,890	–	(442,920)	(95,860)	485,110
	28 February 2020	28 February 2021 to 28 February 2023	1,548,410	–	(477,100)	(175,940)	895,370

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 2021, 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]	806,362,555	72.58%
HSBC Trustee (C.I.) Limited ("HSBCCI")[2]	806,916,313	72.63%

Notes:

1. TFS Development Company Limited ("TFS") and Cellular 8 Holdings Limited ("Cellular 8", a wholly owned subsidiary of TFS) held 43,162,883 shares and 763,199,672 shares in the Company respectively. For the purpose of Part XV of the SFO, TFS was deemed to be interested in 763,199,672 shares in the Company held by Cellular 8. Accordingly, TFS had interests and deemed interests in an aggregate of 806,362,555 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 806,362,555 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 806,362,555 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 2021, the Company had not been notified by any persons (other than Directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

Arrangement to acquire shares or debentures

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

Directors' interests in competing business

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

(Financial figures are expressed in Hong Kong dollars)

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 2021, the Company repurchased 11,286,500 shares of the Company on the SEHK. These repurchased shares were cancelled prior to 30 June 2021. 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 $
September 2020	3,074,500	4.22	4.17	12,915,000
October 2020	1,367,000	4.20	4.17	5,730,000
November 2020	4,425,500	4.24	4.15	18,562,000
December 2020	1,241,000	4.23	4.13	5,198,000
January 2021	1,178,500	4.19	4.15	4,923,000
	11,286,500			47,328,000

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 1,540,000 shares of the Company at a total consideration of $6,785,000, at no time during the year ended 30 June 2021 was there any purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's shares.

Pre-emptive rights

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

Equity-linked agreements

Saved for the share option 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.

REPORT OF THE DIRECTORS

(Financial figures are expressed in Hong Kong dollars)

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 attributable to major suppliers are as follows:

Percentage of purchases attributable to the Group's largest supplier	35%
Percentage of purchases attributable to the Group's five largest suppliers	51%

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 noted above.

During the year, the Group sold less than 30% of its total goods and services to its five largest customers.

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 licenses 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 2021, rental and license fees paid and payable to subsidiaries and associated companies of SHKP totaled $126,503,000.

    (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 2021, insurance premiums paid and payable were $3,889,000.

    (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 2021, the revenue received or receivable by the Group were $14,787,000.

    (d) The Group provides information and communication technology (ICT) solutions to certain subsidiaries and associated companies of SHKP covering, among others, business digitalization, connectivity and industry-specific solutions. For the year ended 30 June 2021, the revenue received or receivable were $37,166,000.

    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 (Revised) "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 2021, 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, 1 September 2021

DIRECTORS PROFILE

Directors

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

Mr. Raymond Kwok (aged 68) 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 Hong Kong Metropolitan University (formerly known as 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 71) 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 practicing 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 Hong Kong Metropolitan University (formerly known as The Open University of Hong Kong), a director of the Community Chest of Hong Kong Limited, 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 Hong Kong Metropolitan University, 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 Hong Kong Metropolitan University in 2016.

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

Mr. Allen Fung (aged 53) 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 secretary of The Hong Kong Federation of Youth Groups, and a council member and an executive committee member of The Hong Kong Management Association, a member of the board of the Asian Youth Orchestra, 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, and a member of the Museum Advisory Committee of The Leisure and Cultural Services Department of the Government of the Hong Kong Special Administrative Region.

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.

DIRECTORS PROFILE

CHAU Kam-kun, Stephen *Executive Director*

Mr. Stephen Chau (aged 60) 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 recognized 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 70) 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 and the governance and nomination 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 68) 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.

John Anthony MILLER *Non-Executive Director*

Mr. John Anthony Miller (aged 71), 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 Organization 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.

DIRECTORS PROFILE

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

Dr. Eric Li (aged 68), 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 and China Resources Beer (Holdings) Company Limited.

Dr. Li retired as an independent non-executive director of Hang Seng Bank Limited with effect from 27 May 2021. Dr. Li was also 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 72) 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 Program Organization 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 58) 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.

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

Mrs. Christine Ip (aged 57) 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
- Council of The Hong Kong Academy for Performing Arts since January 2020

DIRECTORS PROFILE

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

Mr. Kenny Lam (aged 47) 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.

LEE Yau-tat, Samuel *Independent Non-Executive Director*

Mr. Samuel Lee (aged 54) was appointed Director of the Company in April 2021.

Mr. Lee is the chief executive officer of Digital Edge DC. He co-founded the company in 2020 with an aim in transforming the data center business and building digital infrastructure platforms for businesses in Asia-Pacific. With more than 25 years of experiences in the IT and telecom industry, Mr. Lee is widely recognized as a dynamic and forward-looking business leader, with proven track record in driving business growth and expanding the data center business footprint in the Asia-Pacific region.

Prior to joining Digital Edge DC, Mr. Lee was the President of Equinix Asia-Pacific, overseeing the company's management, strategy and growth in the region. In this role, he successfully led the growth and expansion of the company's business, including its acquisitions of Asia Tone, Bit-isle and Metronode, and the ongoing integration of the company's regional operations into its global business. Under his leadership, Equinix's business in Asia-Pacific had undergone rapid expansion to become one of the market leaders in the region with more than 40 data centers in 12 markets, and with its revenue to reach US$1 billion. Mr. Lee also held senior management positions at various leading technology companies, including Pacific Gateway Exchange, Teleglobe International, Intel and Sprint. In addition, he was the founder of a consulting firm offering strategic consultation services to network providers in Asia. Mr. Lee has been a senior advisor for Sun Hung Kai Real Estate Agency Limited since September 2019.

Mr. Lee holds a Bachelor of Arts degree in International Business from the City University of Hong Kong.

Note:

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 2021 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 2021 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

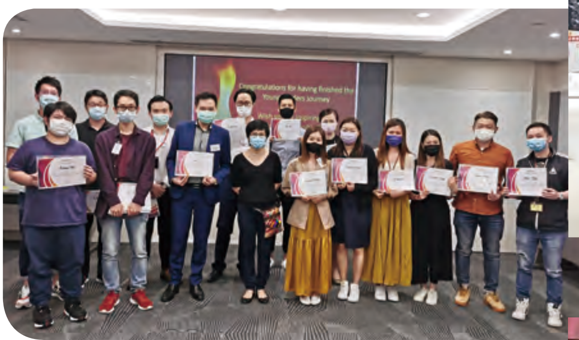
The Executive Directors of the Company are also members of senior management of the Group.

STAFF ENGAGEMENT

Together We Nurture

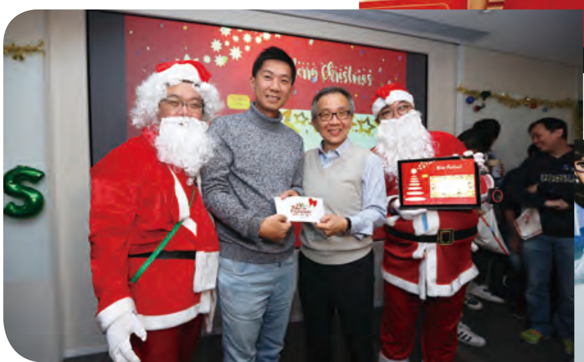
1. Grooming Talents

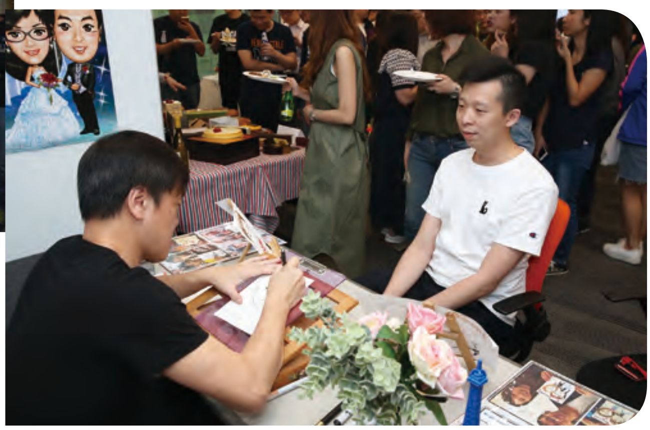
Introduce diversified opportunities for ***people development***, cultivate their personal abilities and overall development, including cross-sector exchanges for frontline service staff, influencing skills training as well as lunch & learn sessions.



2. Caring For Staff

Promotes ***work-life balance*** to establish a fun and relaxing workplace with festive delights and staff engagement activities.



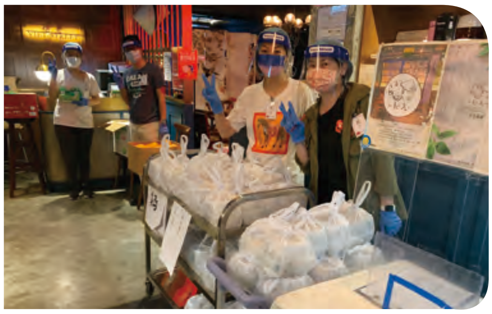


COMMUNITY ENGAGEMENT

Empowering Our Future

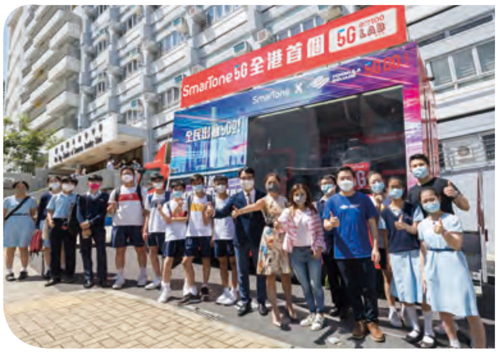
1. Caring For The Community

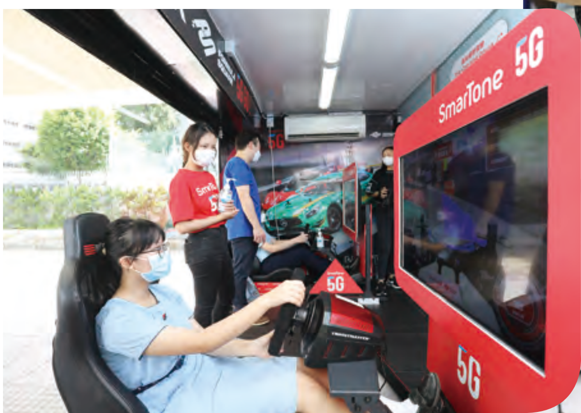
Giving care and warmth to those in need in the community where we serve through various community activities.

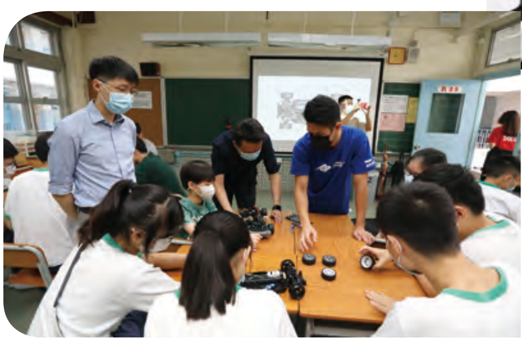


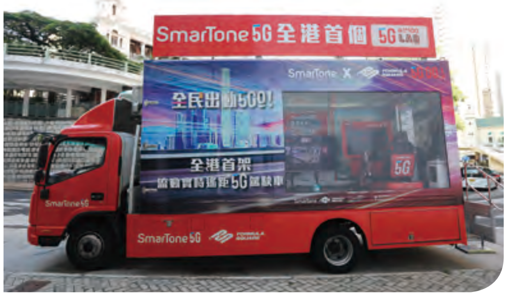
2. Nurturing Talents

SmarTone brings 5G into school campuses by launching its first "***5G STEM Mobile Classroom***", offering 5G STEM courses for local students to experience 5G innovative applications, with a guided tour at 5G LAB.









GROUP FINANCIAL SUMMARY

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

	2021	2020	2019	2018	2017
Consolidated profit and loss account					
Revenues	**6,720**	6,986	8,415	9,988	8,715
Profit attributable to equity holders of the Company	**445**	379	632	615	672
Basic earnings per share ($)	**0.40**	0.34	0.56	0.55	0.62
Dividends					
Total dividends	**333**	331	438	458	659
Total per share for the year ($)	**0.30**	0.295	0.39	0.41	0.60
Consolidated balance sheet					
Total assets	**10,650**	10,432	9,883	10,018	9,776
Current liabilities	**(2,660)**	(2,874)	(2,673)	(2,497)	(2,185)
Total assets less current liabilities	**7,990**	7,558	7,210	7,521	7,591
Non-current liabilities	**(2,893)**	(2,545)	(2,133)	(2,689)	(2,956)
Non-controlling interests	**22**	20	(20)	(33)	(41)
Net assets	**5,119**	5,033	5,057	4,799	4,594
Share capital	**111**	112	112	112	111
Reserves	**5,008**	4,921	4,945	4,687	4,483
Total equity attributable to equity holders of the Company	**5,119**	5,033	5,057	4,799	4,594

pwc

羅兵咸永道

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

Opinion

What we have audited

The consolidated financial statements of SmarTone Telecommunications Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 58 to 126, which comprise:

- the consolidated balance sheet as at 30 June 2021;
- 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 2021, 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 matter identified in our audit is related to revenue recognition.

Key Audit Matter

Revenue recognition

Refer to note 2(y) – 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 recognized 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 recognize revenue under the new standard.

How our audit addressed the Key Audit Matter

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.

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.

- 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.

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

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, 1 September 2021

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 30 June 2021
(Expressed in Hong Kong dollars)

	Notes	2021 $000	2020 $000
Service revenue and other related service		**4,338,890**	4,579,953
Handset and accessory sales		**2,381,418**	2,406,498
Revenues	5	**6,720,308**	6,986,451
Cost of inventories sold		**(2,315,791)**	(2,403,331)
Cost of services provided		**(372,041)**	(379,252)
Staff costs	6	**(588,682)**	(756,006)
Other operating expenses, net	9	**(984,203)**	(1,018,635)
Depreciation, amortization, impairment and loss on disposal	9	**(1,785,376)**	(1,909,401)
Operating profit		**674,215**	519,826
Finance income	7	**35,853**	69,672
Finance costs	8	**(114,035)**	(115,700)
Profit before income tax	9	**596,033**	473,798
Income tax expense	10	**(153,395)**	(134,181)
Profit after income tax		**442,638**	339,617
Attributable to			
Equity holders of the Company		**444,621**	378,985
Non-controlling interests		**(1,983)**	(39,368)
		442,638	339,617
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in cents per share)	14		
Basic		**39.9**	33.8
Diluted		**39.9**	33.8

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 2021
(Expressed in Hong Kong dollars)

	2021 $000	2020 $000
Profit for the year	**442,638**	339,617
Other comprehensive income/(loss)		
Item that may be reclassified subsequently to profit and loss:		
Currency translation differences	**2,998**	(2,086)
Item that will not be reclassified subsequently to profit and loss:		
Fair value gain/(loss) on financial asset at fair value through other comprehensive income	**12,404**	(209)
Other comprehensive income/(loss) for the year	**15,402**	(2,295)
Total comprehensive income for the year	**458,040**	337,322
Total comprehensive income attributable to		
Equity holders of the Company	**460,023**	376,690
Non-controlling interests	**(1,983)**	(39,368)
	458,040	337,322

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

CONSOLIDATED BALANCE SHEET

At 30 June 2021
(Expressed in Hong Kong dollars)

	Notes	2021 $000	2020 $000
Non-current assets			
Fixed assets	16	**2,679,862**	2,704,484
Customer acquisition costs	17	**76,874**	77,706
Contract assets	18	**68,571**	139,859
Right-of-use assets	19	**904,627**	945,204
Interest in an associate	21	**3**	3
Financial asset at fair value through other comprehensive income	22	**16,755**	4,351
Financial assets at amortized cost	23	**422,825**	–
Intangible assets	24	**3,119,536**	2,872,560
Deposits and prepayments	25	**167,485**	123,932
Deferred income tax assets	26	**5,585**	4,141
Total non-current assets		**7,462,123**	6,872,240
Current assets			
Inventories	27	**57,423**	59,645
Financial assets at amortized cost	23	**64,641**	155,560
Contract assets	18	**117,342**	185,974
Trade receivables	25	**332,177**	360,682
Deposits and prepayments	25	**211,331**	247,602
Other receivables	25	**56,654**	47,588
Tax reserve certificate		**253,484**	252,362
Short-term bank deposits	28	**–**	123,316
Cash and cash equivalents	28	**2,094,884**	2,127,409
Total current assets		**3,187,936**	3,560,138
Current liabilities			
Trade payables	29	**414,085**	451,790
Other payables and accruals	29	**702,534**	768,923
Contract liabilities	30	**285,406**	280,899
Lease liabilities	31	**546,301**	631,004
Current income tax liabilities		**492,981**	466,185
Bank borrowings	32	**77,189**	130,885
Customer prepayments and deposits		**38,538**	58,445
Mobile license fee liabilities	33	**102,912**	85,924
Total current liabilities		**2,659,946**	2,874,055

CONSOLIDATED BALANCE SHEET

At 30 June 2021
(Expressed in Hong Kong dollars)

	Notes	2021 $000	2020 $000
Non-current liabilities			
Customer prepayments and deposits		**9,008**	8,952
Asset retirement obligations	34	**67,374**	49,938
Contract liabilities	30	**15,632**	–
Lease liabilities	31	**351,465**	331,540
Bank and other borrowings	32	**1,510,771**	1,671,419
Mobile license fee liabilities	33	**826,962**	369,769
Deferred income tax liabilities	26	**111,793**	113,580
Total non-current liabilities		**2,893,005**	2,545,198
Net assets		**5,097,108**	5,013,125
Capital and reserves			
Share capital	35	**111,099**	112,227
Reserves		**5,007,874**	4,920,780
Total equity attributable to equity holders of the Company		**5,118,973**	5,033,007
Non-controlling interests		**(21,865)**	(19,882)
Total equity		**5,097,108**	5,013,125

The financial statements on pages 58 to 126 were approved by the Board of Directors on 1 September 2021 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 2021
(Expressed in Hong Kong dollars)

	Notes	2021 $000	2020 $000
Cash flows from operating activities			
Profit before income tax		**596,033**	473,798
Adjustments for:			
Depreciation of fixed assets	16	**659,709**	679,276
Depreciation of right-of-use assets	19	**710,775**	785,787
Amortization of intangible assets	24	**325,552**	287,704
Amortization of customer acquisition costs	17	**72,121**	63,014
Loss on disposal of fixed assets	9	**17,219**	8,375
Impairment loss of fixed assets	16	**–**	75,057
Impairment loss of right-of-use assets	19	**–**	10,188
Finance income	7	**(35,853)**	(69,672)
Finance costs	8	**114,035**	115,700
Share-based payments	6	**8,461**	12,166
		2,468,052	2,441,393
Changes in working capital			
Decrease in inventories		**2,222**	19,827
Decrease in contract assets, trade receivables, deposits, prepayments and other receivables		**153,029**	116,741
Increase/(decrease) in trade and other payables, accruals, contract liabilities and deferred income		**104,939**	(97,902)
Decrease in customer prepayments and deposits		**(19,851)**	(101,425)
Capitalization of customer acquisition costs		**(71,289)**	(79,813)
Cash generated from operations		**2,637,102**	2,298,821
Interest paid		**(85,698)**	(107,552)
Income tax paid		**(129,851)**	(174,573)
Purchase of tax reserve certificate		**(1,122)**	–
Net cash inflow from operating activities		**2,420,431**	2,016,696
Cash flows from investing activities			
Payment for purchase of fixed assets		**(850,507)**	(540,089)
Proceeds from disposal of fixed assets		**344**	268
Proceeds from disposal of financial assets at amortized cost		**179,107**	319,220
Payment of mobile license fees		**(119,855)**	(96,019)
Decrease in short-term bank deposits		**123,316**	49,988
Payment for purchase of financial assets at amortized cost		**(506,593)**	–
Interest received		**38,235**	85,423
Net cash outflow from investing activities		**(1,135,953)**	(181,209)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30 June 2021
(Expressed in Hong Kong dollars)

	Notes	**2021** **$000**	2020 $000
Cash flows from financing activities			
Payment for repurchase of shares		**(47,328)**	(21,522)
Purchase of shares for share award scheme		**(6,785)**	(2,227)
Proceeds from bank borrowings		**–**	60,000
Repayment of bank borrowings		**(222,783)**	(553,530)
Principal elements of lease payments		**(712,483)**	(758,474)
Dividends paid to the Company's equity holders		**(328,405)**	(389,263)
Net cash outflow from financing activities		**(1,317,784)**	(1,665,016)
Net (decrease)/increase in cash and cash equivalents		**(33,306)**	170,471
Cash and cash equivalents at 1 July		**2,127,409**	1,955,987
Effect of foreign exchange rates changes		**781**	951
Cash and cash equivalents at 30 June	28	**2,094,884**	2,127,409

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 2021
(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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2021
(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 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
Comprehensive income											
Profit for the year	–	–	–	–	–	–	–	444,621	444,621	(1,983)	442,638
Other comprehensive gain											
Fair value gain on financial asset at fair value through other comprehensive income	–	–	12,404	–	–	–	–	–	12,404	–	12,404
Currency translation differences	–	–	–	–	–	–	2,998	–	2,998	–	2,998
Total comprehensive income for the year ended 30 June 2021	–	–	12,404	–	–	–	2,998	444,621	460,023	(1,983)	458,040
Transactions with owners											
Share-based payments (note 6)	–	–	–	–	–	8,461	–	–	8,461	–	8,461
Lapse of share option	–	–	–	–	–	(7,530)	–	7,530	–	–	–
Lapse of share award	–	–	–	–	–	(2,169)	–	2,169	–	–	–
Vesting of share award	–	–	–	–	6,842	(11,059)	–	4,217	–	–	–
Repurchase of shares (note 35(c))	(1,128)	–	–	1,128	–	–	–	(47,328)	(47,328)	–	(47,328)
Purchase of shares for share award scheme	–	–	–	–	(6,785)	–	–	–	(6,785)	–	(6,785)
Payment of 2020 final dividend	–	–	–	–	–	–	–	(167,312)	(167,312)	–	(167,312)
Payment of 2021 interim dividend (note 15)	–	–	–	–	–	–	–	(161,093)	(161,093)	–	(161,093)
Total transactions with owners	(1,128)	–	–	1,128	57	(12,297)	–	(361,817)	(374,057)	–	(374,057)
At 30 June 2021	**111,099**	**1,640,986**	**14,857**	**16,946**	**1,054**	**6,043**	**(1,075)**	**3,329,063**	**5,118,973**	**(21,865)**	**5,097,108**

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 1 September 2021.

Certain comparative figures have been reclassified to conform to the current year's presentation.

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 disclosure 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 and amended standards adopted by the Group

The Group has applied the following new and amended standards for the first time for their annual reporting period commencing 1 July 2020.

Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting
HKAS 1 and HKAS 8 (Amendments)	Definition of Material
HKFRS 3 (Amendments)	Definition of a Business
HKFRS 7, HKFRS 9 and HKAS 39 (Amendments)	Interest Rate Benchmark Reform
HKFRS 16 (Amendments)	COVID-19-related Rent Concessions

The adoption of these amendments did not have any impact on the amounts recognized in prior periods and are not expected to significantly affect the current or future periods.

(Expressed in Hong Kong dollars)

2 Summary of significant accounting policies *(continued)*

(a) Basis of preparation *(continued)*

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

Certain new standards, amendments to standards and interpretations to existing standards have been published that are not mandatory for 30 June 2021 reporting periods and have not been early adopted by the Group.

Annual Improvements Project	Annual Improvements 2018–2020 Cycle[2]
HKAS 1 (Amendments)	Classification of Liabilities as Current or Non-current[3]
HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9, and HKFRS 16 (Amendments)	Interest Rate Benchmark Reform – Phase 2[1]
HKFRS 3, HKAS 16 and HKAS 37 (Amendments)	Narrow-scope Amendments[2]
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
HKFRS 17	Insurance Contracts[3]
HK-Interpretation 5 (2020)	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause[3]

1 Effective for annual periods beginning on or after 1 January 2021.
2 Effective for annual periods beginning on or after 1 January 2022.
3 Effective for annual periods beginning on or after 1 January 2023.
4 The original effective date of 1 January 2016 has been postponed until further announcement.

(b) Principles of consolidation and equity accounting

(i) Subsidiaries

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

Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized 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.

2 Summary of significant accounting policies *(continued)*

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

(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 recognized at cost.

(iii) Equity method

Under the equity method of accounting, the investments are initially recognized at cost and adjusted thereafter to recognize 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 recognized 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 recognize further losses, unless it has incurred obligations or made payments on behalf of the other entity.

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

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

(iv) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognized 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 recognized 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 recognized 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 recognized 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 recognized in other comprehensive income are reclassified to profit or loss where appropriate.

2 Summary of significant accounting policies *(continued)*

(c) Separate financial statements

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

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

(d) Segment reporting

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

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

(e) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong 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 recognized in profit or loss.

Foreign exchange gains and losses that relate to bank and other borrowings, financial assets at amortized 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, net".

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

2 Summary of significant accounting policies *(continued)*

(e) 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 recognized in other comprehensive income.

On consolidation, exchange difference arising from the translation of any net investment in foreign entities are recognized 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 recognized in profit or loss.

(f) Intangible assets

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

(i) Mobile license fees

Spectrum utilization 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. Amortization 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 capitalized as part of the intangible asset consistent with the policy for borrowing costs as set out in note 2(t). 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 recognized in the consolidated profit and loss account as incurred.

2 Summary of significant accounting policies *(continued)*

(g) Fixed assets

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

Subsequent costs are included in the asset's carrying amount or recognized 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 derecognized when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

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

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

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

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

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

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

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

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

(h) 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.

Leases are recognized 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.

2 Summary of significant accounting policies *(continued)*

(h) Leases *(continued)*

(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)*

(h) 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 recognized 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.

(i) Customer acquisition costs eligible for capitalization

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 capitalized as an asset when incurred, and amortized on a straight-line basis in the consolidated profit and loss account over the minimum enforceable contractual period.

(j) Impairment of non-financial assets

Assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized 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.

2 Summary of significant accounting policies *(continued)*

(k) 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 amortized 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 amortized 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 amortized 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 recognized on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(iii) Measurement

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

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized 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.

2 Summary of significant accounting policies *(continued)*

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

(iii) Measurement *(continued)*

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 recognized 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 amortized 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 recognized from initial recognition of the receivables.

(l) Offsetting financial instruments

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

(m) Inventories

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

(n) 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 recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. See note 2(j) for a description of the Group's impairment policies.

(o) Contract assets

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

2 Summary of significant accounting policies *(continued)*

(p) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash at bank and 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.

(q) Share capital

Ordinary shares are classified as equity.

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

Where any group company purchases the Company's equity 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.

(r) Trade and other payables

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

(s) Contract liabilities

The Group recognizes 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.

(t) Borrowings and borrowing costs

Borrowings are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognized in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognized 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 capitalized as a prepayment for liquidity services and amortized 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 recognized in profit or loss as finance costs.

2 Summary of significant accounting policies *(continued)*

(t) Borrowings and borrowing costs *(continued)*

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 capitalized 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 capitalization.

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

(u) 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 realized or the deferred income tax liability is settled.

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

Deferred tax liabilities and assets are not recognized 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.

2 Summary of significant accounting policies *(continued)*

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

(ii) Deferred income tax *(continued)*

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 realize the asset and settle the liability simultaneously.

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

(v) Provisions

Provisions are recognized 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 recognized 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 recognized 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 recognized as interest expense.

(w) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave are recognized 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 recognized until the time of leave.

(ii) Bonus plans

The Group recognizes 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 recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2 Summary of significant accounting policies *(continued)*

(w) Employee benefits *(continued)*

(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 recognized as an expense in the consolidated profit and loss account when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

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

(iv) Share-based payments

Share-based compensation benefits are provided to employees via share option scheme and share award scheme. Information relating to these schemes is set out in note 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 recognized 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 recognized 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 recognizes 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 recognized over the vesting period as an increase to investment in subsidiaries, with a corresponding credit to equity in the parent entity financial statements.

2 Summary of significant accounting policies *(continued)*

(w) 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 recognized 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 recognized 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 recognized over the vesting period as an increase to investment in subsidiaries, with a corresponding credit to equity in the parent entity financial statements.

(x) 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 recognized 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 recognized.

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 recognized 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 recognized 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 recognized as a provision.

2 Summary of significant accounting policies *(continued)*

(y) 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 recognizes 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 recognized in the consolidated profit and loss account as follows:

(i) Sales of goods

Revenue from the sales of goods is recognized 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 recognized 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 recognized 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.

(z) Interest income

Interest income on financial assets at amortized cost and financial asset at FVOCI calculated using the effective interest method is recognized 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).

(aa) Dividend income

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

2 Summary of significant accounting policies *(continued)*

(ab) Earning per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing:

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

(ii) Diluted earnings per share

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

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

(ac) Dividend distribution

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

(ad) Financial guarantee

A financial guarantee contract requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. The Group recognizes 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 recognized in the consolidated profit and loss account immediately.

(ae) 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.

(af) Government grants

Grants from the government are recognized 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 recognized 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 recognized 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 utilization and physical condition of the assets concerned. The useful lives are estimated at the time the purchases are made after considering the future technology changes, business developments and the Group's strategies. Should there be unexpected adverse changes in the circumstances or events, the Group assesses the need to shorten the useful lives and/or make impairment provisions. Indications of these unexpected adverse changes include declines in projected operating results, negative industry or economic trends and rapid advancement in technology.

(c) Impairment of 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.

(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.

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 Recognized 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 amortized 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 minimize 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 recognized 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)*

Foreign exchange 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:

	2021 USD $000	2020 USD $000
Financial assets at amortized cost	**487,466**	155,560
Financial asset at fair value through other comprehensive income	**16,755**	4,351
Trade receivables	**54,961**	47,592
Other receivables	**–**	2
Cash and cash equivalents	**77,872**	27,913
Bank and other borrowings	**(1,522,117)**	(1,646,829)
Trade payables	**(190,400)**	(61,435)
Other payables and accruals	**(37,258)**	(55,873)

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	
	2021 $000	2020 $000
US/HK$ exchange rate – increase 1%*	**(11,127)**	(15,287)
US/HK$ exchange rate – decrease 1%*	**11,127**	15,287

* 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 amortized 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:

	2021 $000	**% of total borrowings**	2020 $000	% of total borrowings
Variable rate borrowings	**65,843**	**4%**	155,475	9%
Fixed rate borrowings	**1,522,117**	**96%**	1,646,829	91%
	1,587,960	**100%**	1,802,304	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	
	2021 $000	2020 $000
Interest rates – increase by 100 basis points*	**20,160**	20,874
Interest rates – decrease by 100 basis points*	**(20,160)**	(20,874)

* 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 2021, 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 $1,676,000 (2020: $435,000).

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 amortized 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 amortized 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 amortized 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 2021 and the Group made no write-offs or provision for these contract assets during the year.

Other financial assets at amortized 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 2021						
Trade payables	**414,085**	**–**	**–**	**–**	**414,085**	**414,085**
Other payables and accruals	**558,116**	**–**	**–**	**–**	**558,116**	**558,116**
Bank and other borrowings (include interest payable)	**135,850**	**1,505,958**	**14,286**	**67,099**	**1,723,193**	**1,601,288**
Mobile license fee liabilities	**104,881**	**68,267**	**215,212**	**712,934**	**1,101,294**	**929,874**
Lease liabilities	**556,382**	**251,399**	**104,279**	**1,162**	**913,222**	**897,766**
Total	**1,769,314**	**1,825,624**	**333,777**	**781,195**	**4,709,910**	**4,401,129**
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 license 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

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, short-term bank deposits and financial assets at amortized cost.

	2021 **$000**	2020 $000
Net cash	**994,390**	603,981
Total equity	**5,097,108**	5,013,125
Net debt to equity ratio	**N/A**	N/A

(c) Fair value estimation

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognized 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 2021 and 2020.

	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 2021	**–**	**16,755**	**–**	**16,755**
At 30 June 2020	–	4,351	–	4,351

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 maximize 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, amortization 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 2021			
	Hong Kong $000	Macau $000	Elimination $000	Consolidated $000
External revenue	6,363,855	356,453	–	6,720,308
Inter-segment revenue	284,346	6,634	(290,980)	–
Total revenue	6,648,201	363,087	(290,980)	6,720,308
Timing of revenue recognition				
At a point in time	2,376,218	287,935	(282,735)	2,381,418
Over time	4,271,983	75,152	(8,245)	4,338,890
	6,648,201	363,087	(290,980)	6,720,308
EBITDA	2,459,628	(37)	–	2,459,591
Depreciation, amortization and loss on disposal	(1,780,284)	(5,093)	1	(1,785,376)
Operating profit/(loss)	679,344	(5,130)	1	674,215
Finance income				35,853
Finance costs				(114,035)
Profit before income tax				596,033
Other information				
Additions to fixed assets	649,694	2,116	–	651,810
Additions to intangible assets	572,528	–	–	572,528
Depreciation of fixed assets	657,071	2,639	(1)	659,709
Depreciation of right-of-use assets	709,543	1,232	–	710,775
Amortization of intangible assets	325,552	–	–	325,552
Amortization of customer acquisition costs	70,896	1,225	–	72,121
Loss/(gain) on disposal of fixed assets	17,222	(3)	–	17,219
Impairment loss of trade receivables	6,796	775	–	7,571
Impairment loss/(reversal of impairment loss) of inventories	953	(494)	–	459

5 Segment reporting *(continued)*

(a) Segment results *(continued)*

	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, amortization, 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
Amortization of intangible assets	287,704	–	–	287,704
Amortization 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)

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 2021			
	Hong Kong	**Macau**	**Unallocated**	**Consolidated**
	$000	**$000**	**$000**	**$000**
Segment assets	**9,784,797**	**101,969**	**763,293**	**10,650,059**
Segment liabilities	**(4,832,965)**	**(115,212)**	**(604,774)**	**(5,552,951)**

	At 30 June 2020			
	Hong Kong	Macau	Unallocated	Consolidated
	$000	$000	$000	$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)

The total of non-current assets other than interest in an associate, financial asset at fair value through other comprehensive income, financial assets at amortized cost and deferred income tax assets located in Hong Kong is $6,941,685,000 (2020: $6,788,631,000), and the total of these non-current assets located in Macau is $75,270,000 (2020: $75,114,000).

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

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

6 Staff costs

	2021	2020
	$000	$000
Wages and salaries	**534,500**	671,617
Bonuses	**11,720**	33,050
Contributions to defined contribution plans	**34,001**	39,173
Share-based payments	**8,461**	12,166
	588,682	756,006

7 Finance income

	2021 **$000**	2020 $000
Interest income from listed debt securities	**23,663**	14,728
Interest income from bank deposits	**11,221**	52,106
Accretion income	**969**	2,838
	35,853	69,672

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	**2021** **$000**	2020 $000
Interest expense on bank and other borrowings		**65,942**	80,061
Bank charges for credit card instalment		**–**	761
Accretion expenses			
Mobile license fee liabilities	33	**21,508**	13,056
Asset retirement obligations	34	**545**	1,394
Lease liabilities	31	**24,337**	32,954
Net exchange loss/(gain) on financing activities	13	**1,657**	(12,526)
Loss on disposal of listed debt securities	23	**46**	–
		114,035	115,700

Accretion expenses represent changes in the mobile license 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	2021 $000	2020 $000
Other operating expenses, net			
– Network costs		**559,779**	574,573
– Short-term and low-value leases		**40,140**	37,616
– Impairment loss of trade receivables	25	**7,571**	8,831
– Auditor's remuneration			
– Audit services		**2,476**	2,646
– Non-audit services		**985**	1,524
– Net exchange loss/(gain)	13	**3,092**	(687)
– Others		**370,160**	394,132
Loss on disposal of fixed assets		**17,219**	8,375
Depreciation of fixed assets	16	**659,709**	679,276
Depreciation of right-of-use assets	19	**710,775**	785,787
Amortization of mobile license fees	24	**325,552**	287,704
Amortization of customer acquisition costs	17	**72,121**	63,014
Impairment loss of fixed assets	16	**–**	75,057
Impairment loss of right-of-use assets	19	**–**	10,188
Impairment loss/(reversal of impairment loss) of inventories	27	**459**	(528)

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

	2021 $000	2020 $000
Current income tax		
Hong Kong profits tax	**135,581**	131,359
Overseas tax	**1,571**	1,378
Under/(over)-provision in prior years		
Hong Kong profits tax	**19,474**	(176)
Total current income tax expense	**156,626**	132,561
Deferred income tax		
(Increase)/decrease in deferred income tax assets	**(1,444)**	648
(Decrease)/increase in deferred income tax liabilities	**(1,787)**	972
Total deferred income tax (benefit)/expense	**(3,231)**	1,620
Income tax expense	**153,395**	134,181

10 Income tax expense *(continued)*

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

	2021 $000	2020 $000
Profit before income tax expense	**596,033**	473,798
Tax at the Hong Kong tax rate of 16.5% (2020: 16.5%)	**98,346**	78,177
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Anti-epidemic fund	**(12,605)**	(541)
Interest income	**(3,944)**	(9,044)
Net exchange loss/(gain)	**260**	(2,048)
Temporary differences/Non-deductible expenses	**55,754**	44,285
Difference in overseas tax rates	**779**	6,718
Under/(over)-provision in prior years	**19,474**	(176)
Recognition of previously unrecognized tax losses	**(3,258)**	–
Tax loss not recognized	**892**	17,193
Utilization of previously unrecognized tax losses	**(2,303)**	(383)
Income tax expense	**153,395**	134,181

(c) Tax losses

	2021 $000	2020 $000
Unused tax losses for which no deferred tax asset has been recognized	**177,528**	302,152
Potential tax benefit	**23,332**	40,165

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, two (2020: three) are directors whose emoluments are disclosed in note 41. The aggregate of the emoluments in respect of the other three (2020: two) individuals are as follows:

	2021 $000	2020 $000
Salaries, allowances and benefits in kind	**8,358**	7,440
Bonuses	**1,000**	798
Retirement scheme contributions	**510**	420
Share-based payments	**376**	729
	10,244	9,387

The emoluments of the three (2020: two) highest paid individuals are within the following bands:

	2021 Number of Individuals	2020 Number of Individuals
$2,500,001 – $3,000,000	**1**	–
$3,000,001 – $3,500,000	**1**	–
$3,500,001 – $4,000,000	**–**	–
$4,000,001 – $4,500,000	**1**	1
$4,500,001 – $5,000,000	**–**	1
	3	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 2021, all available forfeited contributions had been utilized by the Group to reduce its contributions payable (2020: 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 (2020: same). Contributions to the scheme vest immediately.

13 Net exchange loss/(gain)

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

	2021 **$000**	2020 $000
Other operating expenses, net (note 9)	**3,092**	(687)
Finance costs (note 8)	**1,657**	(12,526)
	4,749	(13,213)

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).

	2021 **Cents**	2020 Cents
Total basic earnings per share attributable to the equity holders of the Company	**39.9**	33.8

(b) Diluted earnings per share

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

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

	2021 **Cents**	2020 Cents
Total diluted earnings per share attributable to the equity holders of the Company	**39.9**	33.8

14 Earnings per share *(continued)*

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

	2021 **$000**	2020 $000
Profit attributable to the equity holders of the Company used in calculating basic earnings per share and diluted earnings per share	**444,621**	378,985

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

	2021 **Number**	2020 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share (less shares held for share award scheme)	**1,114,587,861**	1,121,551,764
Adjustments for calculation of diluted earnings per share:		
Effect of awarded shares	**246,177**	504,027
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**1,114,834,038**	1,122,055,791

15 Dividends

	2021 **$000**	2020 $000
Interim dividend, paid, of 14.5 cents (2020: 14.5 cents) per fully paid share	**161,093**	162,643
Final dividend, proposed, of 15.5 cents (2020: 15 cents) per fully paid share	**172,203**	168,341
	333,296	330,984

At a meeting held on 1 September 2021, the directors proposed a final dividend of 15.5 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 2022.

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 2021 and 2020, cash dividends were distributed to shareholders except for the interim dividend for the year ended 30 June 2020, which scrip dividend elections were offered to shareholders. 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 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	(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
Year ended 30 June 2021							
Opening net book amount	**20,370**	**121,312**	**2,163,924**	**171,742**	**36,330**	**190,806**	**2,704,484**
Exchange differences	**253**	**367**	**–**	**186**	**34**	**–**	**840**
Additions	**5,049**	**–**	**1,875**	**95,534**	**11,942**	**537,410**	**651,810**
Reclassifications	**–**	**–**	**560,230**	**–**	**–**	**(560,230)**	**–**
Disposals	**(35)**	**–**	**(13,173)**	**(70)**	**(786)**	**(3,499)**	**(17,563)**
Depreciation (note 9)	**(11,738)**	**(4,347)**	**(547,244)**	**(89,258)**	**(7,122)**	**–**	**(659,709)**
Closing net book amount	**13,899**	**117,332**	**2,165,612**	**178,134**	**40,398**	**164,487**	**2,679,862**
At 30 June 2021							
Cost	**258,013**	**157,019**	**8,482,340**	**1,152,696**	**134,762**	**171,325**	**10,356,155**
Accumulated depreciation and impairment	**(244,114)**	**(39,687)**	**(6,316,728)**	**(974,562)**	**(94,364)**	**(6,838)**	**(7,676,293)**
Net book amount	**13,899**	**117,332**	**2,165,612**	**178,134**	**40,398**	**164,487**	**2,679,862**

At 30 June 2021, buildings with a carrying amount of $70,305,000 (2020: $72,744,000) were pledged as security for bank borrowings of the Group (note 32).

17 Customer acquisition costs

	$000
At 1 July 2019	
Cost	114,882
Accumulated amortization	(54,594)
Net book amount	60,288
Year ended 30 June 2020	
Opening net book amount	60,288
Additions	79,812
Amortization (note 9)	(63,014)
Exchange differences	620
Closing net book amount	77,706
At 30 June 2020	
Cost	195,496
Accumulated amortization	(117,790)
Net book amount	77,706
Year ended 30 June 2021	
Opening net book amount	**77,706**
Additions	**71,289**
Amortization (note 9)	**(72,121)**
Closing net book amount	**76,874**
At 30 June 2021	
Cost	**169,802**
Accumulated amortization	**(92,928)**
Net book amount	**76,874**

18 Contract assets

	2021			2020		
	Current $000	**Non-current $000**	**Total $000**	Current $000	Non-current $000	Total $000
Contract assets	**117,342**	**68,571**	**185,913**	185,974	139,859	325,833

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:

	2021 $000	2020 $000
Leasehold land and land use rights	**9,282**	9,097
Transmission sites	**712,069**	790,860
Offices, warehouses and retail stores	**168,719**	129,607
Leased lines	**14,557**	15,640
	904,627	945,204

Additions to the right-of-use assets with the corresponding increase in lease liabilities and assets retirement obligations during the year ended 30 June 2021 were $646,958,000 (2020: $702,688,000) and $21,702,000 (2020: $11,346,000) respectively.

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

	2021 $000	2020 $000
Leasehold land and land use rights	**654**	620
Transmission sites	**589,121**	639,330
Offices, warehouses and retail stores	**118,626**	143,358
Leased lines	**2,374**	2,479
	710,775	785,787

During the year ended 30 June 2021, no impairment loss for the year (2020: $10,188,000) is included in depreciation, amortization, impairment and loss on disposal in the consolidated profit and loss account.

(Expressed in Hong Kong dollars)

20 Subsidiaries

Particulars of the principal subsidiaries at 30 June 2021 are as follows:

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Group equity interest 2021	2020
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

	2021 **$000**	2020 $000
Share of net assets	**3**	3

During the year ended 30 June 2021, there is no movement of share of net assets of interest in an associate (2020: same).

Particulars of the associate at 30 June 2021 are as follows:

Name	**Place of incorporation**	**Principal activities and place of operation**	**Particulars of issued shares held**	**Interest held** **2021**	2020
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 FVOCI comprise:

- Equity securities which are not held for trading, and which the Group has irrevocably elected at initial recognition to recognize 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

	2021 **$000**	2020 $000
Non-current asset		
Unlisted security	**16,755**	4,351

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 recognized in other comprehensive income

During the year, the following gain/(loss) was recognized in other comprehensive income.

	2021 **$000**	2020 $000
Gain/(loss) recognized in other comprehensive income	**12,404**	(209)

(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 amortized cost

Financial assets at amortized cost include the following debt investments:

	2021			2020		
	Current **$000**	**Non-current** **$000**	**Total** **$000**	Current $000	Non-current $000	Total $000
Listed bonds	**64,641**	**422,825**	**487,466**	155,560	–	155,560

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

	2021 **$000**	2020 $000
Fair values of listed bonds	**482,521**	156,414

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

During the year ended 30 June 2021, the Group has recognized a loss on disposal of listed debt securities of $46,000 upon exercise of call option by issuers (2020: Nil).

24 Intangible assets

	Mobile license fees $000
At 1 July 2019	
Cost	4,103,521
Accumulated amortization	(1,338,563)
Net book amount	2,764,958
Year ended 30 June 2020	
Opening net book amount	2,764,958
Additions	395,306
Amortization (note 9)	(287,704)
Closing net book amount	2,872,560
At 30 June 2020	
Cost	4,498,827
Accumulated amortization	(1,626,267)
Net book amount	2,872,560
Year ended 30 June 2021	
Opening net book amount	**2,872,560**
Additions	**572,528**
Amortization (note 9)	**(325,552)**
Closing net book amount	**3,119,536**
At 30 June 2021	
Cost	**4,956,837**
Accumulated amortization	**(1,837,301)**
Net book amount	**3,119,536**

The Group extended the mobile license period of the 900 MHz band to 11 January 2036 during the year ended 30 June 2021.

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 licenses of $395 million during the year ended 30 June 2020.

25 Trade and other receivables

	2021			2020		
	Current $000	**Non-current $000**	**Total $000**	Current $000	Non-current $000	Total $000
Trade receivables	**340,636**	**–**	**340,636**	367,185	–	367,185
Loss allowance	**(8,459)**	**–**	**(8,459)**	(6,503)	–	(6,503)
	332,177	**–**	**332,177**	360,682	–	360,682
Other receivables	**56,654**	**–**	**56,654**	47,588	–	47,588
	388,831	**–**	**388,831**	408,270	–	408,270
Deposits	**88,761**	**61,551**	**150,312**	100,097	56,887	156,984
Prepayments	**122,570**	**105,934**	**228,504**	147,505	67,045	214,550
Total trade and other receivables	**600,162**	**167,485**	**767,647**	655,872	123,932	779,804

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 (2020: same). An ageing analysis of trade receivables, net of provision, based on invoice date is as follows:

	2021 $000	2020 $000
Current to 30 days	**278,211**	296,730
31 – 60 days	**15,444**	20,578
61 – 90 days	**6,040**	5,479
Over 90 days	**32,482**	37,895
	332,177	360,682

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 $7,571,000 (2020: $8,831,000) for the impairment of its trade receivables during the year ended 30 June 2021.

25 Trade and other receivables *(continued)*

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

	2021 **$000**	2020 $000
At 1 July	**6,503**	7,179
Impairment loss recognized in the consolidated profit and loss account (note 9)	**7,571**	8,831
Amounts written off during the year	**(5,615)**	(9,507)
At 30 June	**8,459**	6,503

At 30 June 2021, trade receivables of $8,459,000 (2020: $6,503,000) 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:

	2021 **$000**	2020 $000
Past due 31 – 60 days	**729**	1,230
Past due 61 – 90 days	**783**	393
Past due over 90 days	**6,947**	4,880
	8,459	6,503

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% (2020: 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 license fee assets $000	Decelerated depreciation allowance $000	Tax losses $000	Total $000
At 1 July 2019	15,621	4,789	–	20,410
Recognized in the consolidated profit and loss account	(9,216)	(648)	–	(9,864)
At 30 June 2020	6,405	4,141	–	10,546
At 1 July 2020	**6,405**	**4,141**	**–**	**10,546**
Recognized in the consolidated profit and loss account	**(5,510)**	**(1,814)**	**3,258**	**(4,066)**
At 30 June 2021	**895**	**2,327**	**3,258**	**6,480**

(b) Deferred income tax liabilities

	Accelerated depreciation allowance $000
At 1 July 2019	128,229
Recognized in the consolidated profit and loss account	(8,244)
At 30 June 2020	119,985
At 1 July 2020	**119,985**
Recognized in the consolidated profit and loss account	**(7,297)**
At 30 June 2021	**112,688**

26 Deferred income tax *(continued)*

Deferred income tax assets in the consolidated balance sheet comprise decelerated depreciation allowance and tax losses of $5,585,000 (2020: $4,141,000).

Deferred income tax liabilities in the consolidated balance sheet comprise mobile license fee assets and accelerated deprecation allowance of $111,793,000 (2020: $113,580,000).

Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. The Group has not recognized deferred income tax assets of $23,332,000 (2020: $40,165,000) in respect of tax losses of $177,528,000 (2020: $302,152,000). Under the current tax legislation, unrecognized tax losses of $132,446,000 (2020: $215,342,000) 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

	2021 **$000**	2020 $000
Handsets and accessories, at cost	**51,593**	58,768
Others, at cost	**18,945**	13,956
Less: provision for slow-moving and obsolete inventories	**(13,115)**	(13,079)
	57,423	59,645

The Group recognized an impairment provision of $459,000 (2020: reversal of impairment provision of $528,000) for slow-moving and obsolete inventories during the year ended 30 June 2021. 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

	2021 **$000**	2020 $000
Cash at bank and in hand	**902,301**	97,920
Short-term bank deposits with original maturities of 3 months or less	**1,192,583**	2,029,489
Cash and cash equivalents per consolidated cash flow statement	**2,094,884**	2,127,409
Short-term bank deposits with original maturities more than 3 months	**–**	123,316
	2,094,884	2,250,725
Maximum exposure to credit risk	**2,092,899**	2,247,839

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:

	2021	2020
	$000	$000
Hong Kong dollars	**2,008,430**	2,209,529
US dollars	**77,872**	27,913
Renminbi	**3,677**	2,725
Others	**4,905**	10,558
	2,094,884	2,250,725

29 Trade and other payables

	2021	2020
	$000	$000
Trade payables (a)	**414,085**	451,790
Other payables and accruals (b)	**702,534**	768,923
	1,116,619	1,220,713

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

	2021	2020
	$000	$000
Current to 30 days	**251,096**	133,442
31 – 60 days	**56,020**	118,872
61 – 90 days	**38,657**	86,998
Over 90 days	**68,312**	112,478
	414,085	451,790

The carrying amount of the Group’s trade payables are mainly denominated in HK dollars which accounted for 54% (2020: 86%).

29 Trade and other payables *(continued)*

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

	2021 **$000**	2020 $000
Accrued expenses	**440,921**	431,723
Payables for fixed assets	**172,060**	281,016
Receipt in advance	**89,553**	56,184
	702,534	768,923

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

30 Contract liabilities

	2021			2020		
	Current **$000**	**Non-current** **$000**	**Total** **$000**	Current $000	Non-current $000	Total $000
Contract liabilities – Mobile telecommunications service contracts	**285,406**	**15,632**	**301,038**	280,899	–	280,899

Revenue in relation to mobile telecommunications service contracts, which was included in the contract liabilities balance at the beginning of the year amounting to $281 million, was recognized during the year ended 30 June 2021 (2020: $268 million).

(i) Unsatisfied long-term fixed price contracts

	2021 **$000**	2020 $000
Aggregate amount of the transaction price allocated to long-term contracts that are partially or fully satisfied	**2,937,898**	2,432,256

Management expects that 70% (2020: 70%) of the transaction price allocated to the unsatisfied contracts as of 30 June 2021 will be recognized as revenue during the next reporting period. The remaining 30% (2020: 30%) will be recognized as revenue after the year ending 30 June 2022.

31 Lease liabilities

	2021			2020		
	Current $000	**Non-current $000**	**Total $000**	Current $000	Non-current $000	Total $000
Lease liabilities	**546,301**	**351,465**	**897,766**	631,004	331,540	962,544

Movement of lease liabilities is as follows:

	2021 $000	2020 $000
At 1 July	**962,544**	1,018,679
Additions	**646,958**	702,688
Payments for lease liabilities	**(736,820)**	(791,428)
Accretion expenses included in the consolidated profit and loss account (note 8)	**24,337**	32,954
Exchange differences	**747**	(349)
At 30 June	**897,766**	962,544

32 Bank and other borrowings

	2021			2020		
	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	**77,189**	**37,003**	**114,192**	130,885	203,600	334,485
Guaranteed notes (a)	**–**	**1,407,768**	**1,407,768**	–	1,401,819	1,401,819
Total bank and other borrowings	**77,189**	**1,510,771**	**1,587,960**	130,885	1,671,419	1,802,304

(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.

(Expressed in Hong Kong dollars)

32 Bank and other borrowings *(continued)*

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

	2021 **$000**	2020 $000
Between 1 and 2 years	**1,444,771**	166,669
Between 2 and 5 years	**9,159**	1,443,150
Over 5 years	**56,841**	61,600
	1,510,771	1,671,419

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

	Level 1 **$000**	**Level 2** **$000**	**Level 3** **$000**	**Total** **$000**
At 30 June 2021				
Secured bank borrowings	**–**	**66,000**	**–**	**66,000**
Unsecured bank borrowings	**–**	**35,914**	**–**	**35,914**
Guaranteed notes	**1,461,846**	**–**	**–**	**1,461,846**
Total	**1,461,846**	**101,914**	**–**	**1,563,760**

	Level 1 $000	Level 2 $000	Level 3 $000	Total $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

At 30 June 2021, 96% (2020: 91%) of the Group's bank and other borrowings are denominated in US dollars and 4% (2020: 9%) are denominated in Hong Kong dollars.

At 30 June 2021, secured bank borrowings are secured by certain buildings of the Group (note 16) (2020: same).

33 Mobile license fee liabilities

	2021 $000	2020 $000
At 1 July	**455,693**	143,350
Additions	**572,528**	395,306
Accretion expenses included in consolidated profit and loss account (note 8)	**21,508**	13,056
Payment	**(119,855)**	(96,019)
At 30 June	**929,874**	455,693
Less: mobile license fee liabilities included under current liabilities	**(102,912)**	(85,924)
Non-current portion	**826,962**	369,769

Analysis of the present value of mobile license fee liabilities:

	2021 $000	2020 $000
Minimum annual fees payable		
Within 1 year	**104,881**	88,661
After 1 year but within 5 years	**283,479**	150,266
Over 5 years	**712,934**	296,327
	1,101,294	535,254
Less: future finance charges	**(171,420)**	(79,561)
Present value of mobile license fee liabilities	**929,874**	455,693
Comprising:		
Within 1 year	**102,912**	85,924
After 1 year but within 5 years	**262,613**	136,806
Over 5 years	**564,349**	232,963
	929,874	455,693

34 Asset retirement obligations

	2021	2020
	$000	$000
At 1 July	**49,938**	41,911
Additions	**21,702**	11,346
Accretion expenses included in consolidated profit and loss account (note 8)	**545**	1,394
Utilizations	**(4,811)**	(4,713)
At 30 June	**67,374**	49,938

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 recognized by the Group.

35 Share capital

	Notes	Shares of $0.1 each	$000
Authorized			
At 30 June 2020 and 30 June 2021		**2,000,000,000**	**200,000**
Issued and fully paid			
At 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 and 1 July 2020		**1,122,275,101**	**112,227**
Repurchase of shares	(c)	**(11,286,500)**	**(1,128)**
At 30 June 2021		**1,110,988,601**	**111,099**

35 Share capital *(continued)*

(a) During the years ended 30 June 2021 and 2020, no share options were exercised.

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

On 18 February 2020, the board of directors declared an interim dividend of 14.5 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 shares were issued at $5.464 per share in respect of the interim dividend.

(c) During the year ended 30 June 2021, the Company repurchased and cancelled 11,286,500 shares on the SEHK. The total amount paid to acquire these cancelled shares of $47,328,000 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**
September 2020	**3,074,500**	**$4.22**	**$4.17**	**12,915**
October 2020	**1,367,000**	**$4.20**	**$4.17**	**5,730**
November 2020	**4,425,500**	**$4.24**	**$4.15**	**18,562**
December 2020	**1,241,000**	**$4.23**	**$4.13**	**5,198**
January 2021	**1,178,500**	**$4.19**	**$4.15**	**4,923**
	11,286,500			**47,328**

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

(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 2020 and 1 July 2020	**$14.28**	**3,000,000**
Lapsed	**$14.28**	**(3,000,000)**
At 30 June 2021	–	–

At 30 June 2021, no share option was outstanding (2020: 3,000,000 share options were exercisable with average exercise price of $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	**2021 Number of share options**	2020 Number of share options
25 July 2016	25 July 2017 to 24 July 2021	$14.28	–	3,000,000

(iii) Details of share options exercised

No share options were exercised during the years ended 30 June 2021 and 2020.

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) Movements in share award

	2021	2020
Number of awarded shares		
Outstanding at 1 July	**3,424,340**	3,545,400
Granted	**–**	1,553,110
Vested	**(1,552,420)**	(1,550,550)
Lapsed	**(462,240)**	(123,620)
Outstanding at 30 June	**1,409,680**	3,424,340

(ii) Shares held for share award scheme

	Number of shares	$000
Opening balance at 1 July 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 utilized under share award scheme	(1,550,550)	(11,059)
Balance at 30 June 2020	**32,842**	**155**
Acquisition of shares by the Trust	**1,540,000**	**6,785**
Shares utilized under share award scheme	**(1,552,420)**	**(6,842)**
Balance at 30 June 2021	**20,422**	**98**

37 A reconciliation of liabilities arising from financing activities

	Bank borrowings $000	Guaranteed notes $000	Lease liabilities $000	Total $000
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**
Repayment of bank borrowings	**(222,783)**	**–**	**–**	**(222,783)**
Additions of lease liabilities	**–**	**–**	**646,958**	**646,958**
Payment for lease liabilities	**–**	**–**	**(736,820)**	**(736,820)**
Finance costs	**2,490**	**5,949**	**24,337**	**32,776**
Exchange differences	**–**	**–**	**747**	**747**
At 30 June 2021	**180,192**	**1,407,768**	**897,766**	**2,485,726**

38 Commitments and contingent liabilities

(a) Capital commitments

	2021 $000	2020 $000
Fixed assets		
Contracted for	**84,520**	119,543

(b) Contingent liabilities

	2021 $000	2020 $000
Performance guarantees	**2,388,884**	3,107,181
Financial guarantees	**11,766**	13,588
	2,400,650	3,120,769

39 Related party transactions

The Group is controlled by Cellular 8 Holdings Limited, which owns 68.69% of the Company's shares as at 30 June 2021. The remaining 31.31% of the shares are widely held, of which 3.89% is held by another subsidiary of Sun Hung Kai Properties Limited ("SHKP"). The ultimate holding company of the Group is SHKP, a company incorporated in Hong Kong.

(a) During the 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.

	2021 **$000**	2020 $000
Rentals for land and buildings and transmission sites (i)	**22,427**	22,384
Depreciation and accretion expenses for land and buildings and transmission sites (i)	**103,503**	112,867
Insurance expense (ii)	**3,889**	3,947
Mobile coverage services (iii)	**14,787**	13,551
Enterprise solutions (iv)	**37,166**	45,980

(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 licenses 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 2021, rental and license fees paid and payable to subsidiaries and associated companies of SHKP totalled $22,427,000 (2020: $22,384,000).

For the year ended 30 June 2021, depreciation and accretion expenses totalled $103,503,000 (2020: $112,867,000).

(ii) Insurance services

Sun Hung Kai Properties Insurance Limited, a wholly owned subsidiary of SHKP, provides general insurance services to the Group. For the year ended 30 June 2021, insurance premiums paid and payable were $3,889,000 (2020: $3,947,000).

(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 2021, the revenue received or receivable by the Group were $14,787,000 (2020: $13,551,000).

(iv) Enterprise solutions

The Group provides information and communication technology ("ICT") solutions to certain subsidiaries and associated companies of SHKP covering, among others, business digitalization, connectivity and industry-specific solutions. For the year ended 30 June 2021, the revenue received or receivable were $37,166,000 (2020: $45,980,000).

39 Related party transactions *(continued)*

(b) At 30 June 2021, 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:

	2021 **$000**	2020 $000
Salaries, bonuses and other short-term employee benefits	**24,754**	35,248
Share-based payments	**1,169**	2,510
	25,923	37,758

(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:

	2021 **$000**	2020 $000
Trade receivables (note 25)	**27,001**	20,848
Deposits and prepayments (note 25)	**21,992**	25,613
Trade payables (note 29)	**706**	1,245
Other payables and accruals (note 29)	**4,081**	3,081

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

	2021 $000	2020 $000
Non-current asset		
Investments in subsidiaries	**8,408,680**	8,411,160
Current assets		
Prepayments	**399**	988
Amounts due from subsidiaries	**35,599**	40,389
Cash and cash equivalents	**299**	325
Total current assets	**36,297**	41,702
Current liabilities		
Amounts due to subsidiaries	**5,211,844**	4,846,180
Other payables and accruals	**2,977**	3,750
Current income tax liabilities	**72**	–
Total current liabilities	**5,214,893**	4,849,930
Net assets	**3,230,084**	3,602,932
Capital and reserves		
Share capital	**111,099**	112,227
Reserves (Note (a))	**3,118,985**	3,490,705
Total equity attributable to equity holders of the Company	**3,230,084**	3,602,932

The balance sheet of the Company was approved by the Board of Directors on 1 September 2021 and was signed on its behalf.

Kwok Ping-luen, Raymond
Director

Chau Kam-kun, Stephen
Director

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 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 and 1 July 2020	**1,627,190**	**15,818**	**740,186**	**18,339**	**1,089,172**	**3,490,705**
Comprehensive income						
Profit for the year	**–**	**–**	**–**	**–**	**1,209**	**1,209**
Transactions with owners						
Share-based payments	**–**	**–**	**–**	**8,461**	**–**	**8,461**
Lapse of share option	**–**	**–**	**–**	**(7,530)**	**7,530**	**–**
Lapse of share award	**–**	**–**	**–**	**(2,169)**	**2,169**	**–**
Vesting of share award	**–**	**–**	**6,842**	**(11,059)**	**4,217**	**–**
Repurchase of shares (note 35(c))	**–**	**1,128**	**–**	**–**	**(47,328)**	**(46,200)**
Purchase of shares for share award scheme	**–**	**–**	**(6,785)**	**–**	**–**	**(6,785)**
Payment of 2020 final dividend	**–**	**–**	**–**	**–**	**(167,312)**	**(167,312)**
Payment of 2021 interim dividend	**–**	**–**	**–**	**–**	**(161,093)**	**(161,093)**
At 30 June 2021	**1,627,190**	**16,946**	**740,243**	**6,042**	**728,564**	**3,118,985**

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:

	2021								2020
	Fees $000	Salaries and allowances $000	Bonuses $000	Retirement scheme contributions $000	Estimated money value of other benefits $000	Retirement benefits $000	Share-based payments $000	Total $000	Total $000
Executive Directors									
Mr. Fung Yuk-lun, Allen	162	–	–	–	–	–	–	162	162
Mr. Chau Kam-kun, Stephen	144	5,624	400	562	98	–	229	7,057	8,232
Ms. Anna Yip(1)	18	2,168	1,900	95	23	–	114	4,318	12,760
Mr. Chan Kai-lung, Patrick(2)	23	1,169	–	90	13	275	282	1,852	7,379
Non-Executive Directors									
Mr. Kwok Ping-luen, Raymond	180	–	–	–	–	–	–	180	180
Mr. Cheung Wing-yui	162	–	–	–	–	–	–	162	162
Mr. David Norman Prince	144	–	–	–	–	–	–	144	144
Mr. Siu Hon-wah, Thomas	144	–	–	–	–	–	–	144	144
Mr. John Anthony Miller	144	–	–	–	–	–	–	144	144
Dr. Li Ka-cheung, Eric, *JP**	288	–	–	–	–	–	–	288	288
Mr. Ng Leung-sing, *JP**	288	–	–	–	–	–	–	288	288
Mr. Gan Fock-kin, Eric*	288	–	–	–	–	–	–	288	288
Mrs. Ip Yeung See-ming, Christine*	144	–	–	–	–	–	–	144	144
Mr. Lam Kwok-fung, Kenny*	144	–	–	–	–	–	–	144	144
Mr. Lee Yau-tat, Samuel*(3)	33	–	–	–	–	–	–	33	–
	2,306	8,961	2,300	747	134	275	625	15,348	30,459
2020	2,520	18,837	5,527	1,524	270	–	1,781		

* Independent Non-Executive Director
(1) Resigned with effect from 17 August 2020
(2) Retired with effect from 29 August 2020
(3) Appointed on 9 April 2021

41 Benefits and interests of directors *(continued)*

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

During the years ended 30 June 2021 and 2020, no director:

- received any emoluments from 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 2021 to be Sun Hung Kai Properties Limited, a company incorporated in Hong Kong with its shares listed on the main board of SEHK.