# SmarTone Telecommunications Holdings Limited

*(Incorporated in Bermuda with limited liability)*
**(Stock code: 315)**

## 2013 / 2014 ANNUAL RESULTS ANNOUNCEMENT

*(All references to "$" are to the Hong Kong dollars)*

- Group total revenue increased 10% to $13,244 million
- Hong Kong customer numbers increased 3% to 1.88 million
- Increased network operating costs and depreciation due to 4G rollout and rising data usage
- Group EBITDA declined 14%
- Net profit fell 36% to $537 million
- Proposed final dividend of $0.13 per share, 60% payout

### CHAIRMAN'S STATEMENT

I am pleased to report the results of the Group for the year ended 30 June 2014.

**Financial Highlights**

Group total revenue increased 10% to $13,244 million. The 22% increase in handset and accessories sales was partly offset by the 4% decrease in service revenue. Profitability was affected by lower handset margin and profit, increasing network operating costs and depreciation arising from the 4G rollout and rising data usage, with EBITDA declining 14% to $2,563 million. Effective tax rate was higher due to a $22 million provision for possible non-deductibility of lump sum Spectrum Utilisation Fee. Net profit decreased 36% to $537 million.

## Dividend

Your Board proposes a final dividend of 13 cents per share, representing 60% of net profit in the second-half of the financial year. Together with the interim dividend of 18 cents, full year dividend amounts to 31 cents per share. Shareholders will have the option to receive new and fully paid shares in lieu of cash under a scrip dividend scheme.

## Business Review

In Hong Kong, SmarTone's customer number increased by 3% to 1.88 million. Customer migration from handset-bundled plans to lower priced SIM-only plans and structural decline in the roaming business contributed to a 4% decline in service revenue. Together with the dilution from the lower-priced 3G speed-capped plan, fully blended ARPU declined by 11% year-on-year to $234. The decline in service revenue was offset by lower handset subsidy amortisation resulting in neutral impact on profitability. Postpaid churn remained stable at 1.0%.

Mobile broadband usage continued to grow as mobile becomes the preferred medium for customers to be connected, informed, and entertained. To further extend SmarTone's leadership in network performance, we have commenced refarming of the 2G 900MHz spectrum for 4G LTE. This refarming, expected to be completed by end of 2014, will provide additional mobile broadband capacity, with the 900MHz frequency providing even better indoor coverage for our 4G customers. LTE-Advanced has been implemented in readiness for compatible smartphones to be released in the market. LTE-Advanced brings even more capacity and improved performance through aggregating non-contiguous frequencies. We also launched Voice over LTE in the year under review.

SmarTone brought to market new services including HealthReach and loop, both of which are over-the-top applications available to all, and not just SmarTone customers. HealthReach, targeted at customers at risk or suffering from metabolic syndrome which increase the risk of heart disease, stroke, diabetes and chronic kidney disease, helps customers to better manage their health through an easy-to-use exercise program, a diet control tool and regular vital signs monitoring. SmarTone has started to develop a suite of marketing service applications for brands and retailers to help them reach their customers more effectively and efficiently. As part of this initiative, SmarTone has recently launched a lifestyle magazine app, loop, allowing customers to stay on top of all things new and interesting, as well as enabling merchants and brands to better inform and engage consumers through the app. With an ever-increasing portfolio of proprietary services, SmarTone continues to further differentiate from competitors, open up new markets and generate additional revenue.

SmarTone re-entered the fixed broadband market in July 2014 as a fixed virtual network operator with fibre broadband capacity sourced from a leading fixed broadband operator. Leveraging on SmarTone's advanced network management and quality customer care, ST Fibre Broadband provides 100% Fibre-to-the-Home for speeds up to 1000Mbps. The service also equips SmarTone with the flexibility to bundle fixed, mobile and ICT services, particularly for corporate customers, and broadens our proposition to them.

**Prospects**

Recently, there have been some signs of firmer pricing in the market. Nonetheless, the mobile industry still faces challenges in monetizing higher data usage and rising costs, including spectrum, operating costs, and depreciation. Also, the Government's latest tax position on Spectrum Utilisation Fee will lead to higher tax provision in the future. We remain cautious and shall continue to focus on stringent cost control and productivity enhancements.

SmarTone has a strong focus on customers' real needs and is committed to quality and innovation in order to deliver outstanding experiences and meaningful value. We will continue our commitment to quality by providing superior, reliable and consistent network performance and customer care. With a strong record in innovation and operational excellence, SmarTone will continue to launch new services, particularly in the areas of connected health and marketing services, in order to differentiate from competition as well as to bring meaningful value to the people of Hong Kong.

**Appreciation**

During the year under review, Mr. Fung Yuk-lun, Allen was appointed as Non-Executive Director. I would like to welcome Mr. Fung to the Board.

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

**Kwok Ping-luen, Raymond**
*Chairman*

Hong Kong, 3 September 2014

## MANAGEMENT DISCUSSION AND ANALYSIS

### Review of financial results

The Group's revenue increased by 10% to $13,244 million (2012/13: $12,067 million), comprising a 22% increase in handset and accessory sales, partly offset by a 4% decline in service revenue. EBITDA fell by 14% to $2,563 million (2012/13: $2,971 million). Profit attributable to equity holders of the Company decreased by 36% to $537 million (2012/13: $843 million).

Revenues rose by $1,178 million or 10% to $13,244 million (2012/13: $12,067 million).

- Service revenue declined by $234 million or 4% to $5,423 million (2012/13: $5,657 million) driven by lower local mobile service revenue, roaming revenue and the continuing scale down of wireless fixed broadband business. Local mobile service revenue declined by 3% amidst customers' migration from handset-bundled plans to SIM-only price plans, partly offset by the revenue increase from the growth in customer numbers. Such decrease in local mobile service revenue has been fully offset by the decline in handset subsidy amortisation. Local mobile service revenue net of handset subsidy amortisation increased slightly by 1%.

  The drop in roaming revenue was due to a significant reduction in global wholesale roaming inter-operator tariffs as well as reduced voice and SMS roaming traffic amidst cannibalisation by over-the-top applications.

  The Group achieved a 3% year-on-year growth in its Hong Kong customer base. Fully blended ARPU decreased by 11% to $234 (2012/13: $262) amidst customers' migration from handset-bundled plans to SIM-only price plans, dilution from the lower-priced 3G speed-capped plans and decrease in roaming revenue.

- Handset and accessory sales rose by $1,412 million or 22% to $7,822 million (2012/13: $6,410 million). Both sales volume and average unit selling price increased.

Cost of inventories sold rose by $1,528 million or 25% to $7,743 million (2012/13: $6,214 million). As the cost of inventories sold increased in a larger extent than the corresponding increase in handset and accessory sales, handset business profits were lower.

Staff costs fell slightly by $19 million or 3% to $679 million (2012/13: $698 million) mainly amid lower bonus provision and share-based payments.

Other operating expenses rose by $77 million or 4% to $2,260 million (2012/13: $2,183 million). Higher network operating costs, and rental and utilities were partly offset by lower cost of services provided, sales and marketing expenses as well as general administrative expenses.

Depreciation and gain on disposal increased by $102 million or 18% to $670 million (2012/13: $567 million) arising from higher capital expenditure incurred in the past 2 years for the rollout of 4G LTE network as well as general capacity enhancement to cater for increasing data usage by customers.

Handset subsidy amortisation fell by $200 million or 17% to $942 million (2012/13: $1,142 million) amid customers' migration from handset bundled plans to SIM-only price plans. Mobile license fee amortisation remained stable at $144 million (2012/13: $144 million).

Finance income rose by $38 million to $57 million (2012/13: $19 million) amid higher average balance of bank deposits and a higher return on surplus cash.

Finance costs excluding exchange loss/gain increased by $44 million to $184 million (2012/13: $140 million) driven by higher bank borrowings, full-year impact of the finance costs related to the US$200 million 10-year guaranteed notes which was issued in April 2013.

Exchange loss related to cash, bank deposits and borrowings amounted to $18 million (2012/13: a gain of $18 million) mainly amid depreciation of Renminbi against Hong Kong dollars.

Income tax expense amounted to $131 million (2012/13: $167 million), reflecting an effective tax rate of 19.7% (2012/13: 16.4%). Increase in effective tax rate was driven by an income tax provision of $22 million recorded for the year under review, in light of the uncertainty of the tax deductibility of certain upfront payments for spectrum utilisation fees. Excluding this tax provision, effective tax rate would have been 16.4%.

In respect of spectrum utilisation fees, the Information Memorandum issued by the Office of Telecommunications Authority (as it then was) in 2001 for the 3G spectrum auction stated that any royalties determined in the first phase of the auction and paid by a licensee each year should be tax-deductible. In view that the nature of the payments for the use of spectrum remained unchanged regardless of the payment method, the Group has taken the position in the past to treat the one-off upfront payments for spectrum utilisation as tax-deductible on the same basis as for annual payments. During the year under review, it has come to the Group's attention that the Inland Revenue Department ("IRD") has indicated to a regulatory body that any one-off upfront payments for spectrum utilisation fees are likely to be considered as capital in nature and hence non-deductible on cash or amortisation basis. The IRD has also started raising questions with regard to the Group's spectrum utilisation fees.

The Group will vigorously defend its position and pursue tax deduction for the one-off upfront payments for spectrum utilisation fees. However, should the IRD decide to treat the one-off upfront payments for spectrum utilisation fees as non-deductible on cash or amortisation basis and this view be upheld, all the future upfront payments made for other spectrums will also be affected. There would be a significant increase in tax expenses to the Group and the Group effective tax rate in subsequent years is also likely to be higher than 16.5%.

Macau operations reported an operating loss of $17 million (2012/13: operating profit of $23 million) amid lower contribution from roaming business.

**Capital structure, liquidity and financial resources**

During the year under review, the Group was financed by share capital, internally generated funds and bank and other borrowings. As at 30 June 2014, the Group recorded share capital of $105 million, total equity of $3,250 million and total borrowings of $2,840 million.

The Group's cash resources remained robust with cash and bank balances (including pledged bank deposits and short-term bank deposits) of $3,165 million (30 June 2013: $2,510 million).

As at 30 June 2014, the Group had bank and other borrowings of $2,840 million (30 June 2013: $2,595 million) of which 80% were denominated in United States dollars and were arranged on a fixed rate basis. Net cash, after deducting bank and other borrowings, amounted to $324 million as at 30 June 2014 (30 June 2013: net debt of $85 million). Net cash to EBITDA was 13% as at 30 June 2014 (30 June 2013: net debt to EBITDA: 3%).

The Group had net cash generated from operating activities and interest received of $2,154 million and $54 million respectively during the year ended 30 June 2014. The Group's major outflows of funds during the year were payments for additions of handset subsidies, purchase of fixed assets, mobile licence fees and dividends.

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 2015 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. Bank deposits are predominantly maintained in Hong Kong dollars, Renminbi and other currencies.

The Group is required to arrange for banks to issue performance bonds and letters of credit on its behalf. The Group may partially or fully collateralise such instruments by bank deposits to lower the issuance costs.

**Charges on assets**

As at 30 June 2014, certain bank deposits of the Group, in aggregate amount of $6 million (30 June 2013: $6 million), were pledged for securing guarantees issued by the banks. In addition, 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 87 million as at 30 June 2014 (30 June 2013: $90 million).

**Interest rate exposure**

The Group is exposed to interest rate changes that affect bank borrowings denominated in Hong Kong dollars which accounted for 20% of the Group's total borrowings at 30 June 2014. The remaining 80% of the Group's borrowings are fixed rates borrowings. Hence, the Group is well protected from any potential rising interest rates in the next few years. The Group does not currently undertake any interest rate hedging.

**Functional currency and foreign exchange exposure**

The functional currency of the Company is the Hong Kong dollar. The Group is exposed to other currency movements, principally in terms of certain trade receivables, bank deposits, available-for-sale financial assets, trade payables and bank and other borrowings denominated in Renminbi and United States dollars. The Group does not currently undertake any foreign exchange hedging.

**Contingent liabilities**

Performance bonds

Certain banks, on the Group's behalf, had issued performance bonds to the telecommunications authorities of Hong Kong and Macau in respect of obligations under mobile licences issued by those authorities. The total amount outstanding as at 30 June 2014 under these performance bonds was $527 million (30 June 2013: $648 million).

**Employees and share option scheme**

The Group had 2,137 full-time employees as at 30 June 2014 (30 June 2013: 2,184), with the majority of them based in Hong Kong. Total staff costs were $679 million for the year ended 30 June 2014 (2012/13: $698 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.

The Group has share option schemes under which the Company may grant options to participants, including directors and employees, to subscribe for shares of the Company. During the year under review, no new share options were granted; 398,000 share options were exercised; and 500,000 share options were cancelled or lapsed. 32,342,500 (30 June 2013: 33,240,500) share options were outstanding as at 30 June 2014.

## RESULTS

The Board of Directors of SmarTone Telecommunications Holdings Limited (the "Company") is pleased to present the consolidated profit and loss account and consolidated statement of comprehensive income for the year ended 30 June 2014 and the consolidated balance sheet as at 30 June 2014 of the Company and its subsidiaries (the "Group"), along with selected explanatory notes.

### Consolidated Profit and Loss Account

For the year ended 30 June 2014

| | Note | 2014 $000 | 2013 $000 (Note 14) |
|---|---|---|---|
| Service revenue | | **5,422,640** | 5,656,675 |
| Handset and accessory sales | | **7,821,760** | 6,409,857 |
| Revenues | 4 | **13,244,400** | 12,066,532 |
| Cost of inventories sold | | **(7,742,690)** | (6,214,378) |
| Staff costs | | **(678,893)** | (698,347) |
| Other operating expenses | | **(2,260,005)** | (2,182,715) |
| Depreciation, amortisation and gain on disposal | | **(1,755,413)** | (1,852,975) |
| Operating profit | | **807,399** | 1,118,117 |
| Finance income | 5 | **57,086** | 18,692 |
| Finance costs | 6 | **(201,887)** | (121,430) |
| Profit before income tax | 7 | **662,598** | 1,015,379 |
| Income tax expense | 8 | **(130,583)** | (166,957) |
| Profit after income tax | | **532,015** | 848,422 |
| Attributable to | | | |
| Equity holders of the Company | | **537,110** | 843,186 |
| Non-controlling interests | | **(5,095)** | 5,236 |
| | | **532,015** | 848,422 |
| Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in cents per share) | 9 | | |
| Basic | | **51.7** | 81.3 |
| Diluted | | **51.6** | 81.0 |
| Dividends | 10 | | |
| Interim dividend paid | | **186,631** | 456,562 |
| Final dividend proposed | | **135,979** | 228,347 |
| | | **322,610** | 684,909 |

**Consolidated Statement of Comprehensive Income**

For the year ended 30 June 2014

| | **2014** **$000** | 2013 $000 |
|---|---|---|
| Profit for the year | **532,015** | 848,422 |
| Other comprehensive income | | |
| Items that may be reclassified subsequently to profit and loss: | | |
| Fair value gain on financial investments, net of tax | **1,436** | 1,381 |
| Currency translation differences | **165** | 1,471 |
| Other comprehensive income for the year, net of tax | **1,601** | 2,852 |
| Total comprehensive income for the year | **533,616** | 851,274 |
| Total comprehensive income attributable to | | |
| Equity holders of the Company | **538,711** | 846,038 |
| Non-controlling interests | **(5,095)** | 5,236 |
| | **533,616** | 851,274 |

**Consolidated Balance Sheet**

At 30 June 2014

| | Note | **2014** **$000** | 2013 $000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Leasehold land and land use rights | | **14,651** | 15,306 |
| Fixed assets | | **3,396,056** | 3,185,637 |
| Interest in an associate | | **3** | 3 |
| Intangible assets | | **2,378,052** | 2,989,220 |
| Deposits and prepayments | | **78,430** | 79,786 |
| Deferred income tax assets | | **7,341** | 7,549 |
| | | **5,874,533** | 6,277,501 |
| **Current assets** | | | |
| Inventories | | **80,350** | 103,164 |
| Financial investments | | **4,715** | 3,279 |
| Trade receivables | 11 | **435,749** | 398,877 |
| Deposits and prepayments | | **179,168** | 167,984 |
| Other receivables | | **52,746** | 167,100 |
| Pledged bank deposits | | **6,269** | 6,269 |
| Short-term bank deposits | | **1,321,651** | 1,858,466 |
| Cash and cash equivalents | | **1,836,773** | 645,502 |
| | | **3,917,421** | 3,350,641 |
| **Current liabilities** | | | |
| Trade payables | 12 | **778,119** | 536,654 |
| Other payables and accruals | | **859,250** | 776,758 |
| Current income tax liabilities | | **343,065** | 177,922 |
| Bank borrowings | | **100,901** | 65,153 |
| Customer prepayments and deposits | | **488,338** | 757,989 |
| Deferred income | | **192,319** | 204,630 |
| Mobile licence fee liabilities | | **186,741** | 176,948 |
| | | **2,948,733** | 2,696,054 |
| **Net current assets** | | **968,688** | 654,587 |
| **Total assets less current liabilities** | | **6,843,221** | 6,932,088 |
| **Non-current liabilities** | | | |
| Customer prepayments and deposits | | **148,144** | 316,221 |
| Asset retirement obligations | | **58,636** | 62,132 |
| Bank and other borrowings | | **2,739,317** | 2,529,646 |
| Mobile licence fee liabilities | | **502,192** | 615,120 |
| Deferred income tax liabilities | | **145,402** | 360,991 |
| | | **3,593,691** | 3,884,110 |
| **Net assets** | | **3,249,530** | 3,047,978 |

**Consolidated Balance Sheet**

At 30 June 2014

| | **2014** **$000** | 2013 $000 |
|---|---|---|
| **Capital and reserves** | | |
| Share capital | **104,599** | 103,794 |
| Reserves | **3,087,963** | 2,882,121 |
| **Total equity attributable to equity holders of the Company** | **3,192,562** | 2,985,915 |
| Non-controlling interests | **56,968** | 62,063 |
| **Total equity** | **3,249,530** | 3,047,978 |

## Notes to the Consolidated Financial Statements

### 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.

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 3 September 2014.

### 2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements have been consistently applied to all the years presented, unless otherwise stated.

### 3 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by certain available-for-sale financial assets.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

(a) New and revised standards and amendments to standards relevant to and adopted by the Group

The following new and revised standards and amendments to standards are mandatory and relevant to the Group for the financial year beginning on 1 July 2013.

| | |
|---|---|
| Annual Improvements Project | Annual Improvements 2009-2011 Cycle[1] |
| HKAS 27 (Revised 2011) | Separate Financial Statements[1] |
| HKAS 28 (Revised 2011) | Investments in Associates and Joint Ventures[1] |
| HKFRS 7 (Amendments) | Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities[1] |
| HKFRS 10 | Consolidated Financial Statements[1] |
| HKFRS 10, HKFRS 11 and HKFRS 12 (Amendments) | Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[1] |
| HKFRS 12 | Disclosure of Interests in Other Entities[1] |
| HKFRS 13 | Fair Value Measurements[1] |

[1] Effective for annual periods beginning on or after 1 January 2013.

The adoption of the above new and revised standards and amendments to standards have no significant impact on these financial statements.

**3 Basis of preparation** *(continued)*

(b) New standards, amendments to standards and interpretation to existing standards have been issued but are not yet effective and have not been early adopted by the Group

The following new standards, amendments to standards and interpretation to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 July 2014 or later periods but which the Group has not early adopted.

| | |
|---|---|
| Annual Improvements Project | Annual Improvements 2010-2012 Cycle[2] |
| Annual Improvements Project | Annual Improvements 2011-2013 Cycle[2] |
| HKAS 19 (Amendments) | Defined Benefit Plans: Employee Contributions[2] |
| HKAS 16 and HKAS 38 (Amendments) | Clarification of Acceptable Methods of Depreciation and Amortisation[3] |
| HKAS 32 (Amendments) | Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities[1] |
| HKAS 36 (Amendments) | Impairment of Assets: Recoverable Amount Disclosures for Non-Financial Assets[1] |
| HKAS 39 (Amendments) | Financial Instruments: Recognition and Measurement – Novation of Derivatives[1] |
| HKFRS 9 | Financial Instruments[5] |
| HKFRS 7 and HKFRS 9 (Amendments) | Mandatory Effective Date and Transition Disclosures[5] |
| HKFRS 10, HKFRS 12 and HKAS 27 (Amendments) | Consolidation for Investment Entities[1] |
| HKFRS 11 (Amendments) | Accounting for Acquisitions of Interests in Joint Operation[3] |
| HKFRS 14 | Regulatory Deferral Accounts[3] |
| HKFRS 15 | Revenue from Contracts with Customers[4] |
| HK (IFRIC) – Int 21 | Levies[1] |

1 Effective for annual periods beginning on or after 1 January 2014.
2 Effective for annual periods beginning on or after 1 July 2014.
3 Effective for annual periods beginning on or after 1 January 2016.
4 Effective for annual periods beginning on or after 1 January 2017.
5 The Group will adopt this new standard when the effective date is determined.

The Group is in the process of assessing the impact of these new standards, amendments to standards and interpretation to existing standards and is not yet in a position to state whether they would have a significant impact on the Group's results of operation and financial position.

## 4 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 considers the business from a geographic perspective. The CODM measures the performance of its segments based on earnings before interest, tax, depreciation, amortisation and gain on disposal ("EBITDA") and operating profit.

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 2014 | | | |
|---|---|---|---|---|
| | **Hong Kong $000** | **Macau $000** | **Elimination $000** | **Consolidated $000** |
| Revenues | **13,031,625** | **753,628** | **(540,853)** | **13,244,400** |
| EBITDA | **2,515,636** | **47,176** | **-** | **2,562,812** |
| Depreciation, amortisation and gain on disposal | **(1,692,785)** | **(63,716)** | **1,088** | **(1,755,413)** |
| Operating profit/(loss) | **822,851** | **(16,540)** | **1,088** | **807,399** |
| Finance income | | | | **57,086** |
| Finance costs | | | | **(201,887)** |
| Profit before income tax | | | | **662,598** |
| Other information | | | | |
| Additions to fixed assets | **899,264** | **36,160** | **-** | **935,424** |
| Additions to intangible assets | **470,035** | **11,645** | **-** | **481,680** |
| Depreciation | **638,678** | **45,897** | **(104)** | **684,471** |
| Amortisation of leasehold land and land use rights | **706** | **-** | **-** | **706** |
| Amortisation of intangible assets | **1,068,299** | **17,599** | **-** | **1,085,898** |
| (Gain)/loss on disposal of fixed assets | **(14,704)** | **220** | **(984)** | **(15,468)** |
| Gain on disposal of financial investments | **(194)** | **-** | **-** | **(194)** |
| Impairment loss of trade receivables | **14,531** | **183** | **-** | **14,714** |
| Impairment loss of inventories | **3,991** | **157** | **-** | **4,148** |

## 4 Segment reporting *(continued)*

(a) Segment results *(continued)*

| | For the year ended 30 June 2013 | | | |
|---|---|---|---|---|
| | Hong Kong $000 | Macau $000 | Elimination $000 | Consolidated $000 (Note 14) |
| Revenues | 11,817,947 | 734,927 | (486,342) | 12,066,532 |
| EBITDA | 2,883,547 | 87,545 | - | 2,971,092 |
| Depreciation, amortisation and gain on disposal | (1,788,875) | (64,321) | 221 | (1,852,975) |
| Operating profit | 1,094,672 | 23,224 | 221 | 1,118,117 |
| Finance income | | | | 18,692 |
| Finance costs | | | | (121,430) |
| Profit before income tax | | | | 1,015,379 |
| Other information | | | | |
| Additions to fixed assets | 1,195,364 | 54,047 | - | 1,249,411 |
| Additions to intangible assets | 1,680,166 | 19,516 | - | 1,699,682 |
| Depreciation | 533,158 | 41,313 | (221) | 574,250 |
| Amortisation of leasehold land and land use rights | 687 | - | - | 687 |
| Amortisation of intangible assets | 1,262,950 | 22,584 | - | 1,285,534 |
| (Gain)/loss on disposal of fixed assets | (7,920) | 424 | - | (7,496) |
| Impairment loss of trade receivables | 16,150 | 522 | - | 16,672 |
| Impairment loss of inventories | 7,650 | 1,070 | - | 8,720 |

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

## 4 Segment reporting *(continued)*

(b) Segment assets/(liabilities)

| | **At 30 June 2014** | | | |
|---|---|---|---|---|
| | **Hong Kong** | **Macau** | **Unallocated** | **Consolidated** |
| | **$000** | **$000** | **$000** | **$000** |
| Segment assets | **9,396,525** | **383,370** | **12,059** | **9,791,954** |
| Segment liabilities | **(5,893,369)** | **(160,588)** | **(488,467)** | **(6,542,424)** |

| | At 30 June 2013 | | | |
|---|---|---|---|---|
| | Hong Kong | Macau | Unallocated | Consolidated |
| | $000 | $000 | $000 | $000 |
| Segment assets | 9,215,100 | 402,211 | 10,831 | 9,628,142 |
| Segment liabilities | (5,880,322) | (160,929) | (538,913) | (6,580,164) |

The total of non-current assets other than interest in an associate and deferred income tax assets located in Hong Kong is $5,609,187,000 (2013: $5,996,806,000), and the total of these non-current assets located in Macau is $258,002,000 (2013: $273,143,000).

Unallocated assets consist of interest in an associate, financial investments and deferred income tax assets.

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

## 5 Finance income

| | **2014** | 2013 |
|---|---|---|
| | **$000** | $000 |
| Interest income from listed debt securities | **-** | 443 |
| Interest income from bank deposits | **56,453** | 17,607 |
| Accretion income | **633** | 642 |
| | **57,086** | 18,692 |

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.

## 6 Finance costs

| | 2014 $000 | 2013 $000 (Note 14) |
|---|---|---|
| Interest expense | | |
| Bank and other borrowings wholly repayable within 5 years | **8,988** | 832 |
| Bank and other borrowings not wholly repayable within 5 years | **85,741** | 25,565 |
| Bank charges for credit card instalment | **6,949** | 19,991 |
| Accretion expenses | | |
| Mobile licence fee liabilities | **80,085** | 90,821 |
| Asset retirement obligations | **2,116** | 2,338 |
| Net exchange loss/(gain) on financing activities | **18,008** | (18,117) |
| | **201,887** | 121,430 |

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

## 7 Profit before income tax

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

| | 2014 $000 | 2013 $000 |
|---|---|---|
| Charging: | | |
| Cost of services provided | **467,382** | 476,774 |
| Operating lease rentals for land and buildings, transmission sites and leased lines | **987,197** | 902,948 |
| Impairment loss of trade receivables (note 11) | **14,714** | 16,672 |
| Impairment loss of inventories | **4,148** | 8,720 |
| Auditor's remuneration | **2,343** | 2,319 |
| Net exchange loss | **25,120** | - |
| Crediting: | | |
| Gain on disposal of fixed assets | **15,468** | 7,496 |
| Gain on disposal of financial investments | **194** | - |
| Net exchange gain | **-** | 2,499 |

## 8 Income tax expense

Hong Kong profits tax has been provided at the rate of 16.5% (2013: 16.5%) on the estimated assessable profit for the year. Income tax on overseas profits has been calculated on the estimated assessable profit for the year at the tax rates prevailing in the countries in which the Group operates.

(a) The amount of income tax expense recognised in the consolidated profit and loss account represents:

| | **2014** **$000** | 2013 $000 |
|---|---|---|
| Current income tax | | |
| Hong Kong profits tax | **95,266** | 9,507 |
| Overseas tax | **1,529** | 3,773 |
| Under/(over)-provision in prior years | | |
| Hong Kong profits tax | **249,169** | (80) |
| | **345,964** | 13,200 |
| Deferred income tax assets | **208** | (3,879) |
| Deferred income tax liabilities | **22,426** | 157,636 |
| Over-provision in prior years | | |
| Deferred income tax | **(238,015)** | - |
| Income tax expense | **130,583** | 166,957 |

(b) The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the applicable tax rate of the home country of the Group as follows:

| | **2014** **$000** | 2013 $000 |
|---|---|---|
| Profit before income tax | **662,598** | 1,015,379 |
| Notional tax on profit before income tax, calculated at Hong Kong tax rate of 16.5% (2013: 16.5%) | **109,329** | 167,538 |
| Effect of different tax rates in other countries | **1,457** | (1,488) |
| Expenses not deductible for tax purposes | **3,134** | 131 |
| Income not subject to tax | **(9,179)** | (3,260) |
| Under/(over)-provision in prior years | **11,154** | (80) |
| Tax loss not recognised | **4,063** | 759 |
| Temporary differences not recognised | **10,625** | 3,357 |
| Income tax expense | **130,583** | 166,957 |

## 9 Earnings per share

(a) Basic

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 in issue.

| | 2014 | 2013 |
|---|---|---|
| Profit attributable to equity holders of the Company ($000) | **537,110** | 843,186 |
| Weighted average number of ordinary shares in issue | **1,039,783,051** | 1,037,392,866 |
| Basic earnings per share (cents per share) | **51.7** | 81.3 |

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. For dilutive share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

| | 2014 | 2013 |
|---|---|---|
| Profit attributable to equity holders of the Company ($000) | **537,110** | 843,186 |
| Weighted average number of ordinary shares in issue | **1,039,783,051** | 1,037,392,866 |
| Adjustment for dilutive share options | **128,996** | 3,409,162 |
| Weighted average number of ordinary shares for diluted earnings per share | **1,039,912,047** | 1,040,802,028 |
| Diluted earnings per share (cents per share) | **51.6** | 81.0 |

## 10 Dividends

| | 2014 $000 | 2013 $000 |
|---|---|---|
| Interim dividend, paid, of 18 cents (2013: 44 cents) per share | **186,631** | 456,562 |
| Final dividend, proposed, of 13 cents (2013: 22 cents) per share | **135,979** | 228,347 |
| | **322,610** | 684,909 |

For the dividends attributable to the years ended 30 June 2014 and 2013, scrip dividend elections were offered to shareholders.

At a meeting held on 3 September 2014, the directors proposed a final dividend of 13 cents per 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 2015.

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

The aggregate amounts of the dividends paid and proposed during 2014 and 2013 have been disclosed in the consolidated profit and loss account in accordance with the Hong Kong Companies Ordinance.

## 11 Trade receivables

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

| | 2014 $000 | 2013 $000 |
|---|---|---|
| Current to 30 days | **410,723** | 372,882 |
| 31 - 60 days | **12,746** | 9,719 |
| 61 - 90 days | **3,683** | 1,849 |
| Over 90 days | **8,597** | 14,427 |
| | **435,749** | 398,877 |

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

The Group has recognised a loss of $14,714,000 (2013: $16,672,000) for the impairment of its trade receivables during the year ended 30 June 2014. The loss has been included in “other operating expenses” in the consolidated profit and loss account. Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

## 12 Trade payables

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

| | **2014** | 2013 |
|---|---|---|
| | **$000** | $000 |
| Current to 30 days | **691,235** | 288,925 |
| 31 - 60 days | **45,683** | 142,243 |
| 61 - 90 days | **14,460** | 38,419 |
| Over 90 days | **26,741** | 67,067 |
| | **778,119** | 536,654 |

## 13 Events after the balance sheet date

On 28 August 2014, a bank issued a standby letter of credit with amount up to $1,702,800,000 to a subsidiary of the Company in favor of the Office of Communications Authority ("OFCA") regarding the acceptance of the offer of the right of first refusal for the re-assignment of one of the spectrum. Apart from the above, there are no other material adjusting nor non-adjusting subsequent events after the balance sheet date.

## 14 Comparative figures

Certain comparative figures have been reclassified to conform to the current year's presentation. These reclassifications have no impact on the Group's total equity as at both 30 June 2014 and 30 June 2013, or on the Group's profit for the years ended 30 June 2014 and 2013.

**DIVIDENDS**

The Directors recommended the payment of a final dividend for the year ended 30 June 2014 of 13 cents per share (2012/13: 22 cents). The proposed final dividend, together with the interim dividend of 18 cents per share paid by the Company during the year (2012/13: 44 cents), makes a total dividend for the year of 31 cents per share.

Subject to approval of the shareholders at the forthcoming Annual General Meeting, the proposed final dividend will be payable in cash, with an option to receive new and fully paid shares in lieu of cash under a scrip dividend scheme (the "Scrip Dividend Scheme"). The Directors may, after having made enquiry regarding the legal restrictions under the laws of the relevant place and the requirements of the relevant regulatory body or stock exchange in relation to the Scrip Dividend Scheme, exclude any shareholder outside Hong Kong from the Scrip Dividend Scheme provided that the Directors consider such exclusion to be necessary or expedient on account either of the legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place. Such shareholders will receive the proposed final dividend in cash. A circular containing details of the Scrip Dividend Scheme and the relevant election form are expected to be sent to shareholders on or about Friday, 21 November 2014.

The Scrip Dividend Scheme is conditional upon the passing of the resolution relating to the payment of the proposed final dividend at the forthcoming Annual General Meeting and the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of and permission to deal in the new shares to be issued under the Scrip Dividend Scheme.

The proposed final dividend will be distributed, and the share certificates issued under the Scrip Dividend Scheme will be sent on or about Friday, 19 December 2014 to shareholders whose names appear on the Register of Members of the Company on Wednesday, 12 November 2014.

**CLOSURE OF REGISTER OF MEMBERS**

The Annual General Meeting of the Company is scheduled to be held on Tuesday, 4 November 2014. For determining the entitlement to attend and vote at the Annual General Meeting, the Register of Members of the Company will be closed from Friday, 31 October 2014 to Tuesday, 4 November 2014, both days inclusive, during which period no transfer of shares will be effected. In order to be eligible to attend and vote at the Annual General Meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Thursday, 30 October 2014.

The record date for entitlement to the proposed final dividend is Wednesday, 12 November 2014. For determining the entitlement to the proposed final dividend, the Register of Members of the Company will be closed for one day on Wednesday, 12 November 2014 during which no transfer of shares will be effected. In order to qualify for the proposed final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited (address as per above) for registration no later than 4:30 p.m. on Tuesday, 11 November 2014.

**PURCHASE, SALE OR REDEMPTION OF SHARES**

During the year ended 30 June 2014, the Company repurchased 6,885,500 shares of the Company on The Stock Exchange of Hong Kong Limited. These repurchased shares were cancelled prior to 30 June 2014. 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 |
|---|---|---|---|---|
| | | $ | $ | $ |
| January 2014 | 1,060,000 | 9.00 | 8.60 | 9,442,000 |
| February 2014 | 526,500 | 8.50 | 8.32 | 4,436,000 |
| April 2014 | 4,209,000 | 8.30 | 7.90 | 33,993,000 |
| May 2014 | 1,090,000 | 8.02 | 7.95 | 8,716,000 |
| | 6,885,500 | | | 56,587,000 |

Save as disclosed above, at no time during the year ended 30 June 2014 was there any purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's shares.

**REVIEW OF ANNUAL RESULTS BY AUDIT COMMITTEE**

The Audit Committee of the Company has reviewed the financial statements as well as the internal audit reports of the Group for the year ended 30 June 2014. The Committee was satisfied that the accounting policies and methods of computation adopted by the Group are in accordance with the current best practices 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 with the internal control measures adopted by the Group.

The financial information disclosed above complies with the disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

## CORPORATE GOVERNANCE

The Company is committed to building and maintaining high standards of corporate governance. Throughout the year ended 30 June 2014, the Company has applied the principles and complied with the requirements set out in the "Corporate Governance Code and Corporate Governance Report" (the "Corporate Governance Code") contained in Appendix 14 of the Listing Rules, except for the following deviations:

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

Code Provision A.6.7 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. Yang Xiang-dong, Mr. Gan Fock-kin, Eric and Mrs. Ip Yeung See-ming, Christine, Independent Non-Executive Directors, were unable to attend the annual general meeting of the Company held on 1 November 2013 due to overseas commitments or other prior business engagements. The remaining eight Independent Non-Executive Directors and Non-Executive Directors (representing 73% of all independent non-executive and non-executive members of the Board) 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 Corporate Governance Code.

Full details of the report on corporate governance will be set out in the Company's 2013/14 Annual Report.

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

Hong Kong, 3 September 2014

*As at the date of this announcement, the Executive Directors of the Company are Mr. Douglas LI and Mr. CHAN Kai-lung, Patrick; Non-Executive Directors are Mr. KWOK Ping-luen, Raymond, Mr. CHEUNG Wing-yui, Mr. David Norman PRINCE, Mr. FUNG Yuk-lun, Allen, Mr. SIU Hon-wah, Thomas, Mr. TSIM Wing-kit, Alfred and Mr. John Anthony MILLER; Independent Non-Executive Directors are Dr. LI Ka-cheung, Eric, JP, Mr. NG Leung-sing, JP, Mr. YANG Xiang-dong, Mr. GAN Fock-kin, Eric and Mrs. IP YEUNG See-ming, Christine.*