

SmarTone

SmarTone Telecommunications Holdings Limited

Stock Code: 0315

INTERIM REPORT 2021/22



No. 1 *Consumers'*
Best Preferred
SmarTone 5G Network

"Consumers' No.1 Best Preferred 5G Network" is based on results obtained from study conducted by market research company NuanceTree, as commissioned by SmarTone. 771 post-paid SIM card users were interviewed via online survey and street interviews between July and Sep 2020.

SmarTone

5G

The Widest Coverage in HK

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.

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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. 5G LAB has welcomed approximately 400,000 visitors, and hosted students from more than 200 schools since its launch.



SmarTone was awarded the **“Best 5G Mobile Operator – Silver”** and **“Best 5G Connected Arena – Gold”** presented by the Communications Association of Hong Kong. The accolades fully affirm the industry's recognition of our commitment in pursuit of a quality network and customer experience.



2. Empowering Innovation

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

SmartWorks

Smart Transport

SmartHotel

Smart Mall Management

Smart Restroom

SmartTrack

SmarTone **Home 5G Broadband** gives customers a hassle-free home internet experience with ultra-fast 5G. It offers a new home internet option in the form of adding a “private broadband” anytime. SmarTone also made available a special 6-month short contract offer to cater to our customers’ work-from-home and e-learning needs.

SmarTone Home 5G Broadband

Your Powerful Gear to Stay Home, Stay Connected

No Landlines
Plug and Play in Any Room

No More Fighting for Internet

6 Month Short Contract Plan

Monthly Fee: **\$148**

Unlimited 5G Data

7-Day FREE TRIAL Guarantee, Subscribe to Try First!

Home 5G Broadband Service + 5G Wi-Fi 6 Router
ALL NEW SUPERIOR INTERNET COMBO

No Landlines
Just Plug and Play

Supports 3G Download @ High-Speed for The Family

WiFi 6 CERTIFIED
Supports the Latest Format

5G
Supports Ultra High-Speed 5G

2-in-1
Modem+Router

2 Year
Warranty
Worry-Free Device Replacement

Device Add-on Offer: **\$2,160***
(Originally: \$3,060)

SmarTone Home 5G Broadband
New Choice of Home Internet – No More Expensive Plans

Video Streaming

Video Conferencing

Real-Time eLearning

Upload and Download

- Ultra-fast 5G
- No Landlines
- Plug and Play in Any Room
- 7-Day Trial and Return Guarantee

BUSINESS HIGHLIGHTS

3. Customer-centric Strategy

With outstanding customer service and professional teamwork, we were awarded several accolades at the 2021 Quality Service Programme organised by the Hong Kong Retail Management Association, including the **"2021 Quality Service Retailer of the Year – Telecommunications Category"** and **"2021 The Best In-Store Technology Adoption – Silver Award"**.



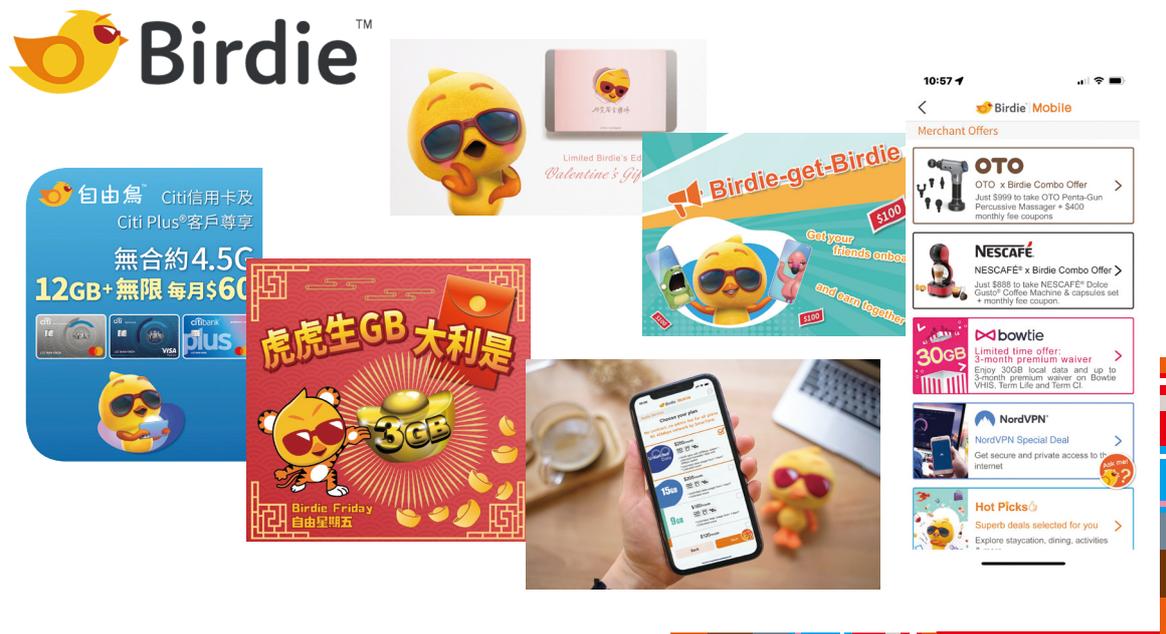
The **SmarTone Plus premium membership** programme has been delivering a world of prestige to customers, including birthday celebrations, selected offers, priority and privileges, refined experiences as well as flash surprises.



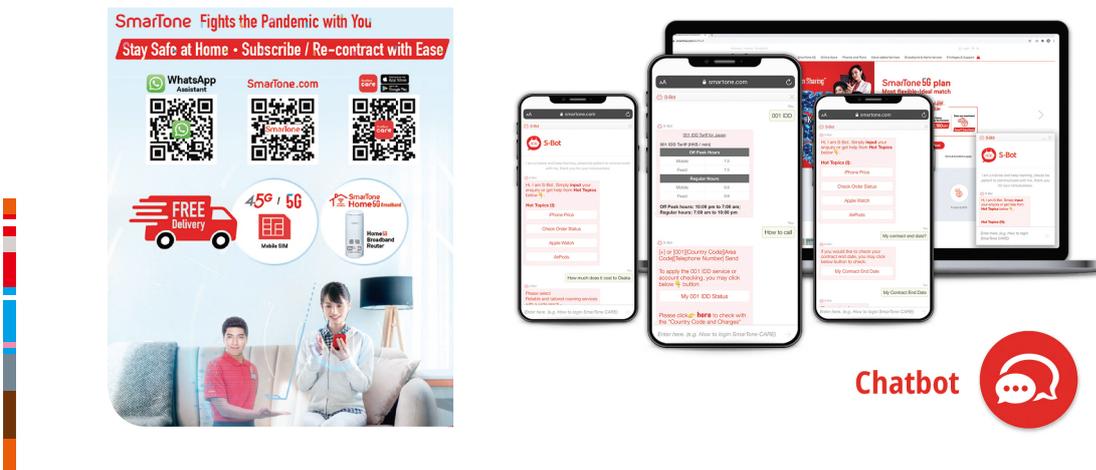
BUSINESS HIGHLIGHTS

4. Digitalisation

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.



SmarTone is embracing the rising need for **digitalisation** by offering our award-winning and caring services online through dedicated WhatsApp channel, website and SmarTone CARE App.



CHAIRMAN'S STATEMENT

(Financial figures are expressed in Hong Kong dollars)

Business review

For the period under review, the Company delivered a profit attributable to equity holders of \$251M, down 6% compared to \$267M in the same period last year. SmarTone received government subsidies in 1H FY21, and discounting the impact of the subsidies, profit for the current period actually increased. This was achieved despite subdued roaming revenues and a mobile market which has remained very competitive.

During this period, service revenue increased 3% and mobile postpaid exit ARPU grew 4% to \$210. Since the launch of 5G in May 2020, the Company has experienced strong customer uptake, with subscribers to 5G services now ~20% of the postpaid MNO base. 5G plans are achieving a material premium and delivering a higher ARPU over 4G plans. Benefitting from the corporate digitalization drive, the Enterprise Solutions business was a key contributor to revenue growth. In addition, SmarTone's 5G Home Broadband service continued its strong subscriber growth, offering high-speed connectivity at lower cost, to customers who currently suffer from low-speed or high service fees from their current home broadband service provider.

The Company launched a cost efficiency program to manage the impact of the pandemic without compromising service quality. The program has achieved material productivity improvement and savings, much of which are recurring. As part of SmarTone's continuing digitalization, further measures have been planned to deliver efficiency improvements. The savings from these programs have allowed the Company to reinvest in other priority areas, such as enhancements to our network and customer services.

Following the launch of the SmarTone 5G network in May 2020, the team has worked tirelessly to deliver a world-class 5G network experience. 5G offers significant benefits over 4G with faster speeds, improved bandwidth, lower latency and improved reliability and security. The enhanced customer experience of 5G is especially felt when using applications such as Zoom and online education. During the last few years these applications have become increasingly important as physical meetings may not always be possible. 5G allows our customers, not just to work from home but, to "work anywhere" and "learn anywhere". In addition, because 5G's uplink speed is substantially faster than 4G, this enables a whole host of other applications from gaming to security systems.

As of today, SmarTone's 5G network extends to 99% of the population, and covers all MTR lines, major roads, highways, and tunnels. SmarTone also focused on expanding coverage of major hiking trails and country parks to meet changing customer needs. In response to the COVID situation in the city, SmarTone's 5G network coverage has been extended to the Penny's Bay Quarantine Centre. In October 2021, the Company successfully acquired additional spectrum at a reasonable cost. The Company now has the most spectrum resources per subscriber amongst all operators. The Company will continue to invest more. We aspire to build a true "state-of-the-art" network for our customers and for Hong Kong, through extending our coverage and the quality of our connectivity. In recognition of SmarTone's network quality, six influential magazines and journals have ranked the Company's 5G network as number one in Hong Kong.

Our 5G Home Broadband service is ramping up well and has received very positive customer feedback. There are currently many households in Hong Kong which suffer from very low internet speeds. There are other households which suffer from very expensive fees because they are often served by a single operator and they have no choice. Some households may pay up to \$500–600 a month just for their fixed line connection. Our 5G Home Broadband provides a choice for consumers against the existing dominant fixed-line carriers. Our service is super-fast and often cheaper than our competitors. Customers can even try before committing, and we have found that over 90% of those who tried ended up subscribing to the service long-term. We think this is important not just as a business for us, but also as a service for communities that don't have access to fast-speed access, especially in rural areas. This is particularly critical during the pandemic.

CHAIRMAN'S STATEMENT

(Financial figures are expressed in Hong Kong dollars)

SmarTone believes the development of Hong Kong into a technology hub hinges on the availability of a world-class digital infrastructure, such as 5G. Through SmarTone's 5G Lab, the Company has been raising awareness among businesses and consumers on the opportunities and advanced services made possible with 5G technology and demonstrating how 5G infrastructure will support the city's development. Since its launch in May 2021, the 5G Lab has welcomed approximately 400,000 visitors, and hosted students from more than 200 high schools, with the objective of educating the youth and raising their interest in technology. In addition to benefitting society at large, SmarTone believes the promotion of 5G will help accelerate its adoption over time.

During the period, the Enterprise Solutions business continued to grow as an increasing number of corporates launched their digitalization efforts, with revenue registering strong double-digit growth. For instance, SmarTone's award-winning Smart Construction offering, has been adopted by many leading construction companies. This solution enables site worker safety monitoring and detection through 5G, IoT and AI-powered video analytics technology. But construction is only one of the many areas where digitalization brings enormous efficiency gains. There are many more applications in other sectors such as retail, healthcare, education, property management, etc. Our major shareholder, the Sun Hung Kai Properties Group, has itself become a key customer of SmarTone in its adoption of digital applications. We believe digitalization is an important pillar for Hong Kong to become a successful technology hub. SmarTone will continue to play a key role in providing solutions to enterprises to build up their digital capabilities which is expected to accelerate.

SmarTone itself is undergoing a digital transformation. We are using our digital channels and our data, supported by AI, to enhance customer service. For instance, we have expanded our channels for "complaints" from customers (you can do so in person, on an app, with a QR code, etc.). This, in conjunction with "machine learning", has allowed us to understand our customers better, and to identify areas for improvement in our network, call centres and services as well as improve productivity.

As the fifth wave of COVID hits Hong Kong hard, we are committed to using our resources in our fight against the pandemic. This is a critical time as people, more than ever before, need to stay in touch with colleagues and family members but may not be able to meet physically. In light of this, SmarTone has undertaken a number of initiatives in response to the COVID-related challenges faced by the community. The "Quarantine Without Losing Touch" initiative provides free data and calls as well as 5G broadband access to customers under quarantine in Penny's Bay to help them stay connected with family and friends. The Company also made available a special 6-month 5G Home Broadband contract offer to cater to families' work-from-home and e-learning needs. In addition, as part of SmarTone's support for the "Jockey Club Digital Support Project for the Elderly", the Company provides smartphones and free basic mobile service to help elderly citizens facilitate downloads and use of the "LeaveHomeSafe" app, as well as help them stay connected with their loved ones and the community. SmarTone is committed to the well-being of Hong Kong and will deploy all available resources to help the city get through the latest wave of the pandemic.

CHAIRMAN'S STATEMENT

(Financial figures are expressed in Hong Kong dollars)

Dividend

The Board declared an interim dividend of 14.5 cents per share, which is the same as last year. The Company intends to continue to pay a dividend equivalent to 75% of profit attributable to equity holders on a full-year basis.

Outlook

The operating environment continues to be challenging due to the persistence of the pandemic. The new wave of Omicron, which is hitting Hong Kong harder than any previous waves, is adding to the uncertainty. Spectrum amortization costs will also be higher in 2H FY22, placing additional pressure on profitability. Notwithstanding the difficult environment, the Company and its profitability have remained resilient. Business momentum is strong, and there will be renewed focus on bringing more of our customers on board to enjoy the benefits of 5G.

Spectrum costs remain a major cost item for mobile operators. In contrast to China where no spectrum fees are charged, operators in Hong Kong are required to pay hefty spectrum fees. Since 2011, SmarTone has paid or committed to a total of \$7 billion on spectrum fees. Our annual spectrum amortization cost this year will be in excess of \$400M. Furthermore, while in the past such spectrum costs were tax deductible, this position has now been changed by the Inland Revenue Department. Spectrum costs are now categorized as capital in nature and not tax deductible, consequently the Group has had to buy \$345M in tax reserve certificates because of this change. We strongly disagree with this assessment and will challenge this position in court. Our use of specific spectrum is limited in time, and such spectrum is not transferrable and as such, spectrum costs should be part of normal operating expenses and tax deductible. At the end of the day, such hefty fees and taxes are creating disincentives against us when we are trying to build the best network for Hong Kong. We have effectively been asked to pay hefty spectrum fees, plus taxes on the spectrum fees, on top of general corporate taxes. These fees and taxes are taking away capital which should have been used to improve our network and digital infrastructure. Recently Singapore has committed to investing heavily in various digital infrastructure and capabilities, including 5G, 6G and beyond. Likewise Hong Kong needs to ensure that we invest in and build up our digital capabilities, and SmarTone is committed to supporting such an effort.

As a leading operator, SmarTone is committed to investing in building a world-class digital infrastructure in 5G and beyond. We believe this is important both for Hong Kong's aspiration to be a technology hub and for its integration with China and specifically with the Greater Bay Area.

CHAIRMAN'S STATEMENT

(Financial figures are expressed in Hong Kong dollars)

Appreciation

I am pleased to welcome Mr. Tam Lok-man, Norman to the Company as Executive Director and Deputy Chief Executive Officer. Norman joins us with twenty five years of experience in product development, operation management and startup investment in the Internet and Technology sector. Norman is also very knowledgeable in digitalization and AI – his expertise will be leveraged to help SmarTone to understand and serve its customers, and to help business clients as they embark on their digitalization journeys.

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, 23 February 2022

MANAGEMENT DISCUSSION AND ANALYSIS

(Financial figures are expressed in Hong Kong dollars)

Review of financial results

During the period under review, the Group profit attributable to shareholders decreased slightly to \$251 million (first half of 2020/21: \$267 million). Excluding government subsidies received in the first half of 2020/21, the Group profit attributable to shareholders increased mainly due to strong 5G customer uptake driving local mobile revenue growth and strong growth in 5G Home Broadband contributing to profitability.

Group service revenue increased by 3% to \$2,242 million (first half of 2020/21: \$2,172 million) mainly due to strong 5G customer uptake and strong growth in 5G Home Broadband. Mobile postpaid exit ARPU increased 4% to \$210 (first half of 2020/21: \$201). Compared with the second half of 2020/21, Group service revenue increased by \$76 million or 3%, mainly due to an increase in local service revenue.

Group's handset and accessory sales increased by \$477 million or 44% to \$1,549 million when compared with \$1,072 million for the same period last year, mainly due to strong sales in 5G flagship phones as a result of enhanced customer engagement. Compared with the second half of 2020/21, Group's handset and accessory sales increased by \$240 million or 18% due to the availability of 5G flagship phones.

As a result, Group total revenue increased by 17% to \$3,792 million (first half of 2020/21: \$3,244 million) mainly due to higher local service revenue and handset and accessory sales.

Hong Kong customer number reduced 0.1 million to 2.7 million compared to last year at 2.8 million mainly due to the expiry of prepaid travel cards. Excluding MVNO customers, the postpaid churn rate was at a low 0.7%, unchanged from the same period last year.

Cost of inventories sold increased by \$454 million or 44% to \$1,492 million (first half of 2020/21: \$1,039 million), largely in line with the corresponding increase in handset and accessory sales with improved margins for handset sales.

Staff costs increased by \$69 million or 28% to \$320 million (first half of 2020/21: \$250 million) mainly due to the absence of government subsidy from Employment Support Scheme. Excluding the government subsidy received in the first half of 2020/21, staff costs decreased by 3% as the result of cost efficiency program that delivered recurring savings.

Cost of services provided and other operating expenses remained flat (first half of 2020/21: \$683 million) as the cost efficiency program remains in place to reduce cost and allowed for investment in the business in the area of branding, new store and sales and marketing capabilities.

Depreciation, amortization and loss on disposal increased by \$13 million or 2% to \$906 million (first half of 2020/21: \$893 million) mainly due to increase in amortization of spectrum utilization fee offset by decrease in right-of-use assets depreciation driven by rental reduction.

Finance income decreased by \$8 million or 45% to \$10 million (first half of 2020/21: \$19 million) mainly due to lower bank interest rates and expected credit loss on bond investments.

Finance costs increased by \$9 million or 17% to \$66 million (first half of 2020/21: \$56 million) mainly due to higher accretion expense from spectrum utilization fee offset by lower accretion expense from lease liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS

(Financial figures are expressed in Hong Kong dollars)

Income tax expense amounted to \$83 million (first half of 2020/21: \$78 million), reflecting an effective tax rate of 24.9% (first half of 2020/21: 22.7%). 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 \$24 million to \$1,297 million (first half of 2020/21: \$1,273 million). Group operating profit was \$391 million, increased by 3% (first half of 2020/21: \$380 million).

Capital structure, liquidity and financial resources

The Group maintained a strong balance sheet for the period under review. During the period, the Group was financed by share capital, internally generated funds and bank and other borrowings. As at 31 December 2021, the Group recorded share capital of \$111 million, total equity of \$5,167 million and total borrowings of \$1,546 million.

The Group's cash resources remained robust with cash and bank balances of \$2,101 million as at 31 December 2021 (30 June 2021: \$2,095 million).

As at 31 December 2021, the Group had bank and other borrowings of \$1,546 million (30 June 2021: \$1,588 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 \$973 million as at 31 December 2021 (30 June 2021: \$994 million). Excluding the purchase of \$93 million tax reserve certificate, net cash increased to \$1,066 million as at 31 December 2021.

The Group had net cash generated from operating activities and interest received of \$1,060 million and \$19 million respectively during the period ended 31 December 2021. The Group's major outflows of funds during the period were payments for purchase of fixed assets, mobile license fees, leases, dividends, tax reserve certificate 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 \$69 million as at 31 December 2021 (30 June 2021: \$70 million).

MANAGEMENT DISCUSSION AND ANALYSIS

(Financial figures are expressed in Hong Kong dollars)

Interest rate exposure

The Group is exposed to interest rate changes that affect bank borrowings denominated in Hong Kong dollars which accounted for 4% of the Group's total borrowings at 31 December 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.

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 31 December 2021, the Group provided performance and financial guarantees of \$809 million (30 June 2021: \$2,401 million).

Employees, share award scheme and share option scheme

The Group had 1,702 full-time employees as at 31 December 2021 (30 June 2021: 1,665), with the majority of them based in Hong Kong. Total staff costs were \$320 million for the period ended 31 December 2021 (first half of 2020/21: \$250 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 period under review, 152,520 shares were lapsed. 1,257,160 shares (30 June 2021: 1,409,680) were outstanding as at 31 December 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. No share option was outstanding as at 31 December 2021 (30 June 2021: Nil).

DIRECTORS PROFILE

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

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

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

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

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

For the financial year ended 30 June 2021, Mr. Kwok received a fee of HK\$180,000. Except the above fee, Mr. Kwok did not receive any other emoluments during the said financial year.

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

Mr. Cheung Wing-yui was appointed Director of the Company in March 2003. Mr. Cheung received a Bachelor of Commerce degree in accountancy from The University of New South Wales, Australia and is a member of the CPA Australia. He has been a 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. 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, 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.

For the financial year ended 30 June 2021, Mr. Cheung received a fee of HK\$162,000. Except the above fee, Mr. Cheung did not receive any other emoluments during the said financial year.

DIRECTORS PROFILE

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

Mr. Allen Fung was appointed Non-Executive Director of the Company in December 2013 and was re-designated as Executive Director in 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 is a member of the General Committee of the Hong Kong General Chamber of Commerce, an honorary secretary of The Hong Kong Federation of Youth Groups, a council member and an executive committee member of The Hong Kong Management Association, a member of the board of the Asian Youth Orchestra, the vice chairman of the board of The Hong Kong Philharmonic Society Limited, and the president of the Hong Kong Society for the Protection of Children. 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, and a director of certain subsidiaries of the Company.

For the financial year ended 30 June 2021, Mr. Fung received a fee of HK\$162,000. Except the above fee, Mr. Fung did not receive any other emoluments during the said financial year.

TAM Lok-man, Norman *Executive Director & Deputy Chief Executive Officer*

Mr. Norman Tam was appointed Executive Director and Deputy Chief Executive Officer of the Company in November 2021.

Prior to joining the Company, Mr. Tam was a vice president of Tencent Cloud International, vice president of JOOX Music, and the chief executive of WeChat Pay Hong Kong Limited. He is a seasoned entrepreneur and executive with twenty-plus years of experience in product development, operation management, and startup investment in the Internet and technology sector.

During his time at Tencent, Mr. Tam developed the international business of various areas including social networks, online advertising, digital payment, online entertainment and cloud computing. He was also active in driving both B2B and B2C businesses expansion covering enterprises and mass consumers in his scope of responsibilities.

Prior to Tencent, Mr. Tam worked at two international investment banks and co-founded two Internet startups on education and gaming. He graduated from the University of Wisconsin – Madison with a Bachelor’s degree in Information System and Computer Science.

Mr. Tam is a director of Save the Children Hong Kong.

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

DIRECTORS PROFILE

CHAU Kam-kun, Stephen *Executive Director*

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

Mr. Chau's leadership has shaped the Company's technological innovations, impacting all areas of business operations and establishing sustainable competitive advantages. He is responsible for the Company's high performance network, which is widely 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 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.

For the financial year ended 30 June 2021, Mr. Chau received salaries (including allowances, retirement scheme contributions and estimated money value of other benefits), bonus, share-based payment and director's fee of HK\$6,284,000, HK\$400,000, HK\$229,000 and HK\$144,000 respectively.

DIRECTORS PROFILE

David Norman PRINCE *Non-Executive Director*

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

Mr. Prince is currently a non-executive director and a member of the audit committee 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.

For the financial year ended 30 June 2021, Mr. Prince received a fee of HK\$144,000. Except the above fee, Mr. Prince did not receive any other emoluments during the said financial year.

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

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

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

For the financial year ended 30 June 2021, Mr. Siu received a fee of HK\$144,000. Except the above fee, Mr. Siu did not receive any other emoluments during the said financial year.

DIRECTORS PROFILE

John Anthony MILLER *Non-Executive Director*

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

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

Mr. Miller 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.

For the financial year ended 30 June 2021, Mr. Miller received a fee of HK\$144,000. Except the above fee, Mr. Miller did not receive any other emoluments during the said financial year.

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

Dr. Eric Li, GBS, OBE, JP, LLD, DSocSc., HonDSocSc (EdUHK), B.A., FCPA (Practising), FCA, FCPA (Aust.), was appointed Director of the Company in October 1996. Dr. Li is the honorary chairman of SHINEWING (HK) CPA Limited.

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 was an independent non-executive director of Hang Seng Bank Limited.

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

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

For the financial year ended 30 June 2021, Dr. Li received a fee of HK\$288,000 including the fee for acting as the chairman of the Audit Committee of the Company. Except the above fee, Dr. Li did not receive any other emoluments during the said financial year.

DIRECTORS PROFILE

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

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

Mr. Ng is a Hong Kong Deputy to the 10th, 11th, 12th and 13th National People's Congress of the People's Republic of China.

Mr. Ng was the vice-chairman of Chiyu Banking Corporation Limited from 2002 to 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 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 also an independent non-executive director of MTR Corporation Limited from 2007 to 2017, and a director of The Hong Kong Mortgage Corporation Limited from 2014 to 2018.

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

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

For the financial year ended 30 June 2021, Mr. Ng received a fee of HK\$288,000 including the fee for acting as member of the Audit Committee of the Company. Except the above fee, Mr. Ng did not receive any other emoluments during the said financial year.

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

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

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

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

For the financial year ended 30 June 2021, Mr. Gan received a fee of HK\$288,000 including the fee for acting as member of the Audit Committee of the Company. Except the above fee, Mr. Gan did not receive any other emoluments during the said financial year.

DIRECTORS PROFILE

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

Mrs. Christine Ip was appointed Director of the Company in November 2012. Mrs. Ip joined United Overseas Bank Limited (“UOB”) in 2011. She is a Managing Director responsible for developing the Bank’s Greater China strategy. Mrs. Ip was appointed CEO of UOB Hong Kong in 2012 and CEO Greater China in July 2016.

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

Mrs. Ip’s achievements have brought her the Asia Retail Congress award for “Best International Retail Banker” in 2008.

Mrs. Ip holds a Bachelor’s degree in Arts from The University of Hong Kong and a MBA degree from The Hong Kong University of Science and Technology.

Mrs. Ip was appointed as member of the following committees by various HKSAR government departments:

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

Mrs. Ip was appointed as director of The Hong Kong Philharmonic Society Limited with effect from 1 November 2021.

For the financial year ended 30 June 2021, Mrs. Ip received a fee of HK\$144,000. Except the above fee, Mrs. Ip did not receive any other emoluments during the said financial year.

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

Mr. Kenny Lam was appointed Director of the Company in March 2017.

Mr. Lam is currently chief executive officer of Two Sigma Asia Pacific, Limited and head of the Asia Pacific region of Two Sigma. Mr. Lam is also an independent non-executive director of Bank of East Asia (China) Limited and Shui On Xintiandi 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.

For the financial year ended 30 June 2021, Mr. Lam received a fee of HK\$144,000. Except the above fee, Mr. Lam did not receive any other emoluments during the said financial year.

DIRECTORS PROFILE

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

Mr. Samuel Lee 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.

For the period from 9 April 2021 (date of appointment as a director of the Company) to 30 June 2021, Mr. Lee received a fee of HK\$33,000. Except the above fee, Mr. Lee did not receive any other emoluments during the said financial year.

DIRECTORS PROFILE

Notes:

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

No service contracts have been signed between the Company and the Directors (except Mr. Tam Lok-man, Norman and 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 by shareholders 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.

Mr. Tam Lok-man, Norman, Executive Director, entered into an employment contract with the Group for his serving as an Executive Director and the Deputy Chief Executive Officer of the Company, with no fixed term of service. Mr. Tam 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 performance bonus, the computation of which is based on his performance and contributions to the Group. For the role as a Director of the Company, Mr. Tam will retire and be re-elected by shareholders at the next general meeting of the Company after his appointment. Thereafter, Mr. Tam will be subject to retirement by rotation and re-election by shareholders at annual general meetings in accordance with the Bye-laws of the Company and the Listing Rules. Mr. Tam is entitled to a director's fee which is determined by the Board under the authority granted by shareholders at annual general meetings. The fee is subject to annual assessment based on prevailing market rate of directors' fees for companies listed in Hong Kong.

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

The Directors' interests in shares of the Company or any of its associated corporations, if any, within the meaning of Part XV of the Securities and Futures Ordinance as at 31 December 2021 are disclosed in the "Directors' and chief executive's interests" section on pages 49 to 52 of this Interim Report.

COMMUNITY ENGAGEMENT

1. Support for Anti-pandemic

To uphold our value of **"Building Networks with Heart"**, SmarTone is constructing at full speed 5G networks at 10 community isolation and treatment sites including Tam Mei, San Tin and United Court, to help quarantined citizens and healthcare workers in the facilities stay connected with their families and community. SmarTone is also the first network operator to complete its 5G network construction at San Tin.



The SmarTone team arranged **immediate deliveries of 5G Wi-Fi routers and free local data cards to onsite frontline healthcare workers**, helping them stay in seamless connection with the outside world during their anti-pandemic works through SmarTone's quality and stable 5G network.



SmarTone is lending full support to customers and frontline healthcare workers and helping them **quarantine without losing touch** by providing extra local data, local voice call, free JOOX music and hmvod services, as well as Home 5G Broadband service.



COMMUNITY ENGAGEMENT

2. Caring for the Community

SmarTone supports the **“Jockey Club Digital Support Project for the Elderly”**, providing smartphones and free basic mobile service to elderlies in need. Elderly-oriented workshops on smartphone and app usage are also hosted by SmarTone’s volunteer team.



“Sending care and warmth” to those in need in the community through various activities to build a harmonious society.



COMMUNITY ENGAGEMENT

3. Nurturing Talents

SmarTone continues its **"5G STEM Classroom"**, offering 5G STEM courses with a guided tour at 5G LAB for local school students to experience 5G innovation applications.



4. Volunteer Services

SmarTone fully supports different **volunteer services** in the city with its powerful 5G network and staff, including the donation of free data cards to underprivileged students during the suspension of face-to-face classes, to give back to the society and uphold social responsibility.



STAFF ENGAGEMENT

1. Grooming Talents

Introduce diversified opportunities for **people and career development**, including cross-sector exchanges for frontline service staff, influencing skills training as well as lunch & learn sessions, to nurture employees and enable them to explore their personal potential and professional ability to achieve all-round development.



2. Caring for Staff

Promotes **work-life balance** to establish a fun and relaxing workplace with online festive delights and organise caring activities and initiatives during the pandemic.



REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION



羅兵咸永道

**TO THE BOARD OF DIRECTORS OF
SMARTONE TELECOMMUNICATIONS HOLDINGS LIMITED**

(Incorporated in Bermuda with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 27 to 48, which comprises the condensed consolidated balance sheet of SmarTone Telecommunications Holdings Limited (the “Company”) and its subsidiaries (together, the “Group”) as at 31 December 2021 and the condensed consolidated profit and loss account, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the six-month period then ended, and notes, comprising significant accounting policies and other explanatory information. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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

Conclusion

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 23 February 2022

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 31 December 2021
(Expressed in Hong Kong dollars)

		Unaudited six months ended 31 December	
	Notes	2021 \$000	2020 \$000
Service revenue and other related service		2,242,404	2,172,158
Handset and accessory sales		1,549,118	1,072,155
<hr/>			
Revenues	4	3,791,522	3,244,313
Cost of inventories sold		(1,492,196)	(1,038,545)
Cost of services provided		(194,092)	(200,280)
Staff costs		(319,809)	(250,462)
Other operating expenses, net	7	(488,454)	(482,375)
Depreciation, amortization and loss on disposal	7	(906,066)	(892,636)
<hr/>			
Operating profit		390,905	380,015
Finance income	5	10,416	18,789
Finance costs	6	(65,808)	(56,377)
<hr/>			
Profit before income tax	7	335,513	342,427
Income tax expense	8	(83,436)	(77,586)
<hr/>			
Profit after income tax		252,077	264,841
<hr/>			
Profit attributable to Company's shareholders		251,383	266,596
Non-controlling interests		694	(1,755)
<hr/>			
		252,077	264,841
<hr/>			
Earnings per share for profit attributable to the Company's shareholders during the period (expressed in cents per share)	10		
Basic		22.6	23.8
Diluted		22.6	23.8

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 December 2021
(Expressed in Hong Kong dollars)

	Unaudited six months ended 31 December	
	2021	2020
	\$000	\$000
Profit for the period	252,077	264,841
Other comprehensive (loss)/income		
Item that may be reclassified subsequently to profit and loss:		
Currency translation differences	271	2,765
Item that will not be reclassified subsequently to profit and loss:		
Fair value (loss)/gain on financial asset at fair value through other comprehensive income	(2,632)	5,874
Other comprehensive (loss)/income for the period	(2,361)	8,639
Total comprehensive income for the period	249,716	273,480
Total comprehensive income attributable to		
Company's shareholders	249,022	275,235
Non-controlling interests	694	(1,755)
	249,716	273,480

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

CONDENSED CONSOLIDATED BALANCE SHEET

As at 31 December 2021 and 30 June 2021
(Expressed in Hong Kong dollars)

		Unaudited 31 December 2021 \$000	Audited 30 June 2021 \$000
Non-current assets			
Fixed assets	12	2,692,798	2,679,862
Customer acquisition costs		83,656	76,874
Contract assets		44,311	68,571
Right-of-use assets		857,378	904,627
Interest in an associate		3	3
Financial asset at fair value through other comprehensive income		14,123	16,755
Financial assets at amortized cost		377,475	422,825
Intangible assets	13	5,067,005	3,119,536
Deposits and prepayments		157,959	167,485
Deferred income tax assets		10,118	5,585
Total non-current assets		9,304,826	7,462,123
Current assets			
Inventories		198,477	57,423
Financial assets at amortized cost		40,544	64,641
Contract assets		100,869	117,342
Trade receivables	14	365,778	332,177
Deposits and prepayments		229,869	211,331
Other receivables		68,637	56,654
Tax reserve certificate		346,418	253,484
Cash and cash equivalents		2,100,936	2,094,884
Total current assets		3,451,528	3,187,936
Current liabilities			
Trade payables	15	525,742	414,085
Other payables and accruals		739,381	722,367
Contract liabilities		348,247	304,111
Lease liabilities		519,105	546,301
Current income tax liabilities		465,037	492,981
Bank borrowings	16	55,063	77,189
Mobile license fee liabilities		210,243	102,912
Total current liabilities		2,862,818	2,659,946

CONDENSED CONSOLIDATED BALANCE SHEET

As at 31 December 2021 and 30 June 2021
(Expressed in Hong Kong dollars)

		Unaudited 31 December 2021 \$000	Audited 30 June 2021 \$000
	Notes		
Non-current liabilities			
Asset retirement obligations		72,062	67,374
Contract liabilities		20,664	24,640
Lease liabilities		325,796	351,465
Bank and other borrowings	16	1,490,538	1,510,771
Mobile license fee liabilities		2,696,979	826,962
Deferred income tax liabilities		120,663	111,793
Total non-current liabilities		4,726,702	2,893,005
Net assets		5,166,834	5,097,108
Capital and reserves			
Share capital	17	111,053	111,099
Reserves		5,076,952	5,007,874
Total equity attributable to the Company's shareholders		5,188,005	5,118,973
Non-controlling interests		(21,171)	(21,865)
Total equity		5,166,834	5,097,108

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 31 December 2021
(Expressed in Hong Kong dollars)

	Unaudited six months ended	
	31 December	
	2021	2020
	\$000	\$000
Cash flows from operating activities	1,259,756	1,315,950
Income tax paid	(107,049)	(124,556)
Purchase of tax reserve certificate	(92,934)	–
Net cash inflow from operating activities	1,059,773	1,191,394
Cash flows from investing activities		
Payment for purchase of fixed assets	(375,924)	(534,635)
Payment of mobile license fees	(190,598)	(71,441)
Decrease in short-term deposits	–	123,316
Proceeds from disposal of financial assets at amortized cost	62,128	155,046
Payment for purchase of financial assets at amortized cost	–	(506,593)
Other investing activities	19,198	17,924
Net cash outflow from investing activities	(485,196)	(816,383)
Cash flows from financing activities		
Payment for repurchase of shares	(9,435)	(42,405)
Purchase of shares for share award scheme	–	(4,427)
Repayment of bank borrowings	(50,448)	(156,337)
Principal elements of lease payments	(336,518)	(367,060)
Dividends paid to the Company's shareholders	(172,203)	(167,880)
Net cash outflow from financing activities	(568,604)	(738,109)
Net increase/(decrease) in cash and cash equivalents	5,973	(363,098)
Effect of foreign exchange rate change	79	287
Cash and cash equivalents at 1 July	2,094,884	2,127,409
Cash and cash equivalents at 31 December	2,100,936	1,764,598

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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2021
(Expressed in Hong Kong dollars)

	Unaudited											
	Attributable to the Company's shareholders										Non-controlling interests	Total
	Share capital	Share premium	Revaluation reserve	Capital redemption reserve	Contributed surplus	Employee share-based compensation reserve	Exchange reserve	Retained profits	Total	Total		
\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	
At 1 July 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 period	-	-	-	-	-	-	-	266,596	266,596	(1,755)	264,841	
Other comprehensive income												
Fair value gain on financial asset at fair value through other comprehensive income	-	-	5,874	-	-	-	-	-	5,874	-	5,874	
Currency translation differences	-	-	-	-	-	-	2,765	-	2,765	-	2,765	
Total comprehensive income for the period ended 31 December 2020	-	-	5,874	-	-	-	2,765	266,596	275,235	(1,755)	273,480	
Transactions with owners												
Share-based payments	-	-	-	-	-	5,322	-	-	5,322	-	5,322	
Lapse of share option	-	-	-	-	-	(7,530)	-	7,530	-	-	-	
Lapse of share award	-	-	-	-	-	(1,494)	-	1,494	-	-	-	
Vesting of share award	-	-	-	-	356	(652)	-	296	-	-	-	
Repurchase of shares	(886)	-	-	886	-	-	-	(42,405)	(42,405)	-	(42,405)	
Purchase of shares for share award scheme	-	-	-	-	(4,427)	-	-	-	(4,427)	-	(4,427)	
Payment of 2020 final dividend	-	-	-	-	-	-	-	(167,880)	(167,880)	-	(167,880)	
Total transactions with owners	(886)	-	-	886	(4,071)	(4,354)	-	(200,965)	(209,390)	-	(209,390)	
At 31 December 2020	111,341	1,640,986	8,327	16,704	(3,074)	13,986	(1,308)	3,311,890	5,098,852	(21,637)	5,077,215	

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2021
(Expressed in Hong Kong dollars)

	Unaudited										
	Attributable to the Company's shareholders										
	Share capital \$000	Share premium \$000	Revaluation reserve \$000	Capital redemption reserve \$000	Contributed surplus \$000	Employee share-based compensation reserve \$000	Exchange reserve \$000	Retained profits \$000	Total \$000	Non- controlling interests \$000	Total \$000
At 1 July 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
Comprehensive income											
Profit for the period	-	-	-	-	-	-	-	251,383	251,383	694	252,077
Other comprehensive (loss)/income											
Fair value loss on financial asset at fair value through other comprehensive income	-	-	(2,632)	-	-	-	-	-	(2,632)	-	(2,632)
Currency translation differences	-	-	-	-	-	-	271	-	271	-	271
Total comprehensive income for the period ended 31 December 2021	-	-	(2,632)	-	-	-	271	251,383	249,022	694	249,716
Transactions with owners											
Share-based payments	-	-	-	-	-	1,648	-	-	1,648	-	1,648
Lapse of share award	-	-	-	-	-	(745)	-	745	-	-	-
Repurchase of shares (note 17(a))	(46)	-	-	46	-	-	-	(9,435)	(9,435)	-	(9,435)
Payment of 2021 final dividend	-	-	-	-	-	-	-	(172,203)	(172,203)	-	(172,203)
Total transactions with owners	(46)	-	-	46	-	903	-	(180,893)	(179,990)	-	(179,990)
At 31 December 2021	111,053	1,640,986	12,225	16,992	1,054	6,946	(804)	3,399,553	5,188,005	(21,171)	5,166,834

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1 General information

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

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

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

These unaudited condensed consolidated interim financial statements (“Interim Financial Statements”) are presented in Hong Kong dollars, unless otherwise stated. These Interim Financial Statements have been approved for issue by the board of directors on 23 February 2022.

Certain comparative figures have been reclassified to conform to the current period’s presentation.

2 Basis of preparation

These Interim Financial Statements for the six months ended 31 December 2021 have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, “Interim Financial Reporting”. These Interim Financial Statements should be read in conjunction with the annual financial statements for the year ended 30 June 2021, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”). These Interim Financial Statements have been prepared on a historical cost basis, except for the financial asset at fair value through other comprehensive income, measured at fair value, and on a going concern basis.

The accounting policies applied are consistent with those of the annual financial statements for the year ended 30 June 2021, as described in those annual financial statements except for the adoption of the amendments to standards as set out below.

(a) Amendments to standards adopted by the Group

The Group has applied the following amendments to standards for the first time for their annual reporting commencing 1 July 2021.

HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16 (Amendments)	Interest Rate Benchmark Reform – Phase 2
HKFRS 16 (Amendments)	COVID-19-related Rent Concessions beyond 30 June 2021

The adoption of these amendments to standards have no significant impact on these Interim Financial Statements.

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2 Basis of preparation *(continued)*

(b) 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 2022 reporting periods and have not been early adopted by the Group.

Annual Improvements Project	Annual Improvements 2018–2020 Cycle ¹
HKAS 1 (Amendments)	Classification of Liabilities as Current or Non-current ²
HKAS 1 (Amendments) and HKFRS Practice Statement 2	Disclosure of Accounting Policies ²
HKAS 8 (Amendments)	Definition of Account Estimates ²
HKAS 12 (Amendments)	Deferred Tax related to Assets and Liabilities arising from a Single Transaction ²
HKAS 16 (Amendments)	Property, Plant and Equipment: Proceeds before Intended Use ¹
HKAS 37 (Amendments)	Onerous Contracts – Cost of Fulfilling a Contract ¹
HKFRS 3 (Amendments)	Reference to the Conceptual Framework ¹
HKFRS 3, HKAS 16 and HKAS 37 (Amendments)	Narrow-scope Amendments ¹
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
HKFRS 17	Insurance Contracts ²
HK-Interpretation 5 (2020)	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause ²

¹ Effective for annual periods beginning on or after 1 January 2022.

² Effective for annual periods beginning on or after 1 January 2023.

³ The original effective date of 1 January 2016 has been postponed until further announcement.

3 Financial risk management and financial instruments

(a) Financial risk factors

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

The Interim Financial Statements do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 30 June 2021.

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

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

(b) Fair value estimation

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

The following table presents the Group's financial assets measured and recognized at fair value at 31 December 2021 and 30 June 2021.

	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total \$000
Assets				
Financial asset at fair value through other comprehensive income				
At 31 December 2021 (Unaudited)	–	14,123	–	14,123
At 30 June 2021 (Audited)	–	16,755	–	16,755

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

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.

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.

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

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 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.

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

(a) Segment results

	Unaudited six months ended 31 December 2021			
	Hong Kong \$000	Macau \$000	Elimination \$000	Consolidated \$000
External revenue	3,531,908	259,614	–	3,791,522
Inter-segment revenue	221,537	3,603	(225,140)	–
Total revenue	3,753,445	263,217	(225,140)	3,791,522
Timing of revenue recognition				
At a point in time	1,537,744	231,976	(220,602)	1,549,118
Over time	2,215,701	31,241	(4,538)	2,242,404
	3,753,445	263,217	(225,140)	3,791,522
EBITDA	1,290,170	6,801	–	1,296,971
Depreciation, amortization and loss on disposal	(902,673)	(3,393)	–	(906,066)
Operating profit	387,497	3,408	–	390,905
Finance income				10,416
Finance costs				(65,808)
Profit before income tax				335,513

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

4 Segment reporting *(continued)*

(a) Segment results *(continued)*

	Unaudited six months ended 31 December 2020			
	Hong Kong \$000	Macau \$000	Elimination \$000	Consolidated \$000
External revenue	3,168,386	75,927	–	3,244,313
Inter-segment revenue	37,446	2,717	(40,163)	–
Total revenue	3,205,832	78,644	(40,163)	3,244,313
Timing of revenue recognition				
At a point in time	1,070,440	38,561	(36,846)	1,072,155
Over time	2,135,392	40,083	(3,317)	2,172,158
	3,205,832	78,644	(40,163)	3,244,313
EBITDA	1,275,556	(2,905)	–	1,272,651
Depreciation, amortization and loss on disposal	(890,293)	(2,344)	1	(892,636)
Operating profit/(loss)	385,263	(5,249)	1	380,015
Finance income				18,789
Finance costs				(56,377)
Profit before income tax				342,427

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

4 Segment reporting *(continued)*

(b) Segment assets/(liabilities)

	At 31 December 2021 (Unaudited)			
	Hong Kong \$000	Macau \$000	Unallocated \$000	Consolidated \$000
Segment assets	11,866,418	101,255	788,681	12,756,354
Segment liabilities	(6,892,251)	(111,569)	(585,700)	(7,589,520)
	At 30 June 2021 (Audited)			
	Hong Kong \$000	Macau \$000	Unallocated \$000	Consolidated \$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)

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

5 Finance income

	Unaudited six months ended	
	31 December 2021 \$000	2020 \$000
Interest income from listed debt securities	11,425	10,437
Credit loss allowance on listed debt securities	(4,300)	–
Interest income from bank deposits	3,202	7,868
Accretion income	89	484
	10,416	18,789

During the six months ended 31 December 2021, credit loss allowance of \$4,300,000 was recognized to reflect the change in credit risk for the financial assets at amortized cost.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

6 Finance costs

	Unaudited six months ended 31 December	
	2021	2020
	\$000	\$000
Interest expense on bank and other borrowings	31,477	33,751
Accretion expenses		
Mobile license fee liabilities	22,915	8,744
Asset retirement obligations	224	224
Lease liabilities	6,884	13,450
Net exchange loss on financing activities (note 9)	4,308	208
	65,808	56,377

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 period.

7 Profit before income tax

Profit before income tax is stated after charging the following:

	Unaudited six months ended 31 December	
	2021	2020
	\$000	\$000
Other operating expenses, net		
– Network costs	269,509	273,669
– Short-term and low-value leases	20,710	19,105
– Impairment loss of trade receivables (note 14)	2,662	4,877
– Net exchange loss (note 9)	1,265	2,434
– Others	194,308	182,290
Loss on disposal of fixed assets	8,195	4,550
Depreciation of fixed assets	321,202	331,094
Depreciation of right-of-use assets	339,846	365,704
Amortization of mobile license fees	197,562	156,138
Amortization of customer acquisition costs	39,261	35,150
Share-based payments	1,648	5,322

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

8 Income tax expense

	Unaudited six months ended	
	31 December	
	2021	2020
	\$000	\$000
Current income tax		
Hong Kong profits tax	79,268	68,321
Overseas tax	1,025	931
(Over)/under-provision in prior years		
Hong Kong profits tax	(1,027)	12,774
Overseas tax	(167)	–
Total current income tax expense	79,099	82,026
Deferred income tax		
Increase in deferred income tax assets	(4,533)	(4,508)
Increase in deferred income tax liabilities	8,870	68
Total deferred income tax expense/(benefit)	4,337	(4,440)
Income tax expense	83,436	77,586

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

9 Net exchange loss

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

	Unaudited six months ended	
	31 December	
	2021	2020
	\$000	\$000
Other operating expenses, net (note 7)	1,265	2,434
Finance costs (note 6)	4,308	208
Total	5,573	2,642

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

10 Earnings per share

(a) Basic earnings per share

Basic earnings per share is calculated by dividing:

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

	Unaudited six months ended 31 December	
	2021	2020
	Cents	Cents
Total basic earnings per share attributable to the Company's shareholders	22.6	23.8

(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.

	Unaudited six months ended 31 December	
	2021	2020
	Cents	Cents
Total diluted earnings per share attributable to the Company's shareholders	22.6	23.8

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

	Unaudited six months ended 31 December	
	2021	2020
	\$000	\$000
Profit attributable to the Company's shareholders used in calculating basic earnings per share and diluted earnings per share	251,383	266,596

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

10 Earnings per share *(continued)*

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

	Unaudited six months ended 31 December	
	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)	1,110,580,570	1,118,446,499
Adjustments for calculation of diluted earnings per share:		
Effect of awarded shares	20,422	119,040
<hr/>		
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	1,110,600,992	1,118,565,539

11 Dividends

(a) In respect of the period

	Unaudited six months ended 31 December	
	2021 \$000	2020 \$000
Interim dividend declared of 14.5 cents (2020: 14.5 cents) per fully paid share	160,767	161,093

At a meeting held on 23 February 2022, the directors declared an interim dividend of 14.5 cents per fully paid share for the year ending 30 June 2022. The interim dividend declared is not reflected as a dividend payable in these Interim Financial Statements, but will be reflected as an appropriation of retained profits for the year ending 30 June 2022.

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

(b) Attributable to prior year paid in the period

	Unaudited six months ended 31 December	
	2021 \$000	2020 \$000
Final dividend of 15.5 cents (2020: 15 cents) per fully paid share	172,203	167,880

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

12 Fixed assets

	Unaudited \$'000
Opening net book amount at 1 July 2021	2,679,862
Additions	342,235
Disposals	(8,254)
Exchange differences	157
Depreciation	(321,202)
Closing net book amount at 31 December 2021	2,692,798
Opening net book amount at 1 July 2020	2,704,484
Additions	287,157
Disposals	(4,838)
Exchange differences	723
Depreciation	(331,094)
Closing net book amount at 31 December 2020	2,656,432

During the six months ended 31 December 2021, major fixed assets acquired by the Group included network and testing equipment, including network under construction amounting to \$281,648,000.

At 31 December 2021, buildings with carrying amount of \$69,086,000 (30 June 2021: \$70,305,000) were pledged as security for bank borrowings of the Group (note 16).

13 Intangible assets

	Unaudited Mobile license fees \$'000
Opening net book amount at 1 July 2021	3,119,536
Additions	2,145,031
Amortization	(197,562)
Closing net book amount at 31 December 2021	5,067,005
Opening net book amount at 1 July 2020	2,872,560
Amortization	(156,138)
Closing net book amount at 31 December 2020	2,716,422

The Group extended the mobile license period of the 1,800 MHz band to 29 September 2036 during the six months ended 31 December 2021. As a result of the bid of a block of 15 MHz spectrum at the 850 MHz band and 40 MHz spectrum at the 4.9 GHz band, the Group acquired mobile license of \$305 million during the six months ended 31 December 2021.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

14 Trade receivables

	Unaudited	Audited
	31 December	30 June
	2021	2021
	\$000	\$000
Trade receivables	374,844	340,636
Loss allowance	(9,066)	(8,459)
	365,778	332,177

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

	Unaudited	Audited
	31 December	30 June
	2021	2021
	\$000	\$000
Current to 30 days	289,384	278,211
31 – 60 days	20,975	15,444
61 – 90 days	6,695	6,040
Over 90 days	48,724	32,482
	365,778	332,177

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 \$2,662,000 (2020: \$4,877,000) for the impairment of its trade receivables during the six months ended 31 December 2021.

15 Trade payables

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

	Unaudited	Audited
	31 December	30 June
	2021	2021
	\$000	\$000
Current to 30 days	426,092	251,096
31 – 60 days	45,932	56,020
61 – 90 days	9,251	38,657
Over 90 days	44,467	68,312
	525,742	414,085

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

16 Bank and other borrowings

	Unaudited 31 December 2021			Audited 30 June 2021		
	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	55,063	9,527	64,590	77,189	37,003	114,192
Guaranteed notes (a)	–	1,415,011	1,415,011	–	1,407,768	1,407,768
Total bank and other borrowings	55,063	1,490,538	1,545,601	77,189	1,510,771	1,587,960

- (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.

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

	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total \$000
At 31 December 2021				
Secured bank borrowings	–	66,000	–	66,000
Unsecured bank borrowings	–	9,070	–	9,070
Guaranteed notes	1,446,729	–	–	1,446,729
Total	1,446,729	75,070	–	1,521,799
	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

At 31 December 2021, secured bank borrowings are secured by certain buildings of the Group (note 12) (30 June 2021: same).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

17 Share capital

	Unaudited	
	Shares of \$0.1 each	\$000
Authorized At 30 June 2021 and 31 December 2021	2,000,000,000	200,000
Issued and fully paid At 1 July 2021	1,110,988,601	111,099
Repurchase of shares (a)	(455,000)	(46)
At 31 December 2021	1,110,533,601	111,053

- (a) During the six months ended 31 December 2021, the Company repurchased and cancelled 455,000 shares on the SEHK. The Company repurchased 1,794,000 shares in November and December 2021 to be cancelled after 31 December 2021. The total amount paid to acquire the 455,000 cancelled shares and the 1,794,000 repurchased shares of \$9,435,000 was deducted from equity attributable to shareholders.

18 Share award scheme

(a) Movements in share award

	Unaudited
Number of awarded shares	
Outstanding at 1 July 2021	1,409,680
Lapsed	(152,520)
Outstanding at 31 December 2021	1,257,160

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

19 Commitments and contingent liabilities

(a) Capital commitments

	Unaudited 31 December 2021 \$000	Audited 30 June 2021 \$000
Fixed assets Contracted for	103,587	84,520

(b) Contingent liabilities

	Unaudited 31 December 2021 \$000	Audited 30 June 2021 \$000
Performance guarantees	798,383	2,388,884
Financial guarantees	10,913	11,766
	809,296	2,400,650

20 Related party transactions

The Group is controlled by Cellular 8 Holdings Limited, which owns 68.72% of the Company's shares as at 31 December 2021. The remaining 31.28% 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 six months ended 31 December 2021, the Group had transactions with certain fellow subsidiaries and associates of SHKP in the ordinary course of business. All related party transactions are carried out in accordance with the terms of the relevant agreements governing the transactions. These transactions are not significant to the Group's Interim Financial Statements.

(b) Key management compensation

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

	Unaudited six months ended 31 December	
	2021 \$000	2020 \$000
Salaries, bonuses and other short-term employee benefits	11,038	17,474
Share-based payments	138	924
	11,176	18,398

OTHER INFORMATION

(Financial figures are expressed in Hong Kong dollars)

Interim dividend

The Directors declared an interim dividend of 14.5 cents per share for the six months ended 31 December 2021 (2020: 14.5 cents). The interim dividend will be paid in cash on or about Friday, 18 March 2022 to shareholders whose names appear on the Register of Members of the Company on Wednesday, 9 March 2022.

Closure of register of members

The record date for entitlement to the interim dividend is Wednesday, 9 March 2022. For determining the entitlement to the interim dividend, the Register of Members of the Company will be closed for one day on Wednesday, 9 March 2022 during which no transfer of shares will be effected. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Tuesday, 8 March 2022.

Directors' and chief executive's interests

As at 31 December 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 Rules Governing the Listing of Securities on the SEHK (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

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

OTHER INFORMATION

(Financial figures are expressed in Hong Kong dollars)

Notes:

1. Mr. Kwok Ping-luen, Raymond was deemed to be interested in these shares in the Company by virtue of him being a beneficiary of a discretionary trust for the purpose of Part XV of the SFO.
2. These shares of the Company represented the vested awarded shares granted under the Company's share award scheme. Details of the scheme are shown in the section entitled "Share award scheme".
3. These 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".

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

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

Name of Director	Number of shares held			Number of underlying shares held under equity derivatives	Total	% of issued voting shares
	Personal interests (held as beneficial owner)	Other interests	Total			
Kwok Ping-luen, Raymond	188,743	540,885,186 ¹ 1,580,000 ²	542,653,929	–	542,653,929	18.73
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.

OTHER INFORMATION

(Financial figures are expressed in Hong Kong dollars)

(b) SUNeVision Holdings Ltd. (“SUNeVision”)

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

- 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.
- 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 2021	Granted during the period	Exercised during the period	Cancelled/ Lapsed during the period	Outstanding at 31 December 2021
Fung Yuk-lun, Allen	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.

OTHER INFORMATION

(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 31 December 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

On 2 November 2011, the Company adopted a share option scheme (the "Old Share Option Scheme") which expired on 1 November 2021. In order to ensure continuity of a share option scheme for the Company, the shareholders of the Company passed an ordinary resolution at the annual general meeting of the Company held on 2 November 2021 to approve the adoption of a new share option scheme (the "New Share Option Scheme"). The New Share Option Scheme became effective on 4 November 2021 following the grant of a listing approval by SEHK on 3 November 2021 and the passing of an ordinary resolution by the shareholders of SHKP, the Company's holding company, at the annual general meeting of SHKP held on 4 November 2021 to approve the adoption of the New Share Option Scheme.

During the six months ended 31 December 2021, no share options were granted, exercised, cancelled or lapsed under the Old Share Option Scheme or the New Share Option Scheme. There were no outstanding share options under any of the schemes during the said period.

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(Financial figures are expressed in Hong Kong dollars)

Share award scheme

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

Movements of the awarded shares granted to the selected employees pursuant to the Share Award Scheme during the six months ended 31 December 2021 are as follows:

Awardee	Date of award	Vesting period ¹	Number of awarded shares				Outstanding at 31 December 2021
			Outstanding at 1 July 2021	Awarded during the period	Vested during the period	Lapsed during the period	
Directors							
Chau Kam-kun, Stephen	31 January 2019	31 January 2020 to 31 January 2022	29,200	–	–	–	29,200
Employees							
	31 January 2019	31 January 2020 to 31 January 2022	485,110	–	–	(52,720)	432,390
	28 February 2020	28 February 2021 to 28 February 2023	895,370	–	–	(99,800)	795,570

Note:

- 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.

Interests of substantial shareholder

As at 31 December 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	72.61%
HSBC Trustee (C.I.) Limited ("HSBCCI") ²	806,916,313	72.66%

OTHER INFORMATION

(Financial figures are expressed in Hong Kong dollars)

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 the 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 31 December 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.

Purchase, sale or redemption of shares

During the six months ended 31 December 2021, the Company repurchased 2,249,000 shares of the Company on the SEHK. Of these repurchased shares, 455,000 shares were cancelled prior to 31 December 2021 and 1,794,000 shares were cancelled subsequently after 31 December 2021. Details of the repurchases were as follows:

Month of repurchase	Number of shares repurchased	Price per share		Aggregate price paid
		Highest	Lowest	
		\$	\$	\$
November 2021	1,386,500	4.32	4.15	5,877,000
December 2021	862,500	4.15	4.10	3,558,000
	2,249,000			9,435,000

The Directors considered that the repurchases could lead to an enhancement of the Company’s earnings per share. Save as disclosed above, at no time during the six months ended 31 December 2021 was there any purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company’s shares.

OTHER INFORMATION

(Financial figures are expressed in Hong Kong dollars)

Review of interim results

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

The Audit Committee held a meeting on 17 February 2022 and reviewed the interim financial statements of the Group for the six months ended 31 December 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 disclosures of data and explanations shown in the financial statements. The Committee was also satisfied with the risk management and internal control measures adopted by the Group.

The interim financial statements for the six months ended 31 December 2021 have not been audited but have been reviewed by the Company's external auditor.

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

Corporate governance

The Company is committed to building and maintaining high standards of corporate governance. Throughout the six months ended 31 December 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 Listing Rules, except for the following deviations:

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

Code Provision A.6.7 of the CG Code provides that independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Code Provision E.1.2 of the CG Code also provides that the chairman of the board should attend the annual general meeting. Mr. Kwok Ping-luen, Raymond, Non-Executive Director and Chairman of the Board, Mr. David Norman Prince, Non-Executive Director, and Mr. Gan Fock-kin, Eric and Mr. Lam Kwok-fung, Kenny, Independent Non-Executive Directors, were unable to attend the annual general meeting of the Company held on 2 November 2021 due to overseas commitments or other prior engagements. The remaining seven Independent Non-Executive Directors and Non-Executive Directors (representing 64% of all independent non-executive and non-executive members of the Board at the time) attended the said meeting in person to listen to the views expressed by the shareholders. Mr. Fung Yuk-lun, Allen, Executive Director, took the chair of the said meeting pursuant to the Buy-laws of the Company.

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

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(Financial figures are expressed in Hong Kong dollars)

Compliance with model code for securities transactions by Directors

The Group adopted the Model Code set out in Appendix 10 of the Listing Rules as the code of conduct regarding Directors' transactions in the securities of the Company. Upon specific enquiry, each Director had confirmed that during the six months ended 31 December 2021, they had fully complied with the required standard set out in the Model Code and there was no event of non-compliance.

By order of the Board

Mak Yau-hing, Alvin

Company Secretary

Hong Kong, 23 February 2022

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