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## **SmarTone Telecommunications Holdings Limited**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 315)**

### **CONTINUING CONNECTED TRANSACTIONS**

Reference is made to the announcement made by the Company on 15 December 2016 in relation to certain continuing connected transactions, namely the Leasing of Premises and the Acquisition of Insurance Services, between the Group and certain members of the SHKP Group which were governed by the 2016 Framework Agreement. As the term of the 2016 Framework Agreement has expired, the Company and SHKP have on 9 January 2020 entered into the 2020 Framework Agreement so that such continuing connected transactions will continue to comply with the relevant requirements of the Listing Rules.

The 2020 Framework Agreement also covers certain other continuing connected transactions, being the Provision of Enterprise Solutions and the Provision of Mobile Coverage Services by the Group to certain members of the SHKP Group.

The Directors (including the independent non-executive Directors) are of the view that such continuing connected transactions have been and will, when conducted in accordance with the 2020 Framework Agreement, be conducted in the ordinary and usual course of business of the Group, on normal commercial terms or better, and fair and reasonable and in the interests of the Company and its shareholders as a whole.

It is expected that the value of such continuing connected transactions will not exceed certain caps as provided for in the 2020 Framework Agreement and as detailed in this announcement and accordingly under the Listing Rules, such transactions need only be disclosed in the Company's annual reports and need not be subject to shareholders' approval.

### **Background**

Reference is made to the announcement made by the Company on 15 December 2016 in relation to certain continuing connected transactions, namely the Leasing of Premises and the Acquisition of Insurance Services, between the Group and certain members of the SHKP Group which were governed by the 2016 Framework Agreement.

On top of the Leasing of Premises and the Acquisition of Insurance Services, the Group has also been providing enterprise solutions ("Provision of Enterprise Solutions") and mobile coverage services ("Provision of Mobile Coverage Services") for certain members of the SHKP

Group and receiving revenues from them. The Provision of Enterprise Solutions and the Provision of Mobile Coverage Services were not covered in the 2016 Framework Agreement because they are new lines of business of the Group and the relevant transaction amounts between the Group and the members of the SHKP Group have not reached the thresholds for reporting under the Listing Rules.

Since SHKP is the controlling shareholder, and therefore a connected person, of the Company, the Leasing of Premises, Acquisition of Insurance Services, Provision of Enterprise Solutions and Provision of Mobile Coverage Services constitute continuing connected transactions for the Company. As the term of the 2016 Framework Agreement in respect of the Leasing of Premises and the Acquisition of Insurance Services has expired, the Company and SHKP have on 9 January 2020 entered into the 2020 Framework Agreement so that such continuing connected transactions will continue to comply with the relevant requirements of the Listing Rules. The 2020 Framework Agreement also covers the Provision of Enterprise Solutions and the Provision of Mobile Coverage Services. The 2020 Framework Agreement is for a term of three years which is deemed to have begun on 1 July 2019 and shall end on 30 June 2022.

### **Leasing of Premises**

In relation to the Leasing of Premises, for the three years ended 30 June 2017, 2018 and 2019, the rental and licence fees paid under relevant leases and licences amounted to HK\$127,529,000, HK\$127,868,000 and HK\$128,834,000 respectively.

Pursuant to the 2020 Framework Agreement, the Group will continue to enter into leases and licence agreements with certain members of the SHKP Group from time to time in connection with the Leasing of Premises. The terms and conditions of such leases and licence agreements will be no less favourable than the terms and conditions of similar leases and licence agreements offered by independent third parties for comparable premises. The rental and licence fees to be paid under such leases and licence agreements will be negotiated and determined on an arm's length basis by reference to the following to ensure that the pricing is fair and reasonable in the light of prevailing market conditions:

- (a) the rental or licence fees of other similar properties in the relevant premises charged to independent third parties; and
- (b) if applicable, the rental or licence fees of properties of comparable premises in the same district.

The 2020 Framework Agreement provides that the term of such leases and licence agreements will not exceed three years. Under the 2020 Framework Agreement, the Company and SHKP have agreed that for the three years ending 30 June 2020, 2021 and 2022, the aggregate annual rental and licence fees to be paid under such leases and licences shall not exceed HK\$160,000,000, HK\$190,000,000 and HK\$230,000,000 respectively.

The rental and licence fees will be paid in cash on a monthly basis with no term of arrangement for payment on a deferred basis. Such annual caps are determined based on the expectation of the Company that (1) there will be an increase in the number of base stations which it would need to install over the next three years in connection with the enhancement and upgrading of

its integrated mobile communications network and related telecommunications services; and (2) there will be a steadily rising demand in the rental market over the next three years and hence rental payments for its offices, retail stores, warehouses and base stations will increase.

### **Acquisition of Insurance Services**

In relation to the Acquisition of Insurance Services, for the three years ended 30 June 2017, 2018 and 2019, insurance premiums paid by the Group to a wholly-owned subsidiary of SHKP amounted to HK\$4,398,000, HK\$4,562,000 and HK\$4,072,000 respectively.

Pursuant to the 2020 Framework Agreement, a wholly-owned subsidiary of SHKP will continue to provide insurance services to the Group from time to time. The Group will solicit quotations from independent insurers providing similar insurance services to ensure that the terms offered by the wholly-owned subsidiary of SHKP are fair and reasonable and comparable with those offered by independent third parties.

Under the 2020 Framework Agreement, the Company and SHKP have agreed that for the three years ending 30 June 2020, 2021 and 2022, the aggregate annual insurance premiums to be paid by the Group in connection with the Acquisition of Insurance Services shall not exceed HK\$8,000,000, HK\$9,600,000 and HK\$12,000,000 respectively.

The insurance premiums will be paid in cash on an annual basis with no term of arrangement for payment on a deferred basis. Such annual caps are determined based on the expectation of the Company that there will be an increase in insurance cover in connection with the enhancement and upgrading of its integrated mobile communications network and telecommunication equipment, growth of handsets and accessories sales and expansion of its operations.

### **Provision of Enterprise Solutions**

The Group provides information and communication technology (ICT) solutions to certain members of the SHKP Group covering, among others, business digitalisation, connectivity and industry-specific solutions. For the year ended 30 June 2019, the revenue received by the Group from the members of the SHKP Group amounted to HK\$7,067,000 (nil for the years ended 30 June 2017 and 2018 respectively).

Pursuant to the 2020 Framework Agreement, the Group will enter into sales agreements with members of the SHKP Group from time to time in connection with the Provision of Enterprise Solutions. The terms and conditions under such sales agreements shall be negotiated on an arm's length basis and on normal commercial terms, and the contract sums payable by the members of the SHKP Group shall be comparable with the sums charged by the Group against independent third party customers of the Group taking into account the nature and complexity of the relevant projects.

The sales agreement covers initial installation of hardware and/or software and, if applicable, on-going maintenance and services. The 2020 Framework Agreement provides that the term of such sales agreements will not exceed three years. Under the 2020 Framework Agreement, the Company and SHKP have agreed that for the three years ending 30 June 2020, 2021 and 2022, the aggregate annual revenues to be received by the Group under such sales

agreements shall not exceed HK\$50,000,000, HK\$80,000,000 and HK\$100,000,000 respectively.

The contract sums will be billed by installments reflecting the progress of completion of the relevant projects. The billed amount will be paid in cash with no term of arrangement for payment on a deferred basis. Such annual caps are determined based on the expected growth of the Group's capacity of providing enterprise solutions and increasing market demands for such services.

### **Provision of Mobile Coverage Services**

The Group provides technical services for the properties owned or managed by certain members of the SHKP Group for enhancement of mobile coverage in the properties. For the year ended 30 June 2019, the revenue received by the Group from the members of the SHKP Group amounted to HK\$8,025,000 (nil for the years ended 30 June 2017 and 2018 respectively).

Pursuant to the 2020 Framework Agreement, the Group will enter into service agreements with members of the SHKP Group from time to time in connection with the Provision of Mobile Coverage Services. The terms and conditions under such service agreements shall be negotiated on an arm's length basis and on normal commercial terms, and the contract sums payable by the members of the SHKP Group shall be comparable with the sums charged by the Group against independent third party customers of the Group taking into account the nature and complexity of the coverage enhancement projects.

The 2020 Framework Agreement provides that the term of such service agreements will not exceed three years. Under the 2020 Framework Agreement, the Company and SHKP have agreed that for the three years ending 30 June 2020, 2021 and 2022, the aggregate annual revenues to be received by the Group under such service agreements shall not exceed HK\$20,000,000, HK\$25,000,000 and HK\$30,000,000 respectively.

The contract sums will be billed by installments reflecting the progress of completion of the relevant projects. The billed amount will be paid in cash with no term of arrangement for payment on a deferred basis. Such annual caps are determined based on the expected growth of the Group's capacity of providing mobile coverage services and the increasing demand for superior mobile coverage in residential and/or commercial developments.

### **Reasons for the Leasing of Premises, Acquisition of Insurance Services, Provision of Enterprise Solutions and Provision of Mobile Coverage Services**

SHKP is one of the largest property companies in Hong Kong and the subsidiaries and associated companies of SHKP which lease and/or license premises to the Group are engaged in the business of property development and leasing and/or licensing of premises. The wholly-owned subsidiary of SHKP which provides insurance services to the Group is engaged in the business of provision of general insurance services. As a provider of telecommunications services in Hong Kong, the Group needs to lease and obtain licences for premises for use as offices, retail stores, warehouses and sites for the installation of telecommunication equipment. The Group also needs to obtain insurance coverage for its business and operational risks.

The Group entered into the transactions of Provision of Enterprise Solutions and Provision of Mobile Coverage Services because they are part of the principal business activities of the Group.

### **Requirements of the Listing Rules**

The Leasing of Premises, Acquisition of Insurance Services, Provision of Enterprise Solutions and Provision of Mobile Coverage Services under the 2020 Framework Agreement would be treated as continuing connected transactions under Chapter 14A of the Listing Rules. It is expected that, with respect to each of the Leasing of Premises, Acquisition of Insurance Services, Provision of Enterprise Solutions and Provision of Mobile Coverage Services, the highest of the relevant percentage ratios as defined under Rule 14.07 of the Listing Rules (other than the profits ratio) would, on an annual basis, be more than 0.1 per cent. but less than 5 per cent. Accordingly, the 2020 Framework Agreement is subject to the reporting, annual review and announcement requirements under Chapter 14A of the Listing Rules and is exempt from the independent shareholders' approval requirements. Details of the 2020 Framework Agreement will be included in the Company's annual reports for the years 2020 to 2022. The Company will re-comply with the announcement requirement under Chapter 14A of the Listing Rules if any of the abovementioned caps are exceeded or if the 2020 Framework Agreement is renewed or there is a material change to its terms.

### **General**

The Directors (including the independent non-executive Directors) are of the view that the Leasing of Premises, Acquisition of Insurance Services, Provision of Enterprise Solutions and Provision of Mobile Coverage Services under the 2020 Framework Agreement will be conducted in the ordinary and usual course of business of the Group, on normal commercial terms or better, and fair and reasonable and in the interests of the Company and its shareholders as a whole.

Mr. Kwok Ping-luen, Raymond, Mr. Fung Yuk-lun, Allen and Dr. Li Ka-cheung, Eric, being directors of both the Company and SHKP, are materially interested in all the continuing connected transactions under the 2020 Framework Agreement and have abstained from voting on the board resolutions of the Company to approve the 2020 Framework Agreement and the annual caps in respect of such continuing connected transactions.

Mr. Cheung Wing-yui is a director of the Company and a director of the wholly-owned subsidiary of SHKP providing insurance services to the Group and is therefore materially interested in the transactions under the Acquisition of Insurance Services. Mr. Cheung has abstained from voting on the board resolutions of the Company to approve the 2020 Framework Agreement in respect of the Acquisition of Insurance Services and the corresponding annual caps.

### **Principal Business Activities of the Company and SHKP**

The Company is an investment holding company. The Group is a leading telecommunications operator with operating subsidiaries in Hong Kong and Macau, providing voice, multimedia and mobile broadband services, as well as fixed fibre broadband services for the consumer and

corporate markets. The Group also provides enterprise solutions to corporate clients. The Company has been listed in Hong Kong since 1996.

SHKP is an investment holding company and its subsidiaries are principally engaged in the development of and investment in properties for sale and rent, hotel operations, telecommunications, transport infrastructure and logistics, and data centre operations. The SHKP Group is one of the largest Hong Kong property developers focusing on premium quality residential estates, offices and shopping malls, with complementary non-property businesses. SHKP has been listed in Hong Kong since 1972.

### **Terms Used in this Announcement**

"2016 Framework Agreement"	the agreement between the Company and SHKP dated 15 December 2016 in relation to the Leasing of Premises and Acquisition of Insurance Services.
"2020 Framework Agreement"	the framework agreement between the Company and SHKP dated 9 January 2020 in relation to the Leasing of Premises, Acquisition of Insurance Services, Provision of Enterprise Solutions and Provision of Mobile Coverage Services.
"Acquisition of Insurance Services"	acquisition of insurance services by the Group from a wholly-owned subsidiary of SHKP.
"Company"	SmarTone Telecommunications Holdings Limited.
"connected person"	has the meaning ascribed to it under the Listing Rules.
"continuing connected transactions"	has the meaning ascribed to it under the Listing Rules.
"controlling shareholder"	has the meaning ascribed to it under the Listing Rules.
"Directors"	directors of the Company.
"Group"	the Company and its subsidiaries.
"HK\$"	Hong Kong dollars, the lawful currency of Hong Kong.
"Leasing of Premises"	leasing and/or licensing of premises by the Group from certain subsidiaries and associated companies of SHKP for use as offices, retail stores, warehouses and sites for the installation of telecommunications equipment.
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange.

"percentage ratios"	has the meaning ascribed to it under Chapter 14 of the Listing Rules.
"Provision of Enterprise Solutions"	provision of information and communication technology (ICT) solutions to members of the SHKP Group covering, among others, business digitalisation, connectivity and industry-specific solutions.
"Provision of Mobile Coverage Services"	provision of technical services for the properties owned or managed by members of the SHKP Group for enhancement of mobile coverage in the properties.
"SHKP"	Sun Hung Kai Properties Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the main board of the Stock Exchange (Stock Code: 16).
"SHKP Group"	SHKP and its subsidiaries and associated companies from time to time, but excluding the Group.
"Stock Exchange"	The Stock Exchange of Hong Kong Limited.

By order of the Board  
**SmarTone Telecommunications Holdings Limited**  
**Mak Yau-hing, Alvin**  
Company Secretary

Hong Kong, 9 January 2020

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