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## **SmarTone Telecommunications Holdings Limited**

*(Incorporated in Bermuda with limited liability)*

**(Stock code: 315)**

### **2020 / 2021 INTERIM RESULTS ANNOUNCEMENT**

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

- Reported profit attributable to equity holders was \$267M compared to \$265M during the same period last year, suppressed by the impact of ongoing COVID-related travel restrictions on roaming revenues
- Core business remained resilient as local service revenue increased 3% H-on-H; early contribution from 5G
- Customer numbers increased 6% to 2.8M; postpaid churn rate at industry-low of 0.8%
- Collapse of roaming revenue was offset by successful execution of cost reduction and productivity initiatives whilst maintaining a high level of network quality and customer service
- Rapid roll-out of investment in 5G has resulted in nearly full coverage in Hong Kong, with the widest coverage both indoors and outdoors
- The Board declares an interim dividend of 14.5 cents per share

#### **CHAIRMAN'S STATEMENT**

##### **Business review**

During the period under review, the business environment remained challenging. Pandemic-related travel restrictions continued to significantly impact the roaming business, previously a key earnings driver for the Company. Despite these difficulties, the Company reported a profit attributable to equity holders of \$267M, slightly up from \$265M during the same period last year. This was achieved through the implementation of a series of robust measures to improve revenues, reduce costs and enhance productivity.

Compared to the July to December 2019 period, which was not afflicted by COVID, current period's local service revenue was 3% higher against the prior six-month period. There were a number of growth drivers. First, the Company was able to both retain customers and increase their base-plan ARPU. Second, the launch of 5G has so far exceeded expectations, with close to 10% of MNO customers already taking up 5G subscriptions. Third, 5G Home Broadband has begun to ramp up, providing high-speed connectivity at a low cost, to customers who currently suffer from low-speed or very high service fees.

Over the last 6 months, in a rapid response to the challenge, the Company has launched a number of initiatives to reduce cost and improve productivity. These include a reduction in service fees (e.g. backhaul, cell-site rental, shop rentals), a streamlining of the organisation to enhance productivity, and various measures to improve network efficiency. Most of these initiatives bring recurring savings for the future, and none has a negative impact on network quality or the level of customer service. These savings have allowed us to redeploy resources to invest in future revenues streams.

SmarTone's goal is to direct new investments to provide the best 5G service in Hong Kong with the aim to be among the world's best infrastructures. This we are able to do efficiently because of the full support of our network partner Ericsson. As of today, the Company's 5G network provides nearly full coverage of Hong Kong and we continue to extend coverage to more remote areas, including country parks and hiking trails. We are pleased to have been selected as the "Best Preferred Mobile Service Operator for 5G" by a recent independent market survey.<sup>1</sup>

The pandemic has opened up the willingness of many companies to adopt technology, and this has boosted SmarTone's Enterprise Solution business. Recently, the Company helped Route 3, a major highway in Hong Kong, to implement the first 5G "SmarTransport" safety monitoring system for the Tai Lam Tunnel. Taking advantage of the fast uplink of the 5G network, combined with AI analytics, the system allows for instant identification of intruders or animals within the tunnel area, triggering appropriate alerts and response. This removes the reliance on physical monitoring and brings added safety to drivers. In addition, in cooperation with Sun Hung Kai Properties, the Company also launched 5G "Smart Malls" applications in SHKP's shopping malls. In Phase one, this has included "Smart Restrooms" that allows customers to know the queuing time (if any) in advance. It also includes smart 5G robots that clean, inspect and trigger alerts if they spot any suspicious items in the mall. These applications have already been implemented in MOKO and Metroplaza and have achieved satisfactory results. SmarTone will extend the Smart Malls service to other mall operators and property managers. Enterprise solutions, especially using 5G, will clearly be an important growth driver going forward.

## **Dividend**

The Board declared an interim dividend of 14.5 cents per share, the same as the interim dividend for 2019/2020. The Company's intention is to continue to pay a dividend equivalent to 75% of profit attributable to equity holders on a full-year basis.

## **Outlook**

We anticipate the operating environment will continue to be competitive and challenging. It is unlikely that roaming revenues will fully recover soon and the economic downturn will likely continue to impact customers' discretionary spending. However, with the roll-out of vaccination globally, roaming services will eventually come back. There is already a promising uptake of 5G amongst consumers, and we expect there will be new applications and opportunities for 5G in business. These developments will open new revenues streams that SmarTone will focus to capture.

Measured by the speed and depth of the 5G roll-out, Hong Kong probably ranks number three in the world, behind only China and Korea. Hong Kong is well ahead of Europe, the US and Singapore in 5G roll-out. We believe this is important for Hong Kong because 5G is the essential infrastructure for Hong Kong's drive to become a "smart city", and for its further integration with the Greater Bay. SmarTone is proud to play its part in building Hong Kong's digital infrastructure and helping Hong Kong to be a leading 5G-enabled city by investing in a world-class 5G network for Hong Kong. SmarTone is committed to further enhancing our 5G infrastructure, and bringing the best network to our customers.

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<sup>1</sup> Independent research by Nuance Tree Research Company

## **Appreciation**

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 hardwork during this challenging period.

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

Hong Kong, 23 February 2021

## MANAGEMENT DISCUSSION AND ANALYSIS

### Review of financial results

During the period under review, the Group profit attributable to equity holders increased slightly to \$267 million (first half of 2019/20: \$265 million). There was a substantial decline in roaming revenue as a result of travel restrictions from COVID-19 but it was offset by successful execution of cost reduction and productivity initiatives.

Group service revenue decreased by 10% to \$2,172 million (first half of 2019/20: \$2,412 million) mainly due to the significant decrease in roaming revenue. Mobile postpaid ARPU fell 13% to \$196 (first half of 2019/20: \$225). Compared with the second half of 2019/20, Group service revenue increased by \$4 million or 0.2%, mainly due to an increase in local service revenue which was partially offset by the decline in roaming revenue.

Group's handset and accessory sales fell by \$772 million or 42% to \$1,072 million when compared with \$1,845 million for the same period last year, mainly due to a delay in timing of 5G flagship phones launched in the market. Compared with the second half of 2019/20, Group's handset and accessory sales increased by \$510 million or 91% due to the availability of 5G flagship phones.

As a result, Group total revenue decreased by 24% to \$3,244 million (first half of 2019/20: \$4,257 million) mainly due to lower handset revenue and roaming revenue.

Hong Kong customer number grew 6% year-on-year to 2.8 million. Postpaid churn rate remained at industry low of 0.8% compared to the same period last year.

Cost of inventories sold fell by \$815 million or 44% to \$1,039 million (first half of 2019/20: \$1,854 million), largely in line with the corresponding decrease in handset and accessory sales with improved margins for handset sales.

Staff costs fell by \$131 million or 34% to \$250 million (first half of 2019/20: \$382 million) as a result of cost reduction and productivity initiatives.

Cost of services provided and other operating expenses fell by \$65 million or 9% to \$683 million (first half of 2019/20: \$748 million) primarily due to lower roaming costs, lower network maintenance expenses and a reduction in sales and marketing costs.

Depreciation, amortisation and loss on disposal fell by \$22 million or 2% to \$893 million (first half of 2019/20: \$915 million) mainly due to decrease in right-of-use assets depreciation driven by rental reduction offset by increase in amortisation of customer acquisition costs and spectrum utilisation fee amortisation.

Finance income decreased by \$21 million or 53% to \$19 million (first half of 2019/20: \$40 million) mainly due to lower bank interest rates.

Finance costs decreased by \$6 million or 9% to \$56 million (first half of 2019/20: \$62 million) mainly due to lower interest expenses on bank borrowings as the Group reduced its outstanding bank borrowings.

Income tax expense amounted to \$78 million (first half of 2019/20: \$78 million), reflecting an effective tax rate of 22.7% (first half of 2019/20: 23.1%). In light of the uncertainty of the tax deductibility of the spectrum utilisation fees, certain payments have been treated as non-deductible, which contributes to the Group effective tax rate higher than 16.5%. The Group will continue to vigorously defend its position and pursue tax deduction of the spectrum utilisation fees from the Inland Revenue Department.

Group EBITDA slightly decreased by \$1 million to \$1,273 million (first half of 2019/20: \$1,274 million). Group operating profit was \$380 million, increased by 6% (first half of 2019/20: \$359 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 2020, the Group recorded share capital of \$111 million, total equity of \$5,077 million and total borrowings of \$1,649 million.

The Group's cash resources remained robust with cash and bank balances of \$1,765 million as at 31 December 2020 (30 June 2020: \$2,251 million).

As at 31 December 2020, the Group had bank and other borrowings of \$1,649 million (30 June 2020: \$1,802 million) of which 96% were denominated in United States dollars and were arranged on a fixed rate basis. The Group was in a net cash position with net cash, including financial assets at amortised cost, amounted to \$630 million as at 31 December 2020 (30 June 2020: \$604 million).

The Group had net cash generated from operating activities and interest received of \$1,191 million and \$18 million respectively during the period ended 31 December 2020. The Group's major outflows of funds during the period were payments for purchase of fixed assets, payment for purchase of financial assets at amortised cost, payments for leases, payment for dividends, mobile licence fees and repayment of bank borrowings.

The directors are of the opinion that the Group can fund its capital expenditures and working capital requirements for the financial year ending 30 June 2021 with internal cash resources and available banking facilities.

### **Treasury policy**

The Group invests its surplus funds in accordance with a treasury policy approved from time to time by the board of directors. Surplus funds are placed in bank deposits and invested in financial assets at amortised cost. Bank deposits and financial assets at amortised 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 collateralise such instruments by bank deposits to lower the issuance costs.

### **Charges on assets**

Certain Hong Kong dollar denominated bank borrowings were secured by certain assets of the Group and the carrying amount of the pledged assets amounted to \$72 million as at 31 December 2020 (30 June 2020: \$73 million).

### **Interest rate exposure**

The Group is exposed to interest rate changes that affect bank borrowings denominated in Hong Kong dollars which accounted for 4% of the Group's total borrowings at 31 December 2020. 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 amortised cost, trade payables and bank and other borrowings denominated in United States dollars. The Group does not currently undertake any foreign exchange hedging.

## **Contingent liabilities**

As at 31 December 2020, the Group provided performance and financial guarantees of \$2,749 million (30 June 2020: \$3,121 million).

## **Employees, share award scheme and share option scheme**

The Group had 1,865 full-time employees as at 31 December 2020 (30 June 2020: 1,898), with the majority of them based in Hong Kong. Total staff costs were \$250 million for the period ended 31 December 2020 (first half of 2019/20: \$382 million).

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

A share award scheme was adopted by the Group as an incentive arrangement to recognise the contributions by certain employees and to attract and retain suitable personnel for the development of the Group. During the period under review, 80,300 shares were vested and 306,950 shares were lapsed. 3,037,090 shares (30 June 2020: 3,424,340) were outstanding as at 31 December 2020.

The Group has share option scheme under which the Company may grant options to participants, including directors and employees, to subscribe for shares of the Company. During the period under review, 3,000,000 share options were lapsed. No share option was outstanding as at 31 December 2020 (30 June 2020: 3,000,000).

## RESULTS

The Board of Directors of SmarTone Telecommunications Holdings Limited (the “Company”) is pleased to present the consolidated profit and loss account and the consolidated statement of comprehensive income for the six months ended 31 December 2020 and the consolidated balance sheet as at 31 December 2020 of the Company and its subsidiaries (the “Group”), all of which are unaudited and condensed, along with selected explanatory notes.

### Condensed Consolidated Profit and Loss Account

For the six months ended 31 December 2020

		Unaudited six months ended 31 December	
	Notes	2020 \$000	2019 \$000
Service revenue and other related service		<b>2,172,158</b>	2,411,972
Handset and accessory sales		<b>1,072,155</b>	1,844,634
Revenues	3	<b>3,244,313</b>	4,256,606
Cost of inventories sold		<b>(1,038,545)</b>	(1,853,515)
Cost of services provided		<b>(200,280)</b>	(224,947)
Staff costs		<b>(250,462)</b>	(381,561)
Other operating expenses		<b>(482,375)</b>	(522,730)
Depreciation, amortisation and loss on disposal	6	<b>(892,636)</b>	(915,026)
Operating profit		<b>380,015</b>	358,827
Finance income	4	<b>18,789</b>	39,780
Finance costs	5	<b>(56,377)</b>	(61,950)
Profit before income tax	6	<b>342,427</b>	336,657
Income tax expense	7	<b>(77,586)</b>	(77,823)
Profit after income tax		<b>264,841</b>	258,834
Attributable to			
Equity holders of the Company		<b>266,596</b>	265,467
Non-controlling interests		<b>(1,755)</b>	(6,633)
		<b>264,841</b>	258,834
Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in cents per share)	8		
Basic		<b>23.8</b>	23.7
Diluted		<b>23.8</b>	23.7

**Condensed Consolidated Statement of Comprehensive Income**  
For the six months ended 31 December 2020

	Unaudited six months ended 31 December	
	<b>2020</b>	2019
	<b>\$000</b>	\$000
Profit for the period	<b>264,841</b>	258,834
Other comprehensive gain/(loss)		
Item that may be reclassified subsequently to profit and loss:		
Currency translation differences	<b>2,765</b>	(1,730)
Item that will not be reclassified subsequently to profit and loss:		
Fair value gain on financial asset at fair value through other comprehensive income	<b>5,874</b>	233
Other comprehensive gain/(loss) for the period	<b>8,639</b>	(1,497)
Total comprehensive income for the period	<b>273,480</b>	257,337
Total comprehensive income attributable to Equity holders of the Company	<b>275,235</b>	263,970
Non-controlling interests	<b>(1,755)</b>	(6,633)
	<b>273,480</b>	257,337

**Condensed Consolidated Balance Sheet**  
As at 31 December 2020 and 30 June 2020

	Notes	Unaudited 31 December 2020 \$000	Audited 30 June 2020 \$000
<b>Non-current assets</b>			
Fixed assets		2,656,432	2,704,484
Customer acquisition costs		80,453	77,706
Contract assets		99,923	139,859
Right-of-use assets		1,011,219	945,204
Interest in an associate		3	3
Financial asset at fair value through other comprehensive income		10,225	4,351
Financial assets at amortised cost		449,058	-
Intangible assets		2,716,422	2,872,560
Deposits and prepayments		217,382	123,932
Deferred income tax assets		8,649	4,141
		<u>7,249,766</u>	<u>6,872,240</u>
<b>Current assets</b>			
Inventories		111,154	59,645
Financial assets at amortised cost		65,484	155,560
Contract assets		156,540	185,974
Trade receivables	10	369,545	360,682
Deposits and prepayments		207,944	247,602
Other receivables		53,007	47,588
Tax reserve certificate		252,362	252,362
Short-term bank deposits		-	123,316
Cash and cash equivalents		1,764,598	2,127,409
		<u>2,980,634</u>	<u>3,560,138</u>
<b>Current liabilities</b>			
Trade payables	11	475,989	451,790
Other payables and accruals		671,283	768,923
Contract liabilities		274,771	280,899
Lease liabilities		593,862	631,004
Current income tax liabilities		423,673	466,185
Bank borrowings		115,516	130,885
Customer prepayments and deposits		46,766	58,445
Mobile licence fee liabilities		61,413	85,924
		<u>2,663,273</u>	<u>2,874,055</u>

**Condensed Consolidated Balance Sheet**  
As at 31 December 2020 and 30 June 2020

	<b>Unaudited 31 December 2020 \$000</b>	Audited 30 June 2020 \$000
<b>Non-current liabilities</b>		
Customer prepayments and deposits	13,861	8,952
Asset retirement obligations	61,007	49,938
Contract liabilities	15,634	-
Lease liabilities	420,379	331,540
Bank and other borrowings	1,533,800	1,671,419
Mobile licence fee liabilities	331,583	369,769
Deferred income tax liabilities	113,648	113,580
	<u>2,489,912</u>	<u>2,545,198</u>
<b>Net assets</b>	<u><u>5,077,215</u></u>	<u><u>5,013,125</u></u>
<b>Capital and reserves</b>		
Share capital	111,341	112,227
Reserves	4,987,511	4,920,780
	<u>5,098,852</u>	<u>5,033,007</u>
<b>Total equity attributable to equity holders of the Company</b>	<b>5,098,852</b>	5,033,007
Non-controlling interests	(21,637)	(19,882)
	<u>5,077,215</u>	<u>5,013,125</u>
<b>Total equity</b>	<u><u>5,077,215</u></u>	<u><u>5,013,125</u></u>

## Notes to the Condensed Consolidated Interim Financial Statements

### 1 General information

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

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

The Company has its listing on The Stock Exchange of Hong Kong Limited.

These 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 2021.

### 2 Basis of preparation

These Interim Financial Statements for the six months ended 31 December 2020 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 2020, 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 2020, 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 2020.

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

The adoption of the above 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.

## 2 Basis of preparation (continued)

### (b) New standards and amendments to standards not yet adopted

The following new standards and amendments to standards have been issued but are not yet effective for the financial year beginning 1 July 2020 and have not been early adopted.

Annual Improvements Project HKAS 1 (Amendments)	Annual Improvements 2018-2020 Cycle <sup>1</sup> Classification of Liabilities as Current or Non-current <sup>2</sup>
HKAS 16 (Amendments)	Property, Plant and Equipment: Proceeds before Intended Use <sup>1</sup>
HKAS 37 (Amendments)	Onerous Contracts – Cost of Fulfilling a Contract <sup>1</sup>
HKFRS 3 (Amendments) HKFRS 10 and HKAS 28 (Amendments)	Reference to the Conceptual Framework <sup>1</sup> Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>3</sup>
HKFRS 17	Insurance Contracts <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2022.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2023.

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

### 3 Segment reporting

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

The CODM examines the Group’s performance from a geographic perspective based on the location in which the sale originated. The CODM measures the performance of its segments based on earnings before interest, tax, depreciation, amortisation 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

	<b>Unaudited six months ended 31 December 2020</b>			
	<b>Hong Kong</b>	<b>Macau</b>	<b>Elimination</b>	<b>Consolidated</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
External revenue	3,168,386	75,927	-	3,244,313
Inter-segment revenue	37,446	2,717	(40,163)	-
<b>Total revenue</b>	<b>3,205,832</b>	<b>78,644</b>	<b>(40,163)</b>	<b>3,244,313</b>
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
	<b>3,205,832</b>	<b>78,644</b>	<b>(40,163)</b>	<b>3,244,313</b>
EBITDA	1,275,556	(2,905)	-	1,272,651
Depreciation, amortisation and loss on disposal	(890,293)	(2,344)	1	(892,636)
<b>Operating profit/(loss)</b>	<b>385,263</b>	<b>(5,249)</b>	<b>1</b>	<b>380,015</b>
Finance income				18,789
Finance costs				(56,377)
<b>Profit before income tax</b>				<b>342,427</b>

**3 Segment reporting (continued)**

(a) Segment results (continued)

	Unaudited six months ended 31 December 2019			
	Hong Kong	Macau	Elimination	Consolidated
	\$000	\$000	\$000	\$000
External revenue	4,110,086	146,520	-	4,256,606
Inter-segment revenue	95,901	2,841	(98,742)	-
Total revenue	<u>4,205,987</u>	<u>149,361</u>	<u>(98,742)</u>	<u>4,256,606</u>
Timing of revenue recognition				
At a point in time	1,843,658	95,954	(94,978)	1,844,634
Over time	2,362,329	53,407	(3,764)	2,411,972
	<u>4,205,987</u>	<u>149,361</u>	<u>(98,742)</u>	<u>4,256,606</u>
EBITDA	1,274,026	(173)	-	1,273,853
Depreciation, amortisation and loss on disposal	(892,551)	(22,479)	4	(915,026)
Operating profit/(loss)	<u>381,475</u>	<u>(22,652)</u>	<u>4</u>	<u>358,827</u>
Finance income				39,780
Finance costs				(61,950)
Profit before income tax				<u>336,657</u>

### 3 Segment reporting (continued)

#### (b) Segment assets/(liabilities)

	At 31 December 2020 (Unaudited)			
	Hong Kong \$000	Macau \$000	Unallocated \$000	Consolidated \$000
Segment assets	<u>9,337,651</u>	<u>106,968</u>	<u>785,781</u>	<u>10,230,400</u>
Segment liabilities	<u>(4,495,472)</u>	<u>(120,392)</u>	<u>(537,321)</u>	<u>(5,153,185)</u>

  

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

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

### 4 Finance income

	Unaudited six months ended 31 December	
	2020 \$000	2019 \$000
Interest income from listed debt securities	<u>10,437</u>	9,522
Interest income from bank deposits	<u>7,868</u>	28,839
Accretion income	<u>484</u>	1,419
	<u>18,789</u>	<u>39,780</u>

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

## 5 Finance costs

	Unaudited six months ended 31 December	
	2020	2019
	\$000	\$000
Interest expense on bank and other borrowings	33,751	41,905
Bank charges for credit card instalment	-	618
Accretion expenses		
Mobile licence fee liabilities	8,744	7,135
Asset retirement obligations	224	920
Lease liabilities	13,450	17,456
Net exchange loss/(gain) on financing activities	208	(6,084)
	<u>56,377</u>	<u>61,950</u>

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

## 6 Profit before income tax

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

	Unaudited six months ended 31 December	
	2020	2019
	\$000	\$000
Other operating expenses		
- Network costs	273,669	299,844
- Short-term and low-value leases	19,105	15,389
- Impairment loss of trade receivables (note 10)	4,877	6,683
- Net exchange loss/(gain)	2,434	(1,598)
- Others	182,290	202,412
Loss on disposal of fixed assets	4,550	4,421
Depreciation of fixed assets	331,094	342,954
Depreciation of right-of-use assets	365,704	394,811
Amortisation of mobile licence fees	156,138	142,735
Amortisation of customer acquisition costs	35,150	30,105
Share-based payments	5,322	6,341
	<u>5,322</u>	<u>6,341</u>

## 7 Income tax expense

	Unaudited six months ended 31 December	
	2020 \$000	2019 \$000
Current income tax		
Hong Kong profits tax	68,321	72,890
Overseas tax	931	720
Under-provision in prior years		
Hong Kong profits tax	12,774	535
Total current income tax expense	82,026	74,145
Deferred income tax		
(Increase)/decrease in deferred income tax assets	(4,508)	249
Increase in deferred income tax liabilities	68	3,429
Total deferred income tax expense	(4,440)	3,678
Income tax expense	77,586	77,823

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

## 8 Earnings per share

### (a) Basic earnings per share

Basic earnings per share is calculated by dividing:

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

	Unaudited six months ended 31 December	
	2020 Cents	2019 Cents
Total basic earnings per share attributable to the equity holders of the Company	23.8	23.7

**8 Earnings per share (continued)**

(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	
	<b>2020</b>	2019
	<b>Cents</b>	Cents
<hr/>		
Total diluted earnings per share attributable to the equity holders of the Company	<b>23.8</b>	23.7
	<u>23.8</u>	<u>23.7</u>

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

	Unaudited six months ended 31 December	
	<b>2020</b>	2019
	<b>\$000</b>	\$000
<hr/>		
Profit attributable to the equity holders of the Company used in calculating basic earnings per share and diluted earnings per share	<b>266,596</b>	265,467
	<u>266,596</u>	<u>265,467</u>

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

	Unaudited six months ended 31 December	
	<b>2020</b>	2019
	<b>Number</b>	Number
<hr/>		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share (less shares held for share award scheme)	<b>1,118,446,499</b>	1,121,567,316
Adjustments for calculation of diluted earnings per share:		
Effect of awarded shares	<b>119,040</b>	597,188
	<u>119,040</u>	<u>597,188</u>
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	<b>1,118,565,539</b>	1,122,164,504
	<u>1,118,565,539</u>	<u>1,122,164,504</u>

## 9 Dividends

(a) In respect of the period

	Unaudited six months ended 31 December	
	2020 \$000	2019 \$000
Interim dividend declared of 14.5 cents (2019: 14.5 cents) per fully paid share	<u>161,093</u>	<u>162,643</u>

At a meeting held on 23 February 2021, the directors declared an interim dividend of 14.5 cents per fully paid share for the year ending 30 June 2021. 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 2021.

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	
	2020 \$000	2019 \$000
Final dividend of 15 cents (2019: 21 cents) per fully paid share	<u>167,880</u>	<u>235,378</u>

## 10 Trade receivables

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

	<b>Unaudited</b> <b>31 December</b> <b>2020</b> <b>\$000</b>	Audited 30 June 2020 \$000
Current to 30 days	<b>328,526</b>	296,730
31 - 60 days	<b>13,180</b>	20,578
61 - 90 days	<b>5,679</b>	5,479
Over 90 days	<b>22,160</b>	37,895
	<b>369,545</b>	360,682

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 \$4,877,000 (2019: \$6,683,000) for the impairment of its trade receivables during the six months ended 31 December 2020.

## 11 Trade payables

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

	<b>Unaudited</b> <b>31 December</b> <b>2020</b> <b>\$000</b>	Audited 30 June 2020 \$000
Current to 30 days	<b>344,250</b>	133,442
31 - 60 days	<b>67,637</b>	118,872
61 - 90 days	<b>20,345</b>	86,998
Over 90 days	<b>43,757</b>	112,478
	<b>475,989</b>	451,790

## INTERIM DIVIDEND

The Directors declared an interim dividend of 14.5 cents per share for the six months ended 31 December 2020 (2019: 14.5 cents). The interim dividend will be paid in cash on or about Thursday, 18 March 2021 to shareholders whose names appear on the Register of Members of the Company on Tuesday, 9 March 2021.

## CLOSURE OF REGISTER OF MEMBERS

The record date for entitlement to the interim dividend is Tuesday, 9 March 2021. For determining the entitlement to the interim dividend, the Register of Members of the Company will be closed for one day on Tuesday, 9 March 2021 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, 17<sup>th</sup> Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Monday, 8 March 2021.

## PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 31 December 2020, the Company repurchased 10,108,000 shares of the Company on The Stock Exchange of Hong Kong Limited. Of these repurchased shares, 8,867,000 shares were cancelled prior to 31 December 2020 and 1,241,000 shares were cancelled subsequently after 31 December 2020. Details of the repurchases were as follows:

Month of repurchase	Number of shares repurchased	Price per share		Aggregate price paid
		Highest	Lowest	
		\$	\$	\$
September 2020	3,074,500	4.22	4.17	12,915,000
October 2020	1,367,000	4.20	4.17	5,730,000
November 2020	4,425,500	4.24	4.15	18,562,000
December 2020	1,241,000	4.23	4.13	5,198,000
	<u>10,108,000</u>			<u>42,405,000</u>

The Directors considered that the repurchases could lead to an enhancement of the Company's earnings per share. Save as disclosed above, and except that the trustee of the share award scheme of the Company, pursuant to the terms of the rules and trust deed of the scheme, purchased on The Stock Exchange of Hong Kong Limited a total of 1,040,000 shares of the Company at a total consideration of \$4,427,000, at no time during the six months ended 31 December 2020 was there any purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's shares.

## REVIEW OF INTERIM RESULTS

The Audit Committee of the Company has reviewed the interim financial statements of the Group for the six months ended 31 December 2020 as well as the report of the Risk Management Committee and the report of Internal Audit. The Committee was satisfied that the accounting policies and methods of computation adopted by the Group are appropriate and in line with the market participants in Hong Kong. The Committee found no unusual items that were omitted from the financial statements and was satisfied with the 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 2020 have not been audited but have been reviewed by the Company's external auditor.

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

## **CORPORATE GOVERNANCE**

The Company is committed to building and maintaining high standards of corporate governance. Throughout the six months ended 31 December 2020, the Company has applied the principles and complied with the requirements set out in the Corporate Governance Code and Corporate Governance Report (the "CG Code") contained in Appendix 14 of the 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. Mr. David Norman Prince, Non-Executive Director, and Mr. Gan Fock-kin, Eric, Independent Non-Executive Directors, were unable to attend the annual general meeting of the Company held on 4 November 2020 due to overseas commitments or other prior engagements. The remaining eight Independent Non-Executive Directors and Non-Executive Directors (representing 80% of all independent non-executive and non-executive members of the Board at the time) attended the said meeting in person to listen to the views expressed by the shareholders.

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

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

Hong Kong, 23 February 2021

*As at the date of this announcement, the Executive Directors of the Company are Mr. FUNG Yuk-lun, Allen (Deputy Chairman) 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 and Mr. LAM Kwok-fung, Kenny.*