SmarTone Telecommunications Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock code: 315)

2020 / 2021 ANNUAL RESULTS ANNOUNCEMENT

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

- Reported profit attributable to equity holders for the year was $445M (Prior year $440M before equity holders' share of impairment charge of $61M) largely driven by a resilient core local business, productivity enhancements and enhanced network efficiency

Profit attributable to equity holders ($M)	**FY20**	**FY21**	**% change**
Underlying (ex. one-off impairment in FY20)	440	445	+1%
Reported	379	445	+17%

- Local service revenue (excluding roaming) increased 2% to $4,108M

- Customer base steady at 2.7M amid an increasing number of customers upgrading to 5G; postpaid churn rate at a low 0.8%

- SmarTone 5G network provides 99% near full coverage including all MTR lines, major roads, highways and tunnels, and with ongoing rollout across country parks and hiking trails

- The Board proposes a final dividend of 15.5 cents per share, bringing full year dividend to 30.0 cents per share, in line with the 75% payout policy of profit attributable to equity holders

- Launch of 5G Lab showcases latest 5G applications, drawing in about 200,000 visitors over the past three months

CHAIRMAN'S STATEMENT

Business review

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

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

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

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

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

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

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

Dividend

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

Outlook

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

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

Appreciation

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

I would like to take this opportunity to express my gratitude to our customers and shareholders for their continuing support, and to my fellow directors for their guidance. To our staff, I would like to thank them for their commitment and professionalism as well as their dedication and hard work during this challenging period.

Kwok Ping-luen, Raymond
Chairman

Hong Kong, 1 September 2021

MANAGEMENT DISCUSSION AND ANALYSIS

Review of financial results

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

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

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

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

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

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

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

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

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

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

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

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

Income tax expense amounted to $153 million (2019/20: $134 million), reflecting an effective tax rate of 25.7% (2019/20: 28.3%). In light of the uncertainty of the tax deductibility of the spectrum utilization fees, certain payments have been treated as non-deductible, which contributes to the Group effective tax rate higher than 16.5%. The Group will continue to vigorously defend its position and pursue tax deduction of the spectrum utilization fees from the Inland Revenue Department.

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

Capital structure, liquidity and financial resources

The Group maintained a strong balance sheet for the year under review. During the year, the Group was financed by share capital, internally generated funds and bank and other borrowings. As at 30 June 2021, the Group recorded share capital of $111 million, total equity of $5,097 million and total borrowings of $1,588 million.

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

As at 30 June 2021, the Group had bank and other borrowings of $1,588 million (30 June 2020: $1,802 million) of which 96% were denominated in United States dollars and were arranged on a fixed rate basis. The Group was in a net cash position with net cash, including financial assets at amortized cost, amounted to $994 million as at 30 June 2021 (30 June 2020: $604 million).

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

The directors are of the opinion that the Group can fund its capital expenditures and working capital requirements for the financial year ending 30 June 2022 with internal cash resources and available banking facilities.

Treasury policy

The Group invests its surplus funds in accordance with a treasury policy approved from time to time by the board of directors. Surplus funds are placed in bank deposits and invested in financial assets at amortized cost. Bank deposits and financial assets at amortized cost are predominantly maintained in Hong Kong dollars and US dollars.

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

Charges on assets

Certain Hong Kong dollar denominated bank borrowings were secured by certain assets of the Group and the carrying amount of the pledged assets amounted to $70 million as at 30 June 2021 (30 June 2020: $73 million).

Interest rate exposure

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

Functional currency and foreign exchange exposure

The functional currency of the Company is the Hong Kong dollar. The Group is exposed to other currency movements, principally in terms of certain trade receivables, bank deposits, financial asset at fair value through other comprehensive income, financial assets at amortized cost, trade payables and bank and other borrowings denominated in United States dollars. The Group does not currently undertake any foreign exchange hedging.

Contingent liabilities

As at 30 June 2021, the Group provided performance and financial guarantees of $2,401 million (30 June 2020: $3,121 million).

Employees, share award scheme and share option scheme

The Group had 1,665 full-time employees as at 30 June 2021 (30 June 2020: 1,898), with the majority of them based in Hong Kong. Total staff costs were $589 million for the year ended 30 June 2021 (2019/20: $756 million).

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

A share award scheme was adopted by the Group as an incentive arrangement to recognize the contributions by certain employees and to attract and retain suitable personnel for the development of the Group. During the year under review, 1,552,420 shares were vested and 462,240 shares were lapsed. 1,409,680 shares (30 June 2020: 3,424,340) were outstanding as at 30 June 2021.

The Group has share option scheme under which the Company may grant options to participants, including directors and employees, to subscribe for shares of the Company. During the year under review, 3,000,000 share options were lapsed. No share option was outstanding as at 30 June 2021 (30 June 2020: 3,000,000).

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 year ended 30 June 2021 and the consolidated balance sheet as at 30 June 2021 of the Company and its subsidiaries (the "Group"), along with selected explanatory notes.

Consolidated Profit and Loss Account
For the year ended 30 June 2021

	Notes	**2021 $000**	2020 $000
Service revenue and other related service		**4,338,890**	4,579,953
Handset and accessory sales		**2,381,418**	2,406,498
Revenues	3	**6,720,308**	6,986,451
Cost of inventories sold		**(2,315,791)**	(2,403,331)
Cost of services provided		**(372,041)**	(379,252)
Staff costs		**(588,682)**	(756,006)
Other operating expenses, net		**(984,203)**	(1,018,635)
Depreciation, amortization, impairment and loss on disposal	6	**(1,785,376)**	(1,909,401)
Operating profit		**674,215**	519,826
Finance income	4	**35,853**	69,672
Finance costs	5	**(114,035)**	(115,700)
Profit before income tax	6	**596,033**	473,798
Income tax expense	7	**(153,395)**	(134,181)
Profit after income tax		**442,638**	339,617
Attributable to			
Equity holders of the Company		**444,621**	378,985
Non-controlling interests		**(1,983)**	(39,368)
		442,638	339,617
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in cents per share)	8		
Basic		**39.9**	33.8
Diluted		**39.9**	33.8

Consolidated Statement of Comprehensive Income
For the year ended 30 June 2021

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

Consolidated Balance Sheet
At 30 June 2021

	Notes	**2021** **$000**	2020 $000
Non-current assets			
Fixed assets		**2,679,862**	2,704,484
Customer acquisition costs		**76,874**	77,706
Contract assets		**68,571**	139,859
Right-of-use assets		**904,627**	945,204
Interest in an associate		**3**	3
Financial asset at fair value through other comprehensive income		**16,755**	4,351
Financial assets at amortized cost		**422,825**	-
Intangible assets		**3,119,536**	2,872,560
Deposits and prepayments		**167,485**	123,932
Deferred income tax assets		**5,585**	4,141
Total non-current assets		**7,462,123**	6,872,240
Current assets			
Inventories		**57,423**	59,645
Financial assets at amortized cost		**64,641**	155,560
Contract assets		**117,342**	185,974
Trade receivables	10	**332,177**	360,682
Deposits and prepayments		**211,331**	247,602
Other receivables		**56,654**	47,588
Tax reserve certificate		**253,484**	252,362
Short-term bank deposits		**-**	123,316
Cash and cash equivalents		**2,094,884**	2,127,409
Total current assets		**3,187,936**	3,560,138
Current liabilities			
Trade payables	11	**414,085**	451,790
Other payables and accruals		**702,534**	768,923
Contract liabilities		**285,406**	280,899
Lease liabilities		**546,301**	631,004
Current income tax liabilities		**492,981**	466,185
Bank borrowings		**77,189**	130,885
Customer prepayments and deposits		**38,538**	58,445
Mobile license fee liabilities		**102,912**	85,924
Total current liabilities		**2,659,946**	2,874,055

Consolidated Balance Sheet
At 30 June 2021

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

Notes to the Consolidated Financial Statements

1 General information

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

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

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

These consolidated financial statements are presented in Hong Kong dollars, unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 1 September 2021.

2 Summary of significant accounting policies

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the Group consisting of the Company and its subsidiaries.

(a) Basis of preparation

(i) Compliance with HKFRS and HKCO

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") and disclosure requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared on a historical cost basis, except for the financial asset at fair value through other comprehensive income, measured at fair value.

(ii) New and amended standards adopted by the Group

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

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

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

2 Summary of significant accounting policies *(continued)*

(a) Basis of preparation *(continued)*

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

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

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

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

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, amortization and loss on disposal (“EBITDA”) and operating profit.

3 Segment reporting *(continued)*

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

(a) Segment results

	For the year ended 30 June 2021			
	Hong Kong	**Macau**	**Elimination**	**Consolidated**
	$000	**$000**	**$000**	**$000**
External revenue	**6,363,855**	**356,453**	**-**	**6,720,308**
Inter-segment revenue	**284,346**	**6,634**	**(290,980)**	**-**
Total revenue	**6,648,201**	**363,087**	**(290,980)**	**6,720,308**
Timing of revenue recognition				
At a point in time	**2,376,218**	**287,935**	**(282,735)**	**2,381,418**
Over time	**4,271,983**	**75,152**	**(8,245)**	**4,338,890**
	6,648,201	**363,087**	**(290,980)**	**6,720,308**
EBITDA	**2,459,628**	**(37)**	**-**	**2,459,591**
Depreciation, amortization and loss on disposal	**(1,780,284)**	**(5,093)**	**1**	**(1,785,376)**
Operating profit/(loss)	**679,344**	**(5,130)**	**1**	**674,215**
Finance income				**35,853**
Finance costs				**(114,035)**
Profit before income tax				**596,033**
Other information				
Additions to fixed assets	**649,694**	**2,116**	**-**	**651,810**
Additions to intangible assets	**572,528**	**-**	**-**	**572,528**
Depreciation of fixed assets	**657,071**	**2,639**	**(1)**	**659,709**
Depreciation of right-of-use assets	**709,543**	**1,232**	**-**	**710,775**
Amortization of intangible assets	**325,552**	**-**	**-**	**325,552**
Amortization of customer acquisition costs	**70,896**	**1,225**	**-**	**72,121**
Loss/(gain) on disposal of fixed assets	**17,222**	**(3)**	**-**	**17,219**
Impairment loss of trade receivables	**6,796**	**775**	**-**	**7,571**
Impairment loss/(reversal of impairment loss) of inventories	**953**	**(494)**	**-**	**459**

3 Segment reporting *(continued)*

(a) Segment results *(continued)*

	For the year ended 30 June 2020			
	Hong Kong $000	Macau $000	Elimination $000	Consolidated $000
External revenue	6,760,466	225,985	-	6,986,451
Inter-segment revenue	139,268	4,872	(144,140)	-
Total revenue	6,899,734	230,857	(144,140)	6,986,451
Timing of revenue recognition				
At a point in time	2,404,069	139,997	(137,568)	2,406,498
Over time	4,495,665	90,860	(6,572)	4,579,953
	6,899,734	230,857	(144,140)	6,986,451
EBITDA	2,438,256	(9,029)	-	2,429,227
Depreciation, amortization, impairment and loss on disposal	(1,780,002)	(129,407)	8	(1,909,401)
Operating profit/(loss)	658,254	(138,436)	8	519,826
Finance income				69,672
Finance costs				(115,700)
Profit before income tax				473,798
Other information				
Additions to fixed assets	636,037	4,715	-	640,752
Additions to intangible assets	395,306	-	-	395,306
Depreciation of fixed assets	645,064	34,219	(7)	679,276
Depreciation of right-of-use assets	777,849	7,938	-	785,787
Amortization of intangible assets	287,704	-	-	287,704
Amortization of customer acquisition costs	61,697	1,317	-	63,014
Loss on disposal of fixed assets	7,688	688	(1)	8,375
Impairment loss of trade receivables	7,800	1,031	-	8,831
Impairment loss of fixed assets	-	75,057	-	75,057
Impairment loss of right-of-use assets	-	10,188	-	10,188
Impairment loss/(reversal of impairment loss) of inventories	437	(965)	-	(528)

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

3 Segment reporting *(continued)*

(b) Segment assets/(liabilities)

	At 30 June 2021			
	Hong Kong	**Macau**	**Unallocated**	**Consolidated**
	$000	**$000**	**$000**	**$000**
Segment assets	**9,784,797**	**101,969**	**763,293**	**10,650,059**
Segment liabilities	**(4,832,965)**	**(115,212)**	**(604,774)**	**(5,552,951)**

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

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

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

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

4 Finance income

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

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

5 Finance costs

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

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

6 Profit before income tax

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

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

7 Income tax expense

This note provides an analysis of the Group's income tax expense and how the tax expense is affected by non-assessable and non-deductible items.

(a) Income tax expense

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

7 Income tax expense *(continued)*

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

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

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 financial year and excluding shares held for share award scheme.

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

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.

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

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

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

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

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

9 Dividends

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

At a meeting held on 1 September 2021, the directors proposed a final dividend of 15.5 cents per fully paid share. This proposed dividend is not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained profits for the year ending 30 June 2022.

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

For the dividends attributable to the years ended 30 June 2021 and 2020, cash dividends were distributed to shareholders except for the interim dividend for the year ended 30 June 2020, which scrip dividend elections were offered to shareholders.

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

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

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

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. This resulted in a loss of $7,571,000 (2020: $8,831,000) for the impairment of its trade receivables during the year ended 30 June 2021.

11 Trade payables

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

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

REVIEW OF FINANCIAL STATEMENTS

The consolidated financial statements of the Group for the year ended 30 June 2021 have been audited by the independent auditor of the Company, PricewaterhouseCoopers. The unqualified independent auditor's report will be included in the Annual Report.

DIVIDENDS

The Directors recommended the payment of a final dividend for the year ended 30 June 2021 of 15.5 cents per share (2019/20: 15 cents). The proposed final dividend, together with the interim dividend of 14.5 cents per share paid by the Company during the year (2019/20: 14.5 cents), makes a total dividend for the year of 30 cents per share.

Subject to approval of the shareholders at the forthcoming Annual General Meeting, the proposed final dividend will be paid in cash on or about Friday, 19 November 2021 to shareholders whose names appear on the Register of Members of the Company on Wednesday, 10 November 2021.

CLOSURE OF REGISTER OF MEMBERS

The Annual General Meeting of the Company is scheduled to be held on Tuesday, 2 November 2021. For determining the entitlement to attend and vote at the Annual General Meeting, the Register of Members of the Company will be closed from Thursday, 28 October 2021 to Tuesday, 2 November 2021, both days inclusive, during which period no transfer of shares will be effected. In order to be eligible to attend and vote at the Annual General Meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Wednesday, 27 October 2021.

The record date for entitlement to the proposed final dividend is Wednesday, 10 November 2021. For determining the entitlement to the proposed final dividend, the Register of Members of the Company will be closed for one day on Wednesday, 10 November 2021 during which no transfer of shares will be effected. In order to qualify for the proposed final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited (address as per above) for registration no later than 4:30 p.m. on Tuesday, 9 November 2021.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the year ended 30 June 2021, the Company repurchased 11,286,500 shares of the Company on The Stock Exchange of Hong Kong Limited. These repurchased shares were cancelled prior to 30 June 2021. Details of the repurchases were as follows:

	Number of shares	Price per share		Aggregate
Month of repurchase	repurchased	Highest	Lowest	price paid
		$	$	$
September 2020	3,074,500	4.22	4.17	12,915,000
October 2020	1,367,000	4.20	4.17	5,730,000
November 2020	4,425,500	4.24	4.15	18,562,000
December 2020	1,241,000	4.23	4.13	5,198,000
January 2021	1,178,500	4.19	4.15	4,923,000
	11,286,500			47,328,000

The Directors considered that the repurchases could lead to an enhancement of the Company's earnings per share. Save as disclosed above, and except that the trustee of the share award scheme of the Company, pursuant to the terms of the rules and trust deed of the scheme, purchased on The Stock Exchange of Hong Kong Limited a total of 1,540,000 shares of the Company at a total consideration of $6,785,000, at no time during the year ended 30 June 2021 was there any purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's shares.

REVIEW OF ANNUAL RESULTS BY AUDIT COMMITTEE

The Audit Committee of the Company has reviewed the financial statements of the Group for the year ended 30 June 2021 as well as the report of the Risk Management Committee and the report of Internal Audit. The Committee was satisfied that the accounting policies and methods of computation adopted by the Group are appropriate and in line with the market participants in Hong Kong. The Committee found no unusual items that were omitted from the financial statements and was satisfied with the disclosure of data and explanations shown in the financial statements. The Committee was also satisfied that adequate and effective risk management and internal control systems have been maintained by the Group for the year ended 30 June 2021.

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

CORPORATE GOVERNANCE

The Company is committed to building and maintaining high standards of corporate governance. Throughout the year ended 30 June 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 a specific term but they are required to retire from office by rotation and are subject to re-election by shareholders at annual general meeting once every three years in accordance with the Company's Bye-laws. As such, no Director has a term of appointment longer than three years.

Code Provision A.6.7 of the CG Code provides that independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Mr. David Norman Prince, Non-Executive Director, and Mr. Gan Fock-kin, Eric, Independent Non-Executive Directors, were unable to attend the annual general meeting of the Company held on 4 November 2020 due to overseas commitments or other prior engagements. The remaining eight Independent Non-Executive Directors and Non-Executive Directors (representing 80% of all independent non-executive and non-executive members of the Board at the time) attended the said meeting in person to listen to the views expressed by the shareholders.

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

Full details of the report on corporate governance will be set out in the Company's 2020/21 Annual Report.

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

Hong Kong, 1 September 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, Mr. LAM Kwok-fung, Kenny and Mr. LEE Yau-tat, Samuel.